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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, 2009

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, Suite 500, 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 Capital Market**
Series A Participating Preferred Stock	**NASDAQ Capital 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 Capital Market on June 30, 2009 was $11,656,676. Shares of Common Stock held by each executive officer and director and by each person or group who owns 10% or more of the outstanding Common Stock at June 30, 2009 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 28, 2010 there were 33,638,201 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 19, 2010, or the Proxy Statement, are incorporated herein by reference into Part III.

Threshold Pharmaceuticals, Inc.
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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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 conduct, the timing of the commencement and conduct of, clinical trials for TH-302, and any additional compounds we develop;
- 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 ability to license rights to 2DG to third parties or to obtain external funding or enter into a collaboration to continue development of 2DG;
- the ability of our licensee of glufosfamide to develop, manufacture, market and otherwise commercialize glufosfamide, and to raise sufficient funds to commence clinical development;
- 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," the "Company, " "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 blood vessel growth, 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 candidate 2-deoxyglucose ("2DG") and our recently out-licensed product candidate glufosfamide share certain structural characteristics with glucose but act instead as chemotherapeutic toxins when taken up by a cell.

On October 14, 2009, we entered into an exclusive license agreement with Eleison Pharmaceuticals, Inc. ("Eleison"). Pursuant to the agreement we granted Eleison exclusive worldwide rights to develop and commercialize glufosfamide for the treatment of cancer in humans and animals, and certain other uses. Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share equally in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing. Eleison intends to secure funding for the clinical development of glufosfamide. The agreement between Threshold and Eleison contemplates that Eleison, to satisfy its diligence obligations, will raise sufficient funds to commence clinical development activities with glufosfamide.

Our focus is on product candidates for the treatment of patients with cancer. We have two 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 activated under the severe hypoxic conditions and was designed specifically to target the severe hypoxic regions that are present in most solid tumors. TH-302 is currently in Phase 1 and Phase 1/2 clinical trials, as discussed below. As further discussed below, in 2009, and first quarter of 2010, we reported results from the dose escalation component and the dose expansion components in metastatic melanoma and small-cell lung cancer (SCLC) of the monotherapy Phase 1 trial and interim results from each of four chemotherapy plus TH-302 treatments in the Phase 1/2 combination trials. We presented top-line results from the monotherapy and combination therapy trials in the first quarter of 2010 and expect to present updated top-line results from the monotherapy and combination therapy trials in the second quarter of 2010. We also expect to initiate at least one randomized controlled clinical trial with TH-302 in mid-year 2010.
- 2DG is our product candidate for the potential treatment of patients with cancer and has been 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 completed enrollment in the first half of 2008. We presented top-line results for this clinical trial in August 2008. We are not currently planning or conducting any additional clinical trials of 2DG. We plan to seek a collaborator for the future development of 2DG.

We are working to discover additional 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 monotherapy Phase 1 clinical trial that has determined the maximum tolerated dose ("MTD"), dose limiting toxicities, safety, pharmacokinetics and preliminary efficacy of TH-302 monotherapy in advanced solid tumors. We expanded enrollment in this trial to investigate TH-302 as a single agent in specific indications in which monotherapy activity has been observed as well as in some indications in which notable activity has been documented in the combination setting. We have ongoing combination therapy Phase 1/2 clinical trials that have determined the MTD, dose limiting toxicities, safety, pharmacokinetics and preliminary efficacy of TH-302 in combination with four currently approved chemotherapies. These trials are now enrolling patients to study each combination in specific indications. Data from this collection of clinical trials may support our initial randomized controlled trial of TH-302. We plan to seek a collaborator or external funding for the continued development of TH-302.
- *Seek a collaborator for 2DG.* We have completed a Phase 1 clinical trial with 2DG to evaluate the safety, pharmacokinetics and MTD in patients with solid tumors. Data from the trial established the safety of 2DG and suggests that in combination with docetaxel, 2DG may provide antitumor activity in patients with non small cell lung carcinoma ("NSCLC") and head and neck cancers. We plan to seek a collaborator 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	• Updated top line results in Q2 2010.
	Various solid tumors	• Phase 1/2 combination therapy	• Updated top line results in Q2 2010.
	Various solid tumors	• Randomized controlled combination therapy	• Initiate trial in mid-year 2010.

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.

Lung Cancer

The American Cancer Society estimates that 219,440 people were diagnosed with lung cancer in the United States in 2009, and approximately 159,390 people died from the disease.

Melanoma

The American Cancer Society estimates that 68,720 people were diagnosed with melanoma in the United States in 2009, and approximately 8,650 people died from the disease.

Pancreatic Cancer

The American Cancer Society estimates that 42,470 patients were diagnosed with pancreatic cancer in the United States in 2009, and approximately 35,240 patients died from the disease.

Prostate Cancer

The American Cancer Society estimates that 192,280 people were diagnosed with prostate cancer in the United States in 2009, and approximately 27,360 people died from the disease.

Soft Tissue Sarcoma

The American Cancer Society estimates that 10,660 people were diagnosed with soft tissue sarcoma in the United States in 2009, and approximately 3,820 people died from the disease.

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 deoxyribonucleic acid ("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 hematologic toxicity caused by most cytotoxic chemotherapies, while targeting the hypoxic regions of tumors known to be more difficult to treat with standard therapies.

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. In over 20 different human tumor-derived cell lines, representing 13 different tumor types, have been 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 five 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. We conducted animal studies of TH-302 in orthotopic mouse models of human cancer, in which human cancer cells are implanted into the corresponding mouse tissue and tumors are allowed to develop before treatment, to assess the efficacy of TH-302 in treating a variety of cancer types. 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 one out of eight 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 four out of eight animals treated with TH-302 in combination with taxol. In comparison, no complete responses were reported with single-agent taxol. 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 eight out of ten complete responses. In comparison, three out of eight complete responses were reported with single-agent docetaxel. Most recently, TH-302 has been evaluated in a metastatic mouse model of human lung cancer, alone and in combination with docetaxel. These preclinical results, which reflect our overall experience with cell-based animal models, indicate that combination therapies with TH-302 may be efficacious in the treatment of human solid tumors. There can be no assurance, however, that these animal studies will accurately predict the results of human clinical trials.

TH-302 Monotherapy

We commenced a first-in-human Phase 1 clinical trial of TH-302 monotherapy, as a 30 to 60-minute intravenous infusion, in July 2007. This trial, also known as the 401 trial is expected to enroll up to 126 patients. The trial was initiated as a dose-escalation clinical trial to determine the MTD, dose limiting toxicity, safety, pharmacokinetics and preliminary efficacy of weekly dosing of TH-302. In May 2009 data from the 31 patients in the dose escalation component of the trial were presented at the American Society of Clinical Oncology (ASCO) 2009 annual meeting. Partial Responses were documented in two patients. One patient with refractory small cell lung cancer ("SCLC") metastatic to the liver had a partial response ("PR"), as judged by RECIST ("Response Evaluation Criteria In Solid Tumors"), at their initial response assessment. The patient had received two cycles of TH-302 at 480 mg/m^2 and discontinued from the trial after treatment delay, unrelated to therapy, and disease progression. An additional patient with melanoma metastatic to the lung and liver had a RECIST PR after two cycles of TH-302 at 670 mg/m^2. Overall, fifty-eight percent of the 31 patients, who had previously failed a median of three prior therapies, achieved stable disease ("SD") or better. The first dose

limiting toxicities for TH-302 as a monotherapy were reported in the 670 mg/m^2 cohort: one patient developed grade 3 perianal and rectal ulcers and a second patient developed grade 3 oral mucositis associated with dehydration. An intermediate dose of 575 mg/m^2 was evaluated and determined to be the MTD. Since nausea and vomiting increased at higher doses of TH-302, standard anti-emetic prophylaxis was recommended at doses that exceed 240 mg/m^2. Skin and mucosal adverse events increased with dose and in some patients required dose delays or dose reductions at higher doses. Adverse events of grade 3 or higher were reported in 17 (55%) of 31 patients. Adverse events of grade 3 or higher considered related to trial drug were reported in three (10%) patients. Hematologic toxicity was minimal with no grade 3 or grade 4 neutropenia or thrombocytopenia and grade 2 neutropenia reported in two patients (6%), grade 2 thrombocytopenia reported in one (3%) patient, and worsening anemia and lymphopenia in 14 (45%) and 20 (65%) patients, respectively. After determining the MTD for the weekly regimen, dosing once every three weeks was also evaluated in this trial.

In January 2009 the clinical trial enrollment was expanded to investigate the activity of TH-302 at the MTD in patients with advanced/metastatic melanoma, SCLC or NSCLC and to establish the MTD utilizing a once every three week dosing regimen. Data from the SCLC patients were presented at the World Conference on Lung Cancer in August 2009. Of the first seven patients with SCLC treated with TH-302 doses of 480 mg/m^2 or higher, two PRs, one confirmed and one unconfirmed, were reported. Data from the metastatic melanoma patients were reported at the Perspectives in Melanoma conference in October 2009. Of the first eight patients with metastatic melanoma, three PRs (one confirmed, one un-confirmed who discontinued treatment after their first tumor assessment due to seizures related to brain metastases, one on trial yet to receive a second tumor assessment), three SD and two progressive disease ("PD") were reported. Two serious adverse events (ascites and seizures from brain metastases) were reported but neither was considered related to TH-302. Hematologic toxicity was not dose-limiting. Skin toxicity was common with eight of the nine patients having at least one skin adverse event of grade 1 or 2. Approximately half of the patients had a mucosal adverse event of grade 1 with the exception of the one patient with grade 3 vaginal mucositis. Data from the metastatic melanoma patients was further updated in January 2010. Of the first nineteen patients, three patients had PRs, eight had SD and eight had PD. The median progression-free survival (PFS) was 2.4 months with a six month PFS of 44%.

In December 2009 the clinical trial enrollment was further expanded to investigate the activity of TH-302 at a dose level of 480 mg/m^2 in patients with advanced/metastatic melanoma, SCLC and a set of histologies and tumor indications in which activity was reported in the combination trial. We expect to present updated top-line data from the clinical trial in the second quarter of 2010 and additional detailed data later in the year. There can be no assurance that our initial results will be confirmed.

TH-302 Combination Therapy

In August 2008, we initiated a multi-armed Phase 1/2 clinical trial of TH-302 which includes three separate treatment arms, with each arm combining TH-302 with a different chemotherapeutic agent for the treatment of patients with solid tumors. This trial, also known as the 402 trial, is expected to enroll up to 162 patients and included a dose escalation phase followed by expansion at the recommended Phase 2 dose of TH-302 within four specific indications with approximately 12-30 patients treated in each indication. In September 2008, we also initiated a Phase 1/2 clinical trial of TH-302 in combination with doxorubicin in patients with advanced soft tissue sarcoma. This trial, also known as the 403 trial, will include up to 36 patients (12-24 in the dose escalation arm). These combination arms may allow further development in hormone refractory prostatic carcinoma, metastatic pancreatic cancer, NSCLC and soft tissue sarcoma. These indications have been highlighted in view of the high degree of efficacy of TH-302 in combination with chemotherapy in relevant pre-clinical models combined with the significant unmet medical needs represented by each of these tumor types.

In September 2009, results from the 402 clinical trial were presented at the 15th Congress of the European CanCer Organisation (ECCO) and 34th Congress of the European Society for Medical Oncology (ESMO). In the 402 trial, forty-five patients in the dose-escalation phase had been assessed for response in the trial's three separate treatment arms. In the TH-302 plus gemcitabine arm, fifteen patients had tumor assessments, six of whom had a PR in the following cancers: pancreatic (2), ovarian, esophageal, squamous NSCLC and thyroid.

The ovarian response was confirmed, meaning that the RECIST criteria PR was maintained through a subsequent assessment at least 28 days later; the esophageal and pancreatic PRs were unconfirmed. There were seven patients with SD. Of the four patients with first-line pancreatic cancer assessed for response, two achieved PRs and two have had SD. In the TH-302 plus docetaxel arm, eleven patients had tumor assessments, two of whom had a PR in NSCLC and anal cancer with both confirmed and ongoing at the time of the presentation. There were six patients with SD. In the TH-302 plus pemetrexed arm, nineteen patients have had tumor assessments, four of whom had a PR, two in NSCLC and two in transitional cell carcinoma. There were nine patients with SD. Of the nine patients with relapsed or refractory NSCLC treated with TH-302 in combination with either docetaxel or pemetrexed, three patients achieved PRs and four patients achieved SD. Hematologic toxicity after administering TH-302 in combination with chemotherapy was higher than might be expected if chemotherapy was administered by itself, but was generally well tolerated and not dose limiting. Skin and mucosal toxicities were TH-302 dose dependent with a trend for increased frequency and greater severity at higher doses. Although these skin and mucosal toxicities have been bothersome in some patients and resulted in dose reductions or delays in therapy, these events have been reversible with an improvement in symptoms between cycles and following dose reductions. Investigations have been initiated to better understand and treat, or prevent, these toxicities. The addition of TH-302 to standard chemotherapies does not appear to enhance the toxicity in other body systems.

In November 2009, results from the 403 clinical trial were presented at the 15th Annual Connective Tissue Oncology Society (CTOS) Meeting. Twelve patients had at least one evaluable post-treatment tumor assessment, including three (25%) with a PR. Two of the PRs are confirmed, including one patient who has remained on trial for 33 weeks. One of the PRs was unconfirmed due to progression at the subsequent assessment. Five of the twelve patients continue to receive TH-302 after receiving TH-302 for 3 to 13 three-week cycles. Seven (58%) patients achieved SD while two (17%) had PD. TH-302 was well tolerated with no new unexpected adverse events in the fourteen patients assessed for safety. Nausea was the most commonly reported adverse event and was reported in 8 (57%) patients. After observing significant, but not dose limiting toxicity at a TH-302 dose of 240 mg/m^2, prophylactic growth factor support was initiated. Two dose limiting toxicities, grade 3 cellulitis with grade 4 neutropenia and grade 4 thrombocytopenia were observed in two of four patients treated at a TH-302 dose of 340 mg/m^2 . The MTD was then established at 300 mg/m^2. Skin toxicity is common with nine of fourteen (64%) patients having at least one skin adverse event. All were grade 1 or 2 with the exception of the one patient with grade 3 cellulitis. Eight (57%) patients had a mucosal adverse event; all were grade 1 or 2.

Both of the combination studies are now enrolling patients to study each combination in specific indications. Gemcitabine plus 340 mg/m^2 TH-302 is being investigated in first-line advanced/metastatic pancreatic cancer. Docetaxel plus 340 mg/m^2 TH-302 is being investigated in first-line castrate resistant prostate cancer and second-line NSCLC. Pemetrexed plus 400 mg/m^2 TH-302 is being investigated in second-line non-squamous NSCLC. Doxorubicin plus 300 mg/m^2 TH-302 is being investigated in first-line advanced/metastatic soft tissue sarcoma. Top level data from the combination studies in specific indications were presented in January 2010. Of the first seventeen patients with first-line pancreatic cancer treated with TH-302 plus gemcitabine and assessed for tumor response, six patients had PRs and ten other patients had SD. Of the first twenty patients with soft tissue sarcoma treated with TH-302 plus doxorubicin and assessed for tumor response, five patients had PRs and twelve other patients had SD. Of the first ten patients with NSCLC treated with TH-302 plus docetaxel or pemetrexed assessed for tumor response, five patients had PRs and four other patients had SD. We expect to present updated top-line results by the second quarter of 2010. There can be no assurance that our initial results will be confirmed.

In addition, we plan to initiate at least one randomized controlled trial of TH-302 as a single agent or in combination with chemotherapy in mid-year 2010.

Glufosfamide

In October 2009, we entered into an exclusive license agreement with Eleison Pharmaceuticals, Inc. (“Eleison”). Pursuant to the agreement we granted Eleison exclusive worldwide rights to develop and

commercialize glufosfamide for the treatment of cancer in humans and animals, and certain other uses. Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share equally in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing. No further development by Threshold Pharmaceuticals is planned.

2DG

2DG, for the treatment of solid tumors, was investigated in a Phase 1 clinical trial. 2DG is an orally administered small molecule that aims 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 developed 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 MTD of daily oral doses of 2DG given alone or in combination with docetaxel. The clinical trial enrolled patients with previously treated refractory advanced solid tumors. The clinical trial evaluated the effect of 2DG alone and in combination with docetaxel on tumor growth, and provided a preliminary assessment of efficacy, as assessed by computer tomography. Data from this clinical trial was initially reported at American Society of Clinical Oncology 2005 annual meeting and has been periodically updated. The data suggest that 2DG is well tolerated. We completed enrollment in this clinical trial in the second quarter of 2008 and presented top line data in August 2008.

We plan to seek a collaborator to support any further development of 2DG.

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 are broadly 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 prodrug candidates 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 prodrug candidates 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 candidate, TH-302, 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 chemical 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.

Manufacturing and Supply

The production of TH-302 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 ("API"), and final drug product of TH-302 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 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 2010. We based our estimates for the amount of drug we will need based on assumptions about trial enrollment and trial dose levels. If we are not successful in manufacturing sufficient quantities of TH-302 API and drug product or consume more drug product than anticipated because of a higher than expected trial utilization or have quality issues that limit the utilization of the drug product, we may experience a significant delay in our TH-302 clinical program.

If we partner or secure external funding for the continued development of 2DG, we will be dependent on contract manufacturers to produce additional API and drug product.

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.

During the years ended December 31, 2009, 2008 and 2007, we spent $15.8 million, $13.4 million and $23.4 million, respectively, on research and development, including product development, discovery research and contract manufacturing activities.

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 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"). 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. We 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 were responsible for all development activities and MediBIC had no other funding obligations. We 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. In 2009, we had no further responsibilities for development activities under this agreement and in May 2009, we dissolved the Joint Development Committee ("JDC") comprising MediBIC and us. No payments were made by either party as a result of the dissolution of the JDC.

On October 14, 2009, we entered into an exclusive license agreement with Eleison Pharmaceuticals, Inc. ("Eleison"). Pursuant to the agreement we granted Eleison exclusive worldwide rights to develop and commercialize glufosfamide for the treatment of cancer in humans and animals, and certain other uses. Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share equally in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing.

Eleison will pay us 50% of its profits from commercialization on a quarterly basis, beginning on the date of first commercial sale, if any. Eleison has the right to sublicense some or all of its rights under the agreement, and will pay us 50% of amounts received under any sublicenses, including, without limitation, any royalty payments, license fee payments, milestone payments and payments for any equity or debt purchases by a sublicensee, within 30 days of the receipt of any such amounts or payments by Eleison. Eleison will bear all costs associated with development, commercialization and patent prosecution, and will control product development and commercialization. In addition, Eleison will be responsible for all royalty and milestone payments due under the Baxter license and MediBIC development agreement. The agreement contemplates that Eleison, to satisfy its diligence obligations, will raise sufficient funds to commence clinical development activities with glufosfamide.

In the event that Eleison fails to satisfy its diligence obligations, we may, at our option, terminate the agreement for material breach or convert the license granted under the agreement to a non-exclusive license.

The agreement will remain in effect as long as Eleison continues to sell glufosfamide anywhere in the world or receives payments under any sublicenses. Each party is entitled to terminate the agreement upon the other party's material breach after expiration of a 60-day cure period (30 days in the event of a payment breach). Each party is entitled to terminate the agreement immediately upon the bankruptcy or similar petition of the other party that is not discharged within 60 days, or the assignment for the benefit of creditors by, or the appointment of a receiver over the property of, the other party. In addition, Eleison may terminate the agreement for convenience at any time on 90 days written notice to us.

Following any termination by Eleison for convenience or by us for Eleison's material breach, all licensed rights will revert to us. Following any termination by Eleison for our material breach, all licensed rights will fully vest in Eleison, provided that Eleison will be required to pay us 50% of the profit sharing payments it otherwise would have been required to pay us under the agreement.

2DG License

In November 2002, we entered into an exclusive license agreement with Dr. Theodore J. Lampidis and Dr. Waldemar Priebe. This agreement gave 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, 2009, we owned or held exclusive license to United States, Patent Cooperation Treaty ("PCT") applications, 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 and are owned by us. We are seeking compound *per se* patent protection for TH-302 as well as claims directed to its use, alone and in combination with other cancer drugs, in the treatment of cancer. We also own other United States, PCT, 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, which is owned by Baxter and exclusively licensed to us. The United States patent expires in 2014. We also own United States, PCT and foreign patent applications describing the use of glufosfamide, alone and in combination with other cancer drugs, including gemcitabine, to treat pancreatic cancer, including gemcitabine-resistant pancreatic cancer. There can be no assurance that any of our patent applications will issue.

Intellectual Property Related to 2DG

Our 2DG product candidate is protected by four issued United States patents. The term of three of the issued United States patents, 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 pending patent applications will result in the issuance of any patents. 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 and certain of our 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, then 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 or were 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, melanoma and soft tissue sarcoma. Such companies include: AstraZeneca PLC, Genentech, Inc., Bristol-Myers Squibb Company, Eli Lilly and Company, GlaxoSmithKline plc, Bayer Pharmaceuticals, Hoffmann-LaRoche, Inc., Johnson & Johnson, Onyx Pharmaceuticals, Inc., Merck KGaA, Novartis AG, Pfizer, Inc., Amgen Inc., ImClone Systems, Inc., Millennium Pharmaceuticals, Inc., OSI Pharmaceuticals, Inc., Telik, Inc., Sunesis Pharmaceuticals, Inc., Plexxikon Inc., Celgene Corporation, Abraxis Bioscience Inc., ARIAD Pharmaceuticals, Inc. and ZIOPHARM Oncology, 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 an NDA, or of an 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 involves the initial introduction of the drug candidate into humans and are conducted in volunteers or in patients with a specific disease depending on the intended use. The emphasis in Phase 1 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 controlled 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 an 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 ten 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 an NDA may involve review and recommendations by an independent FDA advisory committee. The FDA may deny approval of an 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 an 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 an NDA, plus the time between the submission date of an 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 an 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, an 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 an 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, 2009, we had 31 full-time employees, including 11 who hold Ph.D. and/or M.D. degrees. Twenty five 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 Exchange Act. 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. RISK FACTORS

RISKS RELATED TO OUR BUSINESS

Risks Related to Drug Discovery, Development and Commercialization

We are substantially dependent upon the success of TH-302. Clinical trials may not demonstrate efficacy or lead to regulatory approval and preliminary results may not be confirmed.

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. Our preliminary results from clinical trials of TH-302 in a limited number of patients may not be confirmed by later analysis or subsequent larger clinical trials. 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 perceived benefit of the investigational drug under study;

- 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 of solid tumors either by harnessing hypoxia for selective toxin activation in the case of TH-302; or potentially utilizing the increased uptake of

glucose in cancer cells relative to most normal cells. Our product candidate 2DG shares certain structural characteristics with glucose but acts instead as poison 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 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 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.

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 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 http://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 http://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, 2009, we had a net loss of $23.6 million and our cumulative net loss since our inception through December 31, 2009 was $207.8 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 for the foreseeable future.

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 existing cash, cash equivalents and marketable securities as of December 31, 2009 will be sufficient to fund our projected operating requirements through the second quarter of 2011, including prosecuting our current 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;
- licensing arrangements; and/or
- public or private debt.

Our ability to raise additional funds will depend, in part 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.

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.

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.

As of December 31, 2009, we had 31 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.

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 and 2DG. If these parties do not manufacture the active pharmaceutical ingredients or finished drug 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 contract manufacturers have produced sufficient TH-302 API and drug product to meet the clinical supply demands of our ongoing clinical trials. Additional clinical trial material continues to be manufactured as required. We will need to obtain additional supplies of TH-302 API and drug product to complete our ongoing clinical trials and any other additional trials. The need for additional supplies may require manufacturing process improvements in TH-302 API and drug product. If we are not successful in procuring sufficient TH-302 clinical trial material, we may experience a significant delay in our TH-302 clinical program.

We rely on contract manufacturers for the manufacturing of 2DG API and drug product. If we seek a collaborator to continue development of 2DG, we will be dependent on contract manufacturers to produce additional API and drug product. If we are not successful, we may experience problems in seeking a partner or in meeting our obligations under a potential partnership to continue development of 2DG.

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.

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 may use clinical research organizations to assist in conduct of our 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 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.

We are dependent on Eleison to develop and commercialize glufosfamide

We are dependent upon Eleison Pharmaceuticals, Inc., to whom we exclusively licensed glufosfamide in October 2009, to develop and commercialize glufosfamide. Any profit sharing or other payments to us under the Eleison license depend almost entirely upon the efforts of Eleison, which may not be able to raise sufficient funds to commence clinical development activities with glufosfamide. Even if Eleison is successful at raising initial funding, it may not be successful in developing and commercializing glufosfamide or raising sufficient funds for development and commercialization. We may also be asked to provide technical assistance related to the development of glufosfamide, which may divert our resources from other activities. If the Eleison license terminates in such a way that glufosfamide reverts to us and we seek alternative arrangements with one or more other parties to develop and commercialize glufosfamide, we may not be able to enter into such an agreement with another suitable third party or third parties on acceptable terms or at all.

Risks Related to Our Intellectual Property

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.

Although we have one issued patent that covers a category of hypoxia-activated prodrugs, including TH-302, we have no issued patents or pending 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 hypoxia activated prodrug product candidates.

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

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.

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 pending 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 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 their manufacture or use if 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 the same or 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. Patent term extensions 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 certain aspects of 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 secret information 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, 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, or the uses for which we intend to promote 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, AstraZeneca PLC, Genentech, Inc., Bayer Corporation, 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 sanofi-aventis, DTIC-Dome®, marketed by Bayer Pharmaceuticals Corporation, Xeloda®, marketed by Hoffmann-LaRoche, Inc., 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 or have completed investigation as combination therapies or monotherapy for pancreatic, prostate, ovarian, non small cell lung and small cell lung cancers, melanoma 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, Proacta Inc. has a compound under clinical investigation that targets the hypoxic zones of tumors, as our TH-302 clinical product candidate is intended to do. Novacea has conducted studies on AQ4N and sanofi-aventis recently completed a Phase 3 clinical trial on Tirapazamine, a hypoxically activated prodrug, and while Novacea has stopped current clinical development of AQ4N and sanofi-aventis has released rights to the compound to the innovator SRI, another company may pursue further clinical development of either 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 $5 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 expensive and 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 & 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

We may not maintain the listing of our common stock on the NASDAQ Capital Market.

Our ability to raise additional capital may be dependent upon our stock being quoted on the NASDAQ Capital Market. Previously, we had fallen out of compliance with continued listing requirements because our common stock did not comply with the $1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 5450(a)(1) (formerly Rule 4450(a)(5)). To regain compliance, effective August 20, 2008, we implemented a 1-for-6 reverse stock split of our common stock. After that date, our common stock traded above the minimum $1.00 bid price for at least ten consecutive business days and on September 5, 2008, the NASDAQ Stock Market notified us that we had regained compliance with the minimum bid price requirements. On October 16, 2008, the NASDAQ Stock Market suspended the enforcement of the minimum bid price and market value requirements through January 16, 2009. The suspension period was subsequently extended to July 31, 2009 and NASDAQ's enforcement of these rules resumed on Monday, August 3, 2009. NASDAQ does not expect any further extensions of the suspension. Even though we regained compliance with the minimum bid price, we cannot assure you that we will be able to maintain compliance with the minimum bid price requirement or other listing requirements in the future, and our failure to do so could result in the delisting of our shares from the NASDAQ Capital Market.

A significant number of shares of our common stock are subject to issuance upon exercise of outstanding warrants, which upon such exercise would result in dilution to our security holders.

On October 5, 2009, we issued outstanding warrants to purchase an aggregate of 7,329,819 shares of our common stock, at an exercise price of $2.23 per share. In addition, on August 29, 2008, we issued outstanding warrants to purchase an aggregate of 3,588,221 shares of our common stock, at an exercise price of $2.34 per share, which exercise price was subsequently reduced to $1.86 per share on October 5, 2009 under the anti-dilution provisions of the warrants as a result of the October 2009 private placement that was completed on that date. The exercise price and/or the number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including certain issuances of securities at a price equal to less than the then current exercise price, subdivisions and stock splits, stock dividends, combinations, reorganizations, reclassifications, consolidations, mergers or sales of properties and assets and upon the issuance of certain assets or securities to holders of our common stock, as applicable. Although we cannot determine at this time which of these warrants will ultimately be exercised, it is reasonable to assume that such warrants will be exercised only if the exercise price is below the market price of our common stock. To the extent the warrants are exercised, additional shares of our common stock will be issued that will be eligible for resale in the public market, which will result in dilution to our security holders. The issuance of additional securities could also have an adverse effect on the market price of our common stock.

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;
- 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 us, our Chief Executive Officer Harold E. Selick and our 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, which have been consolidated by the Court into a single proceeding, were ordered transferred to the United States District Court for the Northern District of California. On January 15, 2008, the plaintiffs filed a first consolidated amended complaint. On July 11, 2008, the Court granted the defendants' motions to dismiss that complaint but afforded the plaintiffs leave to file a further amended complaint. On September 19, 2008, the plaintiffs filed a second consolidated amended complaint, which, 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, purports to allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act and under Sections 10(b) and 20(a) of the Exchange Act. The plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning our Phase 2 and Phase 3 clinical trials of Lonidamine (TH-070). On November 14, 2008, Defendants moved to dismiss the second consolidated amended complaint. On April 3, 2009, the Court granted in part and denied in part the motions to dismiss, dismissing with prejudice all claims arising under the Securities Act and all claims against Ms. Swearson, while narrowing the remaining claims. On October 30, 2009, the parties entered into a stipulation of settlement to resolve the lawsuit. The settlement provides for a payment to the plaintiff class solely by our insurers. On December 1, 2009, the Court entered an order granting preliminary approval of the proposed settlement. The settlement is subject to final approval by the Court, and a hearing at which the Court will consider whether to grant final approval of the

settlement is scheduled for April 15, 2010. However, we cannot provide any assurance that this hearing will not be rescheduled or that the settlement will receive final Court approval. The defendants, including us, have denied and continue to deny all of plaintiffs' allegations of wrongdoing. There can be no assurance at this time that the settlement process will result in final Court approval. To the extent the case does not finally resolve through settlement, the defendants to the lawsuit, including us, continue to believe that plaintiffs' claims are without merit and intend to defend against the actions vigorously. 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 December 31, 2009, our officers, directors and holders of 10% or more of our outstanding common stock beneficially owned in excess of 50.8% of our common stock, assuming the full exercisability of all outstanding warrants. 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 our 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. UNRESOLVED STAFF 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 originally terminated 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. We lease an additional 6,489 square feet of laboratory space in Redwood City, California under an agreement that terminates in August 2012.

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 us, our Chief Executive Officer Harold E. Selick and our 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, which have been consolidated by the Court into a single proceeding, were ordered transferred to the United States District Court for the Northern District of California. On January 15, 2008, the plaintiffs filed a first consolidated amended complaint. On July 11, 2008, the Court granted Defendants' motions to dismiss that complaint but afforded the plaintiffs leave to file a further amended complaint. On September 19, 2008, the plaintiffs filed a second consolidated amended complaint, which, 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, purports to allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act, and under Sections 10(b) and 20(a) of the Exchange Act. Plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning our Phase 2 and Phase 3 clinical trials of Lonidamine (TH-070). On November 14, 2008, Defendants moved to dismiss the second consolidated amended complaint. On April 3, 2009, the Court granted in part and denied in part the motions to dismiss, dismissing with prejudice all claims arising under the Securities Act and all claims against Ms. Swearson, while narrowing the remaining claims. On October 30, 2009, the parties entered into a stipulation of settlement to resolve the lawsuit. The settlement provides for a payment to the plaintiff class solely by our insurers. On December 1, 2009, the Court entered an order granting preliminary approval of the proposed settlement. The settlement is subject to final approval by the Court, and a hearing at which the Court will consider whether to grant final approval of the settlement is scheduled for April 15, 2010. However, we cannot provide any assurance that this hearing will not be rescheduled or that the settlement will receive final Court approval. The defendants, including us, have denied and continue to deny all of plaintiffs' allegations of wrongdoing. There can be no assurance at this time that the settlement process will result in final Court approval. To the extent the case does not finally resolve through settlement, the defendants to the lawsuit, including us, continue to believe that the plaintiffs' claims are without merit and intend to defend against the actions vigorously.

ITEM 4. RESERVED

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 Capital Market under the symbol "THLD" since August 20, 2008 and the NASDAQ Global Market from February 4, 2005 to August 19, 2008. 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 Capital Market and the NASDAQ Global Market for the periods indicated below, respectively. These prices do not include retail markups, markdowns or commissions. In August 2008, our Board of Directors approved a 1-for-6 reverse split of its common stock, effective August 20, 2008. Accordingly, the prices of our common stock have been retroactively adjusted to reflect the reverse split.

	High	Low
Year Ended December 31, 2009:		
First Quarter	$1.54	$0.53
Second Quarter	$2.57	$1.17
Third Quarter	$2.08	$1.10
Fourth Quarter	$3.87	$1.70
Year Ended December 31, 2008:		
First Quarter	$4.56	$2.10
Second Quarter	$2.76	$1.86
Third Quarter	$2.66	$1.25
Fourth Quarter	$1.37	$0.21

We estimate that there were approximately 115 holders of record of our common stock as of February 28, 2010.

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
10/01/2009 to 10/31/2009	—	$ —	—	—
11/01/2009 to 11/30/2009	—	$ —	—	—
12/01/2009 to 12/31/2009	—	$ —	—	—

* 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, 2009:

	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 (1) (2)
Equity compensation plans approved by stockholders	935,660	$ 1.17	546,408
Equity compensation plans not approved by stockholders	—	—	—
Total	935,660	$ 1.17	546,408

(1) Includes 402,903 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 our shares issued and outstanding prior to the preceding December 31;
- 202,401 shares; or
- an amount determined by our 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, 2009, 2008 and 2007 and balance sheet data as of December 31, 2009 and 2008 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, 2006 and 2005, and balance sheet data as of December 31, 2007, 2006 and 2005 are derived from our 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. In August 2008, our Board of Directors approved a 1-for-6 reverse split of its common stock, effective August 20, 2008. Accordingly, all references to common shares of stock and net loss per common share have been retroactively adjusted to reflect the reverse split.

As discussed in Note 9 in Item 8 "Financial Statements and Supplementary Data", on January 1, 2006, we began accounting for stock options and stock purchase rights under a fair value method and accounting of stock-based compensation expense in our consolidated financial statements over the requisite service period

	Years Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share data)				
Revenue	$ —	$ 1,440	$ 1,436	$ 1,461	$ 690
Operating expenses:					
Research and development (1)	15,844	13,440	23,375	46,267	35,991
General and administrative (1)	5,480	6,734	10,411	14,453	11,235
Total operating expenses	21,324	20,174	33,786	60,720	47,226
Loss from operations	(21,324)	(18,734)	(32,350)	(59,259)	(46,536)
Interest and other income, net	97	503	1,841	3,729	2,159
Interest and other expense	(2,421)	(61)	(155)	(156)	(31)
Net loss attributable to common stockholders	(23,648)	(18,292)	(30,664)	(55,686)	$(44,408)
Net loss per common share:					
Basic and diluted	$ (1.21)	$ (1.97)	$ (4.97)	$ (9.20)	$ (9.81)
Weighted average number of shares used in net loss per common share calculations:					
Basic and diluted	19,594	9,275	6,176	6,056	4,529
(1) Includes employee and non-employee non-cash stock-based compensation of:					
Research and development	$ 1,003	$ 1,504	$ 2,413	$ 5,008	$ 5,951
General and administrative	$ 1,208	$ 1,748	$ 3,496	$ 5,141	3,470

	As of December 31,				
	2009	2008	2007	2006	2005
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 37,315	$ 22,337	$ 22,693	$ 52,810	$ 99,654
Working capital	34,783	20,292	17,884	43,698	90,655
Total assets	48,685	24,531	25,814	57,034	102,101
Notes payable, less current portion	—	—	337	1,247	151
Total liabilities	26,028	3,117	6,227	12,796	12,733
Redeemable convertible preferred stock	—	—	—	—	—
Total stockholders' equity (deficit)	22,657	21,414	19,587	44,238	89,368

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 living with cancer. The microenvironment of solid tumors is characterized by, among other things, hypoxia or lack of oxygen, disordered blood vessel growth, 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 2DG and the recently out-licensed product candidate glufosfamide 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 with cancer. We have two 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 activated under the severe hypoxic conditions and was designed to specifically target the severe hypoxic regions that are present in most solid tumors. TH-302 is currently in Phase 1 and Phase 1/2 clinical trials. In 2009 and first quarter of 2010, we reported results from the dose escalation component and dose expansion components in metastatic melanoma and small-cell lung cancer (SCLC) of the monotherapy Phase 1 trial and interim results from each of the four chemotherapy plus TH-302 treatments Phase 1/2 combination trials. We presented top-line results from the monotherapy and combination therapy trials in the first quarter of 2010 and expect to present updated top-line results from the monotherapy and combination therapy trials in the second quarter of 2010. We also expect to initiate at least one randomized controlled clinical trial with TH-302 in mid-year 2010.
- 2DG is our product candidate for the potential treatment of patients with cancer and has been 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 completed enrollment in the first half of 2008. We presented top-line results for this clinical trial in August 2008. We are not currently planning or conducting any additional clinical trials of 2DG. We plan to seek a collaborator for the future development of 2DG.

We are working to discover additional 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. In August 2008, we completed an offering of common stock and warrants that raised net proceeds of $16.8 million. In October 2009, we completed an offering of common stock and warrants that raised net proceeds of $33.1 million. As of December 31, 2009 we had cash, cash equivalents and marketable securities of $37.3 million. Our net loss for the year ended December 31, 2009 was $23.6 million, respectively, and our cumulative net loss since our inception through December 31, 2008 was $207.8 million.

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 increase in 2010 compared to 2009 due to the continued execution of existing clinical trials and beginning of new clinical trials. We expect that our cash, cash equivalents and marketable securities as of December 31, 2009 will be sufficient to fund our projected operating requirements into the second quarter of 2011, including prosecuting our current ongoing clinical trials and conducting research and discovery efforts toward additional product candidates, working capital and general corporate purposes. Research and development expenses may fluctuate significantly from period to period as a result of the progress and results of our clinical trials.

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. From 2004 to 2008, we recognized $5.0 million in revenue related to the upfront payment received in connection with a 2004 agreement with 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 has been recognized on a straight-line basis over the estimated development period, through December 31, 2008. In 2009, the Company had no further responsibilities for development activities under this agreement and in May 2009, the Company dissolved the Joint Development Committee ("JDC") comprising MediBIC and us. No payments were made by either party as a result of the dissolution of the JDC.

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, 2009, we incurred an aggregate of $159.7 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, 2009, we incurred an aggregate of $58.5 million on general and administrative expenses, including non-cash stock-based compensation expense.

Stock-Based Compensation

We recognize stock-based compensation in accordance with the fair value provisions of Accounting Standard Codification ("ASC") 718,*"Compensation—Stock Compensation"*, using the modified prospective transition method, except for options granted prior to our initial public offering in February 2005, for which the fair value was determined for disclosure purposes using the minimum value method. 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, 2009 and 2008

Revenue

For the year ended December 31, 2009, no revenue was recognized. For the year ended December 31, 2008, we recognized $1.4 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 was fully recognized on a straight-line basis through 2008, the estimated development period.

Research and Development

Research and development expenses were $15.8 million for the year ended December 31, 2009, compared to $13.4 million for the year ended December 31, 2008. The $2.4 million increase in expenses is due to a $2.0 million increase in clinical and development expenses, $0.5 million in higher staffing and facilities expenses and $0.4 million in higher consulting expenses. In addition, stock-based compensation expense decreased by $0.5 million primarily due to lower valuations for 2009 stock option grants resulting from a lower stock price.

	Years ended December 31,		
Research and development expenses by project (in thousands)	**2009**	**2008**	**2007**
TH-302	$ 11,086	$ 6,876	$ 5,079
Glufosfamide	246	1,976	11,877
2DG	197	414	1,130
Discovery research	4,315	4,174	5,289
Total research and development expenses	$ 15,844	$ 13,440	$ 23,375

Research and development expenses associated with our internally discovered compound TH-302 were $11.1 million for 2009 and $6.9 million for 2008. The increase of $4.2 million was primarily due to $2.4 million in clinical and manufacturing expenses and $1.1 million in employee related expenses. TH-302 continues to progress through the Phase 1 monotherapy clinical trial initiated in July 2007, for which in the first quarter of 2009, we expanded enrollment to explore activity in specific indications. In addition TH-302 continues to progress through the Phase 1/2 combination therapy clinical trial, which includes three separate treatment arms and a Phase 1/2 combination therapy clinical trial of TH-302 in combination with doxorubicin in patients with advanced soft tissue sarcoma, both of which were initiated in third quarter of 2008.

Research and development expenses associated with glufosfamide were $0.2 million for 2009 and $2.0 million for 2008. This decline in expenses was due to the completion and announcement of results for our Phase 2 trials in pancreatic cancer and soft-tissue sarcoma in 2007 and discontinuation of our Phase 2 trials in recurrent sensitive SCLC and platinum-resistant ovarian cancer in October 2007 and January 2008, respectively. In October 2009, we exclusively licensed development and commercialization of glufosfamide to Eleison and as a result, we do not expect to incur research and development expenses associated with glufosfamide in the future.

Research and development expenses associated with 2DG were $0.2 million for 2009 and $0.4 million for 2008, as we completed enrollment of our 2DG Phase 1 trial in second quarter of 2008 and announced results in third quarter of 2008. We are not currently planning or conducting any additional clinical trials of 2DG.

Discovery research and development expenses were $4.3 million for 2009 and $4.2 million for 2008, we continue to focus our efforts towards discovering and developing new drug candidates from our hypoxia activated prodrug platform.

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 increase in 2010 compared to 2009 due to the continued execution of existing clinical trials and beginning of new clinical trials.

General and Administrative

General and administrative expenses were $5.5 million for 2009, compared to $6.7 million for 2008. The $1.2 million decrease reflects $0.5 million decrease in stock-based compensation, $0.4 million in lower staffing and facilities expense and $0.3 million in lower consulting expenses.

We currently expect our general and administrative expenses to remain approximately the same in 2010 compared to 2009.

Interest and Other Income

Interest and other income for 2009 was $0.1 million compared to $0.5 million for 2008. The decrease was primarily due to lower invested cash, cash equivalents and marketable securities balances and lower interest rates during 2009 compared to the prior year.

Interest and Other Expense

Interest and other expense for the years ended December 31, 2009 and 2008 was $2.4 million and $0.1 million, respectively. The increase is primarily due to the revaluation of our warrant liability, which resulted in a net charge of $2.3 million in interest expense for 2009.

Results of Operations for the Years Ended December 31, 2008 and 2007

Revenue

For the years ended December 31, 2008 and 2007, we recognized $1.4 million and $1.4 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 was recognized on a straight-line basis through 2008, the development period. We are responsible for all development activities under this agreement.

Research and Development

Research and development expenses were $13.4 million for the year ended December 31, 2008, compared to $23.4 million for the year ended December 31, 2007. The $10.0 million decrease in expenses is due to a $5.8 million decrease in clinical and development expenses, $2.6 million in lower staffing and facilities expenses due to a lower headcount compared to the prior year and $0.7 million in lower consulting expenses. Staffing expenses in 2007 included $0.6 million in severance expenses. In addition, stock-based compensation expense decreased by $0.9 million primarily due to a reduction in the number of employees and consultants compared to the prior year, as well as lower valuations for 2008 stock option grants resulting from a lower stock price.

Research and development expenses associated with our internally discovered compound TH-302 were $6.9 million for 2008 and $5.1 million for 2007. The increase of $1.8 million was primarily due to $1.0 in employee

related expenses and $0.6 million in clinical and manufacturing expenses. TH-302 continues to progress through the Phase 1 monotherapy clinical trial initiated in July 2007, with enrollment completed in the fourth quarter of 2008. In addition, in the third quarter of 2008, we initiated a Phase 1/2 combination therapy clinical trial of TH-302 which includes three separate treatment arms and a Phase 1/2 clinical trial of TH-302 in combination with doxorubicin in patients with advanced soft tissue sarcoma.

Research and development expenses associated with glufosfamide were $2.0 million for 2008 and $11.9 million for 2007. This decrease was primarily due to a $5.8 million decrease in clinical and manufacturing expenses, a $3.3 million decrease in employee-related and stock compensation expenses and a $0.8 million decrease in outside consulting expenses. These declines in expenses were due to completion and announcement of results for our Phase 2 trials in pancreatic cancer and soft-tissue sarcoma in 2007 and discontinuation of our Phase 2 trials in recurrent sensitive SCLC and platinum-resistant ovarian cancer in October 2007 and January 2008, respectively.

Research and development expenses associated with 2DG were $0.4 million for 2008 and $1.1 million for 2007, as we completed enrollment of our 2DG Phase 1 trial in second quarter of 2008 and announced results in third quarter of 2008. We are not currently planning or conducting any additional clinical trials of 2DG. We plan to seek a collaborator for the future development of 2DG. Discovery research and development expenses were $4.2 million for 2008 and $5.3 million for 2007. 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.

General and Administrative

General and administrative expenses were $6.7 million for 2008, compared to $10.4 million for 2007. The $3.7 million decrease reflects $1.8 million in lower staffing and facilities expense, $1.7 million decrease in stock-based compensation, and $0.1 million in lower consulting expenses. Staffing expenses in 2007 included $0.5 million in severance expenses.

Interest and Other Income

Interest and other income for 2008 was $0.5 million compared to $1.8 million for 2007. The decrease was primarily due to lower invested cash, cash equivalents and marketable securities balances during 2008 compared to the prior year.

Interest and Other Expense

Interest and other expense for the years ended December 31, 2008 and 2007 was $0.1 million and $0.2 million, respectively.

Liquidity and Capital Resources

We have incurred net losses since inception through December 31, 2009 of $207.8 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 1.0 million shares of our common stock (split adjusted), raising net proceeds of $38.1 million. In October 2005, we completed a public offering of 1.1 million shares of our common stock (split adjusted) for net proceeds of $62.4 million. In August 2008, we sold to certain investors an aggregate of 8,970,574 shares of our common stock for a purchase price equal to $2.04 per share and warrants exercisable for a total of 3,588,221 shares of our common stock with an exercise price equal to $2.34 per share (subject to adjustment). We received aggregate gross proceeds of $18.3 million in connection with the offering. Net proceeds generated from the offering were $16.8 million. In October 2009, we sold to certain investors an aggregate of 18,324,599 shares of our common

stock for a purchase price equal to $1.86 per share and, for a purchase price equal to $0.05 per share, warrants exercisable for a total of 7,329,819 shares of our common stock for aggregate gross proceeds equal to $35.0 million in connection with the offering. Net proceeds generated from the offering were $33.1 million.

In August 2008, our board of directors approved a 1-for-6 reverse split of our common stock, effective August 20, 2008. Accordingly, all references to common shares of stock have been retroactively adjusted to reflect the reverse split.

We had cash, cash equivalents and marketable securities of $37.3 million and $22.3 million at December 31, 2009 and 2008, respectively.

Net cash used in operating activities for the years ended December 31, 2009, 2008 and 2007 was $17.8 million, $16.3 million and $29.2 million, respectively. For the year ended December 31, 2009, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for stock-based compensation expense, revaluation of warrant liability and depreciation and amortization expenses, as well as an increase in accrued liabilities. For the year ended December 31, 2008, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for stock-based compensation expense and depreciation and amortization expenses, offset by a decrease in accrued liabilities and a decrease in deferred revenue. 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.

Net cash used in investing activities for the year ended December 31, 2009 was $21.5 million, primarily due to purchases of marketable securities of $35.0 million, offset by proceeds from sales and maturities of investments of $13.5 million. Net cash provided by investing activities for the year ended December 31, 2008 was $4.4 million, primarily due to proceeds from sales and maturities of investments of $13.7 million, offset by purchases of marketable securities of $9.2 million. 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 provided by financing activities was $32.7 million for the year ended December 31, 2009, reflecting the $33.1 million net proceeds from the sale of our common stock in October 2009, offset by repayments of notes payable totaling $0.3 for the year. Net cash provided by financing activities was $15.9 million for the year ended December 31, 2008, reflecting the $16.8 million net proceeds from the sale of our common stock in August 2008, offset by repayments of notes payable totaling $0.9 for the year. 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.

We expect 2010 cash requirements to be in the range of $23.0 million to $25.0 million. We believe that our cash, cash equivalents and marketable securities as of December 31, 2009 will be sufficient to fund our projected operating requirements into the second quarter of 2011, including completing our current trials, conducting research and discovery efforts towards additional product candidates, working capital and general corporate purposes.

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;

- licensing 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 Capital Market. Previously we had fallen out of compliance with continued listing requirements because our common stock did not comply with the $1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 4450(a)(5). On August 13, 2008 our board of directors implemented a one for six reverse stock split, effective August 20, 2008, to regain compliance with the minimum bid price requirement. On September 5, 2008, the NASDAQ Stock Market notified us that we had regained compliance with the minimum bid price. Even though we regained compliance with the minimum bid price requirement, we cannot be assured that we will be able to maintain compliance with the minimum bid price requirement in the future, and our failure to do so could result in the delisting of our shares from the NASDAQ Capital Market. To maintain our listing on the NASDAQ Capital Market, we are also required, among other things, to either maintain stockholders' equity of at least $5 million or a market value of at least $15 million. While we currently satisfy the stockholders' equity requirement, we may not continue to do so. On October 16, 2008, the NASDAQ Stock Market suspended the enforcement of the minimum bid price and market value requirements through January 16, 2009 and on December 19, 2008, the suspension period was extended to April 20, 2009. The suspension period was subsequently extended to July 31, 2009. NASDAQ's enforcement of these rules resumed on August 3, 2009 and NASDAQ does not expect any further extensions of the suspension period.

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 was repaid over a 36-month period from the date of borrowing. The interest rate on these borrowings was approximately 7.2% per annum. At June 30, 2009, borrowings under this facility were paid in full.

In August 2004, we entered into a noncancelable facilities sublease agreement that originally expired on February 28, 2010 for our headquarters 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.

On April 1, 2005, we entered into a noncancelable facilities lease agreement that originally expired on February 28, 2010 for additional laboratory space in Redwood City, California. On November 17, 2009 we extended the term of the lease agreement to expire on August 2012.

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, 2009, are as follows (in thousands):

	Within one year	One to three years	Four to five years	After five years	Total
Facilities sublease and lease	$1,588	$ 1,284	$ 106	$ —	$2,978
Purchase commitments	1,673	—	—	—	1,673
Total	$3,261	$ 1,284	$ 106	$ —	$4,651

On October 14, 2009, we entered into an exclusive license agreement with Eleison Pharmaceuticals, Inc. (“Eleison”). Pursuant to the agreement we granted Eleison exclusive worldwide rights to develop and commercialize glufosfamide for the treatment of cancer in humans and animals, and certain other uses. Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share equally in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing.

Eleison will pay us 50% of its profits from commercialization on a quarterly basis, beginning on the date of first commercial sale, if any. Eleison has the right to sublicense some or all of its rights under the agreement, and will pay us 50% of amounts received under any sublicenses, including, without limitation, any royalty payments, license fee payments, milestone payments and payments for any equity or debt purchases by a sublicensee, within 30 days of the receipt of any such amounts or payments by Eleison. Eleison will bear all costs associated with development, commercialization and patent prosecution, and will control product development and commercialization. In addition, Eleison will be responsible for all royalty and milestone payments due under the Baxter license and MediBIC development agreement discussed below. The agreement contemplates that Eleison, to satisfy its diligence obligations, will raise sufficient funds to commence clinical development activities with glufosfamide.

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, through December 31, 2008. We were 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 2009, we had no further responsibilities for development activities under this agreement and in May 2009, we dissolved the Joint Development Committee (“JDC”) comprising MediBIC and us. No payments were made by either party as a result of the dissolution of the JDC.

In August 2003, we entered into an agreement with 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, 2009, 2008 and 2007, 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, 2009, 2008 and 2007 and, accordingly, we did not pay any federal or state income taxes. As of December 31, 2009, we had accumulated approximately $41 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 2022 and 2014 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, 2009, we had research credit carryforwards of approximately $2.8 million for California state income tax purposes. During the year ended December 31, 2009, the Company wrote down its deferred tax assets related to net operating loss carryforwards and tax credits that are expected to expire before utilization due to the annual limitation.

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

We account for stock options and stock purchase rights related to our 2004 Employee Stock Purchase Plan under the provisions of ASC 718 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 ASC 718 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.

We account for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC 505,*"Equity."* 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 price of the common stock underlying stock options for which stock-based compensation is recorded and the volatility of the stock price. 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 upon the levels of inputs described below, 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.

We adopted ASC 820, *"Fair Value and Measurements,* in the first quarter of 2008. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Our short-term investments primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

ASC 820 requires us to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation. Our financial assets measured at fair value on a recurring basis include securities available for sale. Securities available for sale include money market funds, government securities, commercial paper and corporate bonds.

Fair Value of Warrants

Prior to January 1, 2009, common stock warrants were recorded in stockholders equity in accordance with ASC 815,*"Derivatives and Hedging"* and ASC 825, *"Financial instruments."* However in June 2008, the Financial Accounting Standards Board ("FASB") issued new guidance now codified in ASC 815 that clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify for classification as a liability. The new guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of the new guidance on January 1, 2009, resulted in the reclassification of our outstanding warrants from stockholders' equity to liability and a cumulative effect of change in accounting principle on our deficit accumulated during development stage of $0.5 million. In addition, the stock warrants are required to be fair valued at each reporting period, with the changes in fair value recognized in our consolidated statement of operations. We fair value the warrants using a Black Scholes valuation model. Since the outstanding common stock warrants are fair valued at the end of each reporting period, any change in the underlying assumptions to the Black Scholes valuation model, including the volatility and price of our common stock, may have a significant impact on our consolidated financial statements.

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 October 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605):*"Multiple Deliverable Revenue Arrangements—A Consensus of the FASB Emerging Issues Task Force."* This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. We will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. We have not determined the impact that this update may have on our financial statements.

On July 1, 2009, the FASB issued guidance now codified as FASB Accounting Standards Codification ("ASC") 105-10, "*Generally Accepted Accounting Principles*" ("ASC 105-10") (the "Codification"). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification superseded all existing non-SEC accounting and reporting standards. We have included the references to the Codification, as appropriate, in these consolidated financial statements.

In April 2009, the FASB issued guidance now codified as ASC 820,*"Fair Value Measurements and Disclosures,"* ASC 320, *"Investments—Debt and Equity Securities"* and ASC 825, *"Financial Instruments,"* that was intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. ASC 820 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. ASC 320 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. ASC 825 expands the fair value disclosures required for all financial instruments to interim periods. The new guidance in these three ASC topics was effective for interim and annual reporting periods ending after June 15, 2009. The implementation did not have a material impact on our financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We do not expect adoption of the updated guidance to have a material impact on our consolidated results of operations or financial condition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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

R eport 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 appearing under Item 15 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, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 and cumulatively for the period from October 17, 2001 (date of inception) to December 31, 2009 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 8 to the consolidated financial statements, the Company changed the manner in which it accounts for common stock warrants effective January 1, 2009.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 8, 2010

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

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,934	$ 15,466
Marketable securities	28,381	6,871
Prepaid expenses and other current assets	10,342	518
Total current assets	47,657	22,855
Property and equipment, net	505	1,168
Restricted cash	483	483
Other assets	40	25
Total assets	$ 48,685	$ 24,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 284	$ 840
Accrued clinical and development expenses	1,618	544
Accrued liabilities	10,972	842
Notes payable, current portion	—	337
Total current liabilities	12,874	2,563
Warrant liability	12,665	—
Deferred rent	489	554
Total liabilities	26,028	3,117
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: 50,000,000 shares at December 31, 2009 and 2008, respectively; Issued and outstanding: 33,563,670 and 15,214,044 shares at December 31, 2009 and 2008, respectively.	33	15
Additional paid-in capital	230,441	204,999
Deferred stock-based compensation	—	(6)
Accumulated other comprehensive (loss) income	(24)	19
Deficit accumulated during the development stage	(207,793)	(183,613)
Total stockholders' equity	22,657	21,414
Total liabilities and stockholders' equity	$ 48,685	$ 24,531

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

T HRESHOLD 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, 2009
	2009	2008	2007	
Revenue	$ —	$ 1,440	$ 1,436	$ 5,027
Operating expenses:				
Research and development	15,844	13,440	23,375	159,710
General and administrative	5,480	6,734	10,411	58,526
Total operating expenses	21,324	20,174	33,786	218,236
Loss from operations	(21,324)	(18,734)	(32,350)	(213,209)
Interest and other income, net	97	503	1,841	8,864
Interest and other expense, net	(2,421)	(61)	(155)	(2,916)
Net loss	(23,648)	(18,292)	(30,664)	(207,261)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	—	(40,862)
Net loss attributable to common stockholders	$(23,648)	$(18,292)	$(30,664)	$ (248,123)
Net loss per common share:				
Basic and diluted	$ (1.21)	$ (1.97)	$ (4.97)	
Weighted average number of shares used in net loss per common share calculations:				
Basic and diluted	19,594	9,275	6,176	

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

T HRESHOLD 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, 2009
(in thousands, except share and per share data)

	Common Stock						
	Shares	Amount	Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
Issuance of restricted common stock to a founder and member of the Board of Directors in October 2001 for cash at $0.12 per share	25,300	$ —	$ 2	$ —	$ —	$ —	$ 2
Net loss	—	—	—	—	—	(236)	(236)
Balances, December 31, 2001	25,300	—	2	—	—	(236)	(234)
Issuance of restricted common stock to a member of the Board of Directors for cash at $0.96 per share in January 2002	3,795	—	4	—	—	—	4
Issuance of common stock pursuant to exercise of stock options for cash at $0.96 per share	405	—	—	—	—	—	—
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	29,500	—	52	(24)	(1)	(2,694)	(2,667)
Issuance of common stock pursuant to exercise of stock options for cash at $0.96 per share	1,285	—	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	30,785	—	2,685	(1,546)	163	(10,997)	(9,695)
Issuance of common stock pursuant to exercise of stock options for cash	586,385	—	878	—	—	—	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	(2,073)	—	(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, 2009
(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	615,097	—	24,623	(16,637)	104	(34,563)	(26,473)
Issuance of common stock in an initial public offering for cash of $42.00, per share, net of issuance costs of $4.6 million	1,018,768	1	38,134	—	—	—	38,135
Issuance of common stock for cash of $62.76 per share, net of issuance costs of $4.5 million	1,066,537	1	62,394	—	—	—	62,395
Issuance of common stock pursuant to exercise of warrants	3,211	—	—	—	—	—	—
Conversion of convertible preferred stock upon initial public offering	3,425,468	4	49,835	—	—	—	49,839
Issuance of common stock pursuant to stock plans	84,772	—	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	(8,591)	—	(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	6,205,262	6	179,665	(11,356)	24	(78,971)	89,368
Issuance of common stock pursuant to stock plans	46,144	—	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	(27,091)	—	(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	6,224,315	$ 6	$ 182,871	$ (3,975)	$ (7)	$ (134,657)	$ 44,238
Issuance of common stock pursuant to stock plans	20,151	—	128	—	—	—	128
Reversal of deferred stock-based compensation related to employee terminations	—	—	(304)	304	—	—	—

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, 2009
(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					
Amortization of deferred stock-based compensation	—	—	—	2,837	—	—	2,837
Stock-based compensation	—	—	3,072	—	—	—	3,072
Repurchase of unvested common stock	(16,410)	—	(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	6,228,056	6	185,733	(834)	3	(165,321)	19,587
Issuance of common stock and warrants to certain investors, net of issuance costs of $1.5 million	8,970,574	9	16,812	—	—	—	16,821
Issuance of common stock pursuant to stock plans	15,461	—	30	—	—	—	30
Amortization of deferred stock-based compensation	—	—	—	828	—	—	828
Stock-based compensation	—	—	2,424	—	—	—	2,424
Repurchase of unvested common stock	(47)	—	—	—	—	—	—
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	16	—	16
Net loss	—	—	—	—	—	(18,292)	(18,292)
Comprehensive loss							(18,276)
Balances, December 31, 2008	15,214,044	15	204,999	(6)	19	(183,613)	21,414
Issuance of common stock to certain investors, net of issuance costs of $1.9 million	18,324,599	18	23,210	—	—	—	23,228
Issuance of common stock pursuant to stock plans	25,027	—	27	—	—	—	27
Amortization of deferred stock-based compensation	—	—	—	6	—	—	6
Stock-based compensation	—	—	2,205	—	—	—	2,205
Cumulative effect of change in accounting principle	—	—	—	—	—	(532)	(532)
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	(43)	—	(43)
Net loss	—	—	—	—	—	(23,648)	(23,648)
Comprehensive loss							(23,691)
Balances, December 31, 2009	33,563,670	$ 33	$ 230,441	$ —	$ (24)	$ (207,793)	$ 22,657

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

T HRESHOLD 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, 2009
	2009	2008	2007	
Cash flows from operating activities:				
Net loss	$(23,648)	$(18,292)	$(30,664)	$ (207,261)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	597	935	1,040	4,327
Stock-based compensation expense	2,211	3,252	5,909	38,005
Change in common stock warrant value	2,311	—	—	2,311
Amortization of debt issuance costs	—	—	—	44
(Gain) loss on sale of investments, property and equipment	—	—	9	(27)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	161	(2)	32	(382)
Accounts payable	(556)	(182)	403	284
Accrued clinical and development expenses	1,074	(696)	(3,080)	1,618
Accrued liabilities	130	125	(1,569)	972
Deferred rent	(65)	(11)	111	489
Deferred revenue	—	(1,437)	(1,436)	—
Net cash used in operating activities	(17,785)	(16,308)	(29,245)	(159,620)
Cash flows from investing activities:				
Acquisition of property and equipment	(22)	(30)	(42)	(4,988)
Acquisition of marketable securities	(34,961)	(9,242)	(22,083)	(180,570)
Proceeds from sales and maturities of marketable securities	13,496	13,700	35,228	152,348
Restricted cash	—	—	—	(483)
Net cash provided by (used in) investing activities	(21,487)	4,428	13,103	(33,693)
Cash flows from financing activities:				
Proceeds from redeemable convertible preferred stock, net	—	—	—	49,839
Proceeds from issuance of common stock and warrants, net of offering expenses	33,077	16,851	94	152,408
Proceeds from issuance of notes payable	—	—	—	3,616
Repayment of notes payable	(337)	(909)	(998)	(3,616)
Net cash provided by (used in) financing activities	32,740	15,942	(904)	202,247
Net increase (decrease) in cash and cash equivalents	(6,532)	4,062	(17,046)	8,934
Cash and cash equivalents, beginning of period	15,466	11,404	28,450	—
Cash and cash equivalents, end of period	$ 8,934	$ 15,466	$ 11,404	$ 8,934
Supplemental disclosures:				
Cash paid for interest	$ 110	$ 61	$ 155	$ 560
Non-cash investing and financing activities:				
Cumulative change in accounting principle	$ 532	$ —	$ —	$ 532
Deferred stock-based compensation	$ —	$ —	$ (304)	$ 19,511
Conversion of redeemable convertible preferred stock	$ —	$ —	$ —	$ 49,839
Change in unrealized gain (loss) in marketable securities	$ (43)	$ 16	$ 10	$ (24)
Fair value of redeemable convertible preferred stock warrant	$ —	$ —	$ —	$ 44
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	$ —	$ —	$ —	$ 40,862

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

T HRESHOLD 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, 2009, 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.

Reverse Stock Split

On August 13, 2008, the Company's Board of Directors approved a 1-for-6 reverse split of its common stock, following approval by the Company's stockholders on May 13, 2008. The reverse stock split was effective August 20, 2008. The par value of the common stock was not affected by the reverse stock split and remains at $0.001 per share. Consequently, on the Company's consolidated balance sheet, the aggregate par value of the issued common stock was reduced by reclassifying the par value amount of the eliminated shares of common stock to Additional Paid-in Capital. The Company paid cash in lieu of any fractional shares to which a holder of common stock would otherwise be entitled as a result of the reverse stock split, including fractional shares for the in-the-money stock options. In addition, the number of authorized shares of common stock was reduced from 150,000,000 to 50,000,000. All common share and per share amounts contained in the accompanying consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

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, 2009, the Company had an accumulated deficit of $207.8 million. On October 5, 2009, the Company sold to certain investors an aggregate of 18,324,599 shares of its common stock for a purchase price equal to $1.86 per share and, for a purchase price equal $0.05, warrants exercisable for a total of 7,329,819 shares of its common stock for aggregate gross proceeds equal to $35.0 million. Net proceeds generated from the offering were $33.1 million.

The Company expects to need to raise additional capital or incur indebtedness to continue to fund its 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. In addition, 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, if such adequate funds are not available. 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.

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 on the date of purchase, 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 are 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, commercial paper and certificates of deposit.

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, 2008 approximates fair value. Estimated fair values for marketable securities, which are separately disclosed in Note 3, are based on quoted market prices for the same or similar instruments. The carrying amount of the common stock warrant liability represents its fair value.

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 Accounting Standards Codification ("ASC") 360, *"Property, Plant and Equipment,"* 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. 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, 2009, the Company has not incurred any such impairment losses.

Related Parties

In March 2008, the Company entered into a License Agreement, for the use of 5,500 square feet of its facilities and laboratory space with Ethos Pharmaceuticals (formerly AllChemie, Inc.), a Delaware corporation. Dr. Harold E. Selick, the Company's Chief Executive Officer and a member of the board of directors, is the chairman of the board of directors of Ethos Pharmaceuticals. Ethos Pharmaceuticals paid the Company a fee in the aggregate of $192,570 for the one-year initial term of the License Agreement. In addition, Ethos Pharmaceuticals paid for costs incurred relating to agreed upon services provided by the Company. In January 2009, the License Agreement was terminated at end of the initial term.

The Company's offering of common stock and warrants, on October 5, 2009, included 1,570,980 shares of common stock and warrants exercisable for a total of 628,264 shares of common stock sold to entities affiliated with Sutter Hill Ventures ("Sutter Hill"), and 1,047,120 shares of common stock and warrants exercisable for a total of 418,847 shares of common stock sold to entities affiliated with Three Arch Management III, L.L.C. ("Three Arch"). Jeffrey W. Bird and Wilfred E. Jaeger, members of the Company's board of directors, are

managing members of Sutter Hill and Three Arch, respectively. Also as part of this offering, certain members of the Company's management team purchased 248,690 shares and received warrants to purchase 99,475 shares of common stock.

The Company's offering of common stock and warrants, on August 29, 2008, included 980,391 shares of common stock and warrants exercisable for a total of 392,156 shares of common stock sold to entities affiliated with Three Arch Management III, L.L.C. ("Three Arch"). Wilfred E. Jaeger, a member of the Company's board of directors, is a managing member of Three Arch. In addition included in the offering were 2,941,173 shares of common stock and warrants exercisable for a total of 1,176, 464 shares of common stock sold to entities affiliated with Sutter Hill Ventures, a California Limited Partnership ("Sutter Hill"). Jeffrey R. Bird, a member of the Company's board of directors, is a managing member of Sutter Hill. Also as part of this offering, certain members of the Company's management team purchased 245,095 shares and received warrants to purchase 98,038 shares of common stock.

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 the provisions of ASC 605, *"Revenue Recognition"*. In connection with the Company's agreement with MediBIC Co. Ltd. ("MediBIC"), the Company recognizes revenue from the non-refundable, upfront payment ratably over the term of its performance under the agreement. 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 consolidated balance sheet to be recognized over the period of deferral. Revenue was fully recognized on a straight-line basis through the 2008, the development period. In 2009, the Company had no responsibilities for development activities and in May 2009, the Company dissolved the Joint Development Committee ("JDC") comprising MediBIC and the Company.

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

The Company's preclinical and clinical trials are performed by third party contract research organizations (CROs) and/or clinical investigators, 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.

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

The Company accounts for stock-based compensation using the modified prospective transition method prescribed by ASC 718,*"Compensation—Stock Compensation,"* originally issued by the Financial Accounting Standards Board in December 2004. ASC 718 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 and Stock Based Compensation" for further discussion.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC 505,*"Equity,"* 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 October 2009, the Financial Account Standards Board ("FASB") issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605):*"Multiple Deliverable Revenue Arrangements – A Consensus of the FASB Emerging Issues Task Force."* This update provides application guidance on whether multiple deliverables exist, how the deliverables should be separated and how the consideration should be allocated to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific or third-party evidence is available. The Company will be required to apply this guidance prospectively for revenue arrangements entered into or materially modified after January 1, 2011; however, earlier application is permitted. The Company has not determined the impact that this update may have on its financial statements.

On July 1, 2009, the FASB issued guidance now codified as FASB Accounting Standards Codification ("ASC") 105-10, "*Generally Accepted Accounting Principles*" ("ASC 105-10") (the "Codification"). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for use in financial statements, except for SEC rules and interpretive releases, which are also authoritative GAAP for SEC registrants. The Codification superseded all existing non-SEC accounting and reporting standards. The Company has included the references to the Codification, as appropriate, in these consolidated financial statements.

In April 2009, the FASB issued guidance now codified as ASC 820,*"Fair Value Measurements and Disclosures,"* ASC 320, *"Investments—Debt and Equity Securities"* and ASC 825, *"Financial Instruments,"* that was intended to provide additional application guidance and enhance disclosures about fair value measurements and impairments of securities. ASC 820 clarifies the objective and method of fair value measurement even when there has been a significant decrease in market activity for the asset being measured. ASC 320 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize a write-down through earnings versus other comprehensive income. ASC 825 expands the fair value disclosures required for all financial instruments to interim periods. The new guidance in these three ASC topics was effective for interim and annual reporting periods ending after June 15, 2009. The implementation did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company does not expect adoption of the updated guidance to have a material impact on its consolidated results of operations or financial conditions.

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 and warrants. 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,		
	2009	2008	2007
Numerator:			
Net loss attributable to common stockholders	$(23,648)	$(18,292)	$(30,664)
Denominator:			
Weighted-average number of common shares outstanding	19,594	9,285	6,238
Less: Weighted-average shares subject to repurchase	—	(10)	(62)
Weighted-average number of common shares outstanding used in computing basic and diluted net loss per common share	19,594	9,275	6,176
Basic and diluted net loss per common share	$ (1.21)	$ (1.97)	$ (4.97)

The following warrants, 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,		
	2009	2008	2007
Warrants to purchase common stock	10,918	3,588	—
Options to purchase common stock	936	617	497
Common stock subject to repurchase	—	—	20
Shares issuable related to the ESPP	50	8	6

NOTE 3—FAIR VALUE MEASUREMENTS AND MARKETABLE SECURITIES

In September 2006, the FASB issued new guidance now codified as ASC 820, *"Fair Value Measurements and Disclosures."* The new guidance defines fair value, establishes a framework for measuring fair value in

GAAP, and expands disclosures about fair value measurements and was adopted by the Company in the first quarter of 2008. In February 2008, the FASB issued new guidance now codified in ASC 820 which delays the effective date for non-financial assets and liabilities that are not measured or disclosed on a recurring basis to fiscal years beginning after November 15, 2008 and was adopted by the Company in the first quarter of 2009.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's short-term investments primarily utilize broker quotes in a non-active market for valuation of these securities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value for its financial assets. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. The following table sets forth the Company's financial assets (cash equivalents and marketable securities) at fair value on a recurring basis as of December 31, 2009:

	Fair Value as of December 31,	Basis of Fair Value Measurements		
(in thousands)	2009	Level 1	Level 2	Level 3
Money market funds	$ 7,759	$ 7,759	$ —	$ —
Certificates of deposit	12,514	—	12,514	—
Corporate bonds	1,280	—	1,280	—
Government securities	9,392	—	9,392	—
Commercial paper	6,195	—	6,195	—
Total cash equivalents and marketable securities	$ 37,140	$ 7,759	$ 29,381	$ —

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, 2009 and 2008:

As of December 31, 2009 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Money market funds	$ 7,759	$ —	$ —	$ 7,759
Certificates of deposit	12,528	—	(14)	12,514
Corporate bonds	1,281	1	(2)	1,280
Government securities	9,401	—	(9)	9,392
Commercial paper	6,195	—	—	6,195
	37,164	1	(25)	37,140
Less cash equivalents	(8,759)	—	—	(8,759)
Total marketable securities	$28,405	$ 1	$ (25)	$28,381

As of December 31, 2008 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Money market funds	$ 11,995	$ —	$ —	$ 11,995
Corporate bonds	1,229	—	(1)	1,228
Government securities	5,827	19	—	5,846
Commercial paper	3,042	5	—	3,047
	22,093	24	(1)	22,116
Less cash equivalents	(15,241)	(4)	—	(15,245)
Total marketable securities	$ 6,852	$ 20	$ (1)	$ 6,871

There were no realized gains or losses in 2009 and 2008.

As of December 31, 2009, weighted average days to maturity for the Company's available for sale securities was 147 days, with the longest maturity being January 2011.

The following table provides the breakdown of the marketable securities with unrealized losses at December 31, 2009 (in thousands):

	In loss position for less than twelve months	
As of December 31, 2009 (in thousands):	Fair Value	Unrealized Loss
Certificates of deposits	$ 10,223	$ (14)
Government securities	8,392	(9)
Corporate bonds	608	(2)
Total marketable securities	$ 19,223	$ (25)

The Company has determined that the gross unrealized losses on its marketable securities at December 31, 2009 are temporary in nature. To date the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value. 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,	
	2009	2008
Computer and office equipment	$ 866	$ 866
Laboratory equipment	1,276	1,253
Leasehold improvements	2,795	2,795
	4,937	4,914
Less: Accumulated depreciation and amortization	(4,432)	(3,746)
Total property and equipment, net	$ 505	$ 1,168

Depreciation and amortization expense was $0.7 million, $1.0 million, $1.1 million and $4.5 million for the years ended December 31, 2009, 2008 and 2007, and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2009, respectively.

NOTE 5—BALANCE SHEET COMPONENTS

Prepaid expenses and other current assets comprise the following (in thousands):

	December 31,	
	2009	2008
Litigation settlement receivable	$ 10,000	$ —
Other prepaid expenses and current assets	342	518
Total prepaid expenses and other current assets	$ 10,342	$ 518

Accrued liabilities comprise the following (in thousands):

	December 31,	
	2009	2008
Payroll and employee related expenses	$ 756	$ 619
Professional services	101	101
Litigation settlement	10,000	—
Other accrued expenses	115	122
Total accrued liabilities	$ 10,972	$ 842

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 paid the remaining balance in the first quarter of 2008.

The following table sets forth an analysis of the restructuring accrual at December 31, 2008 (in thousands):

	Severance and benefits
Balance at December 31, 2006	$ —
Charges	1,156
Cash paid	(1,036)
Balance at December 31, 2007	$ 120
Charges	—
Cash paid	(120)
Balance at December 31, 2008	$ —

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 June 30, 2009, all borrowings under this facility were paid in full.

NOTE 7—COMMITMENTS AND CONTINGENCIES

The Company leases certain of its facilities under noncancelable leases, which qualify for operating lease accounting treatment under ASC 840,*"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. On November 17, 2009 the Company amended the lease agreement term to expire in August 2012. The aggregate rent for the extended term of the lease is approximately $0.4 million.

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 Ending December 31,	
2010	$ 1,588
2011	1,284
2012	106
Future minimum rental payments	$ 2,978

Rent expense for the years ended December 31, 2009, 2008, 2007 and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2009 was $1.2 million, $1.1 million, $1.3 million, and $6.6 million, respectively.

The Company's purchase commitments at December 31, 2009 were $1.7 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, 2009.

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 an 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, 2009.

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, through December 31, 2008. At December 31, 2008 the upfront payment had been fully recognized. The Company was responsible for all development activities under this agreement. The Company was also 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. In 2009, the Company had no further responsibilities for development activities under this agreement and in May 2009, the Company dissolved the JDC comprising MediBIC and the Company. No payments were made by either party as a result of the dissolution of the JDC.

On October 14, 2009, the Company entered into an exclusive license agreement with Eleison Pharmaceuticals, Inc. (“Eleison”). Pursuant to the agreement we granted Eleison exclusive worldwide rights to develop and commercialize glufosfamide for the treatment of cancer in humans and animals, and certain other uses. Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share equally in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing.

Eleison will pay the Company 50% of its profits from commercialization on a quarterly basis, beginning on the date of first commercial sale, if any. Eleison has the right to sublicense some or all of its rights under the agreement, and will pay the Company 50% of amounts received under any sublicenses, including, without limitation, any royalty payments, license fee payments, milestone payments and payments for any equity or debt purchases by a sublicensee, within 30 days of the receipt of any such amounts or payments by Eleison. Eleison will bear all costs associated with development, commercialization and patent prosecution, and will control product development and commercialization. In addition, Eleison will be responsible for all royalty and milestone payments due under the Baxter license and MediBIC development agreement. The agreement contemplates that Eleison, to satisfy its diligence obligations, will raise sufficient funds to commence clinical development activities with glufosfamide.

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, which have been consolidated by the Court into a single proceeding, were ordered transferred to the United States District Court for the Northern District of California. On January 15, 2008, Plaintiffs filed a first consolidated amended complaint. On July 11, 2008, the Court granted Defendants' motions to dismiss that complaint but afforded Plaintiffs leave to file a further amended complaint. On September 19, 2008, Plaintiffs filed a second consolidated amended complaint, which, 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, purports to allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933, as amended (the "Act"), and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). On November 14, 2008, Defendants moved to dismiss the second consolidated amended complaint. On April 3, 2009, the Court granted in part and denied in part the motions to dismiss, dismissing with prejudice all claims arising under the Securities Act and all claims against Ms. Swearson, while narrowing the remaining claims. On October 30, 2009, the parties entered into a stipulation of settlement to resolve the lawsuit. The settlement provides for a payment of $10.0 million to the plaintiff class solely by the Company's insurers. On December 1, 2009, the Court entered an order granting preliminary approval of the proposed settlement. The settlement is subject to final approval by the Court, and a hearing at which the Court will consider whether to grant final approval of the settlement is scheduled for April 15, 2010. The defendants, including the Company, have denied and continue to deny all of plaintiffs' allegations of wrongdoing. There can be no assurance at this time that the settlement process will result in final Court approval. To the extent the case does not finally resolve through settlement, the defendants to the lawsuit, including the Company, continue to believe that Plaintiffs' claims are without merit and intend to defend against the actions vigorously.

As of December 31, 2009, in accordance with provisions of the settlement, the Company recorded $10 million in accrued liabilities, which represents the amount of the settlement costs to be paid to the plaintiffs, and $10 million in prepaid expenses and other assets, which represents the amount the Company's insurers will pay towards the settlement costs.

NOTE 8—STOCKHOLDERS' EQUITY

Common Stock

On October 5, 2009, the Company sold to certain investors an aggregate of 18,324,599 shares of its common stock for a purchase price equal to $1.86 per and, for a purchase price of $0.05 per share, warrants exercisable for a total of 7,329,819 shares of its common stock for aggregate gross proceeds equal to $35.0 million in connection

with the offering. Net proceeds generated from the offering were $33.1 million. The warrants have a five-year term and an exercise price equal to $2.23 per share of common stock. The exercise price of the warrants may be adjusted in certain circumstances, including certain issuances of securities at a price equal to less than the then current exercise price. In addition, the number of shares issuable upon exercise of the warrants and the exercise price are subject to adjustment for subdivisions and stock splits, stock dividends, combinations, reorganizations, reclassifications, consolidations, mergers or sales of properties and assets and upon the issuance of certain assets or securities to holders of our common stock, as applicable.

On August 29, 2008, the Company sold to certain investors an aggregate of 8,970,574 shares of its common stock for a purchase price equal to $2.04 per share for aggregate gross proceeds equal to $18.3 million in connection with the offering. Net proceeds generated from the offering were $16.8 million. As part of the sale of common stock, the Company also issued warrants exercisable for a total of 3,588,221 shares of its common stock to the investors. The warrants have a five-year term and an exercise price equal to $2.34 per share of common stock. The exercise price and/or the number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including certain issuances of securities at a price equal to less than the then current exercise price, subdivisions and stock splits, stock dividends, combinations, reorganizations, reclassifications, consolidations, mergers or sales of properties and assets and upon the issuance of certain assets or securities to holders of our common stock, as applicable.

As a result of the offering on October 5, 2009, the exercise price of the warrants exercisable for a total of 3,588,221 shares of common stock sold to investors in August 2008 that had an original exercise price of $2.34 per share, was subsequently reduced to $1.86 per share pursuant to the terms of such warrants.

On February 4, 2005, the Company completed its initial public offering of 1.0 million shares of common stock for net proceeds totaling $38.1 million. On October 14, 2005, the Company completed a public offering of 1.1 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, 2009.

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. As of December 31, 2009 and 2008, for both awards, there were no shares subject to the Company's right of repurchase.

Common Stock Warrants

In June 2008, the FASB issued new guidance now codified in ASC 815 that clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify for classification as liabilities. The new guidance in ASC 815 was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of the new guidance on January 1, 2009, resulted in the reclassification of the Company's outstanding warrants from the August 2008 offering from stockholders' equity to liabilities, which requires the warrants to be fair valued at each reporting period, with the changes in fair value recognized as interest and other expense in the Company's consolidated statement of operations.

At January 1, 2009 and December 31, 2009, the Company had warrants outstanding to purchase 3,588,221 shares of common stock from the August 2008 offering. The fair value of these warrants on the date of adoption of January 1, 2009 and on December 31, 2009 was determined using a Black Scholes valuation model with the following level 3 inputs:

	January 1, 2009	December 31, 2009
Risk-free interest rate	1.72%	2.29%
Expected life (in years)	4.66	3.66
Dividend yield	—	—
Volatility	70%	95%
Stock price	$ 0.57	$ 1.80

On January 1, 2009, Company recorded a cumulative effect of change in accounting principle adjustment to its deficit accumulated during development stage of $0.5 million and a corresponding reclassification of the Company's outstanding warrants from stockholder's equity to warrant liability. In addition, the change in fair value of these warrants resulted in a $3.7 million charge to interest and other expense in the consolidated statement of operations and a corresponding increase to the warrant liability for year ended December 31, 2009, respectively.

At October 5, 2009 and December 31, 2009, the Company had warrants outstanding to purchase 7,329,819 shares of common stock from the October 2009 offering. The fair value of these warrants on October 5, 2009 and December 31, 2009 was determined using a Black Scholes valuation model with the following level 3 inputs:

	October 5, 2009	December 31, 2009
Risk-free interest rate	2.21%	2.62%
Expected life (in years)	5.00	4.76
Dividend yield	—	—
Volatility	87%	87%
Stock price	$ 2.00	$ 1.80

On October 5, 2009, the Company determined the fair value of the warrants to be $9.8 million and classified that amount of the net proceeds from the October 2009 offering to warrant liability. At December 31, 2009, the change in fair value of these warrants resulted in a $1.3 million credit to interest and other expense in the consolidated statement of operations and a corresponding decrease to the warrant liability.

The following table sets forth the Company's financial liabilities, related to warrants issued in the August 2008 and October 2009 offerings, subject to fair value measurements as of December 31, 2009:

	Fair Value as of December 31,	Basis of Fair Value Measurements		
(in thousands)	2009	Level 1	Level 2	Level 3
Common stock warrants	$ 12,665	$ —	$ —	$ 12,665

The following table is a reconciliation of the warrant liability measured at fair value using level 3 inputs (in thousands):

	Warrant Liability
Balance at December 31, 2008	$ —
Cumulative effective of change in accounting principle for common stock warrants related to the August 2008 offering	532
Issuance of common stock warrants related to October 2009 offering	9,822
Change in fair value of common stock warrants during 2009	2,311
Balance at December 31, 2009	$ 12,665

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.

Effective July 9, 2008, the Company entered into an amendment (the "First Amendment") to that certain Preferred Shares Rights Agreement, dated as of August 8, 2006, by and between the Company and Mellon Investor Services LLC (the "Rights Agreement"). The First Amendment amended certain terms in the Rights Agreement so that the Company could announce and consummate the 2008 offering of common stock and warrants described above without triggering the Rights Agreement.

Effective September 29, 2009, the Company entered into an additional amendment (the "Second Amendment") to the Rights Agreement. The Second Amendment amended certain terms in the Rights Agreement so that the Company could announce and consummate the 2009 offering described above without triggering the Rights Agreement.

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, 404,801

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 under the 2004 Plan will be automatically 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;
- 202,401 shares;
- an amount determined by the Board of Directors.

On December 20, 2005, the Board of Directors approved an addition of 202,401 shares for issuance under the 2004 Plan effective January 1, 2006. On April 2, 2007, the Board of Directors approved an addition of 202,401 shares for issuance under the 2004 Plan effective January 1, 2007. On January 15, 2009, the Board of Directors approved an addition of 202,401 shares for issuance under the 2004 Plan effective January 1, 2009. On March 1, 2009, the Board of Directors approved an addition of 202,401 shares for issuance under the 2004 Plan effective January 1, 2010.

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	202,400	—	$ —	$ —
Balances, December 31, 2001	202,400	—	—	—
Options granted	(179,992)	179,992	0.96	0.96
Options exercised	—	(405)	0.96	0.96
Balances, December 31, 2002	22,408	179,587	0.96	0.96
Additional shares reserved	506,000	—	—	—
Options granted	(121,092)	121,092	0.96–1.56	0.96
Options exercised	—	(1,285)	0.96	0.96
Options canceled	927	(927)	0.96	0.96
Balances, December 31, 2003	408,243	298,467	0.96–1.56	0.96
Options granted	(370,372)	370,372	1.56–3.18	2.16
Options exercised	—	(586,365)	0.96–3.18	1.50
Options canceled	7,926	(7,926)	0.96–3.18	1.68
Balances, December 31, 2004	45,797	74,549	0.96–3.18	2.70
Additional shares reserved	404,800	—	—	—
Options granted	(157,849)	157,849	3.18–89.88	49.32
Options exercised	—	(75,545)	0.96–3.18	2.94
Options canceled	2,475	(2,475)	34.80–74.70	39.72
Options repurchased	10,664	—	0.96–3.18	2.46

	Shares Available for Grant	Outstanding Options		Weighted Average Exercise Price
		Number of Shares	Exercise Price	
Balances, December 31, 2005	305,887	154,378	$ 0.96–89.88	$ 49.74
Additional shares reserved	202,401	—	—	—
Options granted (1)	(744,228)	744,228	9.30–99.12	41.94
Options exercised	—	(22,023)	1.56–37.56	5.52
Options canceled (1)	530,831	(530,831)	3.18–99.12	62.88
Options repurchased	27,091	—	0.96–3.18	2.94
Balances, December 31, 2006	321,982	345,752	0.96–89.88	15.60
Additional shares reserved	202,401	—		
Options granted	(283,396)	283,396	3.84–21.66	11.04
Options exercised	—	(337)	3.18–15.42	14.52
Options canceled	131,672	(131,672)	3.18–84.24	16.62
Options repurchased	16,410	—	1.56–3.18	2.10
Balances, December 31, 2007	389,069	497,139	0.96–89.88	12.72
Options granted	(239,538)	239,538	0.42–3.18	2.84
Options exercised	—	(727)	1.56	1.56
Options canceled	118,852	(118,852)	0.96–89.88	15.14
Options repurchased	47	—	3.13	2.10
Balances, December 31, 2008	268,430	617,098	0.42–21.66	8.41
Additional shares reserved	202,401	—		
Options granted (2)	(955,265)	955,265	0.79–3.08	1.17
Options exercised	—	(8,764)	0.79–1.30	1.14
Options canceled (2)	627,939	(627,939)	0.79–21.66	8.28
Balances, December 31, 2009	143,505	935,660	$ 0.42–21.66	$ 1.17

(1) Includes 362,000 options that had a weighted average exercise price of $74.22, which were canceled and re-granted at an exercise price of $15.42 in September 2006.
(2) Includes 559,665 options that had a weighted average exercise price of $8.08, which were canceled and re-granted at an exercise price of $1.30 in February 2009.

At December 31, 2009, stock options outstanding and exercisable by exercise price were as follows:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.42 – 0.79	323,093	8.74	$ 0.79	117,827	$ 0.78
$1.15 – 1.30	545,066	7.35	1.30	270,518	1.30
$1.31 – 1.32	2,400	9.26	1.32	750	1.32
$1.95 – 1.95	60,000	7.85	1.95	39,165	1.95
$2.22 – 2.22	583	8.21	2.22	254	2.22
$3.08 – 3.18	4,518	7.97	3.11	1,518	3.18
$0.42 – 3.18	935,660	7.87	$ 1.17	430,032	$ 1.22

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2009 were $0.6 million and $0.3 million, respectively. As of December 31, 2009, the ending vested and expected to vest was 929,434 and the aggregate intrinsic value of these options was $0.6 million. 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, 2009.

The total intrinsic value of stock options exercised during the years ended December 31, 2009 and 2008 were $8,000 and $400, respectively, determined at the date of the option exercise. Cash received from stock option exercises were $10,000 and $1,000 for the years ended December 31, 2009 and 2008, 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 362,000 options of 70 eligible employees, consultants and directors that had a weighted average exercise price of $74.22 and re-granted 362,000 options at an exercise price of $15.42, 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 compensation cost was measured as the fair value of the new stock option award over the fair value of the original stock option award based on the closing price on the date of re-grant. The incremental expense related to the repricing recorded for the years ended December 31, 2009, 2008 and 2007 was not significant.

On February 13, 2009, the Company cancelled 559,665 options of 41 eligible employees, consultants and directors that had a weighted average exercise price of $8.08 and re-granted 559,665 options at an exercise price of $1.30, which was the Company's closing price on February 17, 2009. As a result of the repricing of options of eligible employees and directors, the Company will incur an incremental stock-based compensation expense of $0.2 million over the weighted average vesting period of the repriced options of 2.2 years. The incremental compensation cost was measured as the fair value of the new stock option award over the fair value of the original stock option award based on the closing price on the date of re-grant. The incremental expense related to the repricing recorded for the years ended December 31, 2009 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, 2008 are 234 shares subject to repurchase related to options exercised prior to vesting. At December 31, 2009 there were no shares subject to repurchase related to the 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, 2009, employees had purchased 16,263 shares of common stock under the Purchase Plan at an average price of $1.04. For the year ended December 31, 2008, employees had purchased 14,756 shares of common stock under the Purchase Plan at an average price of $1.97. For the year ended December 31, 2007, employees had purchased 19,809 shares of common stock under the Purchase Plan at an average price of $6.17. For the year ended December 31, 2006, employees had purchased 24,105 shares of common stock under the Purchase Plan at an average price of $18.84. At December 31, 2009, plan participants had $53,000 withheld to purchase stock on February 12, 2010, which is included in accrued liabilities on the accompanying consolidated balance sheet. At December 31, 2009, 402,902 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 2,500 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 2,500 shares of the Company's common stock. Pursuant to the provisions of the plan, in May 2008, May 2007 and June 2006, each of the five non-employee directors received an automatic grant of 2,500 shares of the Company's common stock in each respective year. In addition, in November 2008 and April 2007, pursuant to the provisions of the plan, a newly elected non employee director on each respective date received an automatic grant of 5,000 shares.

In January 2009, each of the five non-employee directors received a one-time grant to purchase 10,000 shares of the Company's common stock. In May 2009, at the Company's annual meeting, an amendment to the Company's 2004 Equity Incentive Plan to increase the size of the automatic annual option grant to continuing non-employee directors from 2,500 shares to 10,000 shares, was approved by the shareholder of the Company. In accordance with the amendment, each of the five non-employee directors received an automatic grant of an option to purchase 10,000 shares of the Company's common stock.

Stock-based Compensation

The Company recognizes stock-based compensation in accordance with ASC 718, *"Compensation—Stock Compensation,"* 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, 2009, 2008 and 2007 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, 2009, 2008 and 2007 based on the recognition of the grant date fair value estimated in accordance with ASC 815 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, 2009, 2008 and 2007 based on the recognition of the grant date fair value estimated in accordance with the provisions of ASC 815 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, 2009, 2008 and 2007 based on the grant date intrinsic value over the service period, which is generally the vesting period.

In addition, ASC 718 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 the new guidance on January 1, 2006, 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 ASC 718 in the Company's consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 related to stock options and ESPP were $2.2 million, $3.2 million and $5.9 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, 2009, 2008 and 2007:

	Years ended December 31,		
	2009	2008	2007
Employee Stock Options			
Risk-free interest rate	1.71%	3.10%	4.49%
Expected life (in years)	5.71	5.97	6.00
Dividend yield	—	—	—
Volatility	84%	83%	77%
Weighted-average fair value of stock options granted	$0.51	$2.10	$7.68
Employee Stock Purchase Plan			
Risk-free interest rate	0.71%	2.14%	4.55%
Expected life (in years)	1.25	1.25	1.25
Dividend yield	—	—	—
Volatility	67%	67%	67%
Weighted-average fair value of ESPP purchase rights	$0.52	$0.94	$2.34

To determine the expected term of the Company's employee stock options granted during the years ended December 31, 2009, 2008 and 2007, 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, 2008, 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, 2009, 2008 and 2007 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 ASC 718, 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 ASC 718, the Company recorded deferred stock-based compensation aggregating $19.5 million, net of forfeitures. Through December 31, 2009, the Company had amortized the entire $19.5 million as compensation expense, net of forfeitures, with approximately $6,000, $0.8 million and $2.8 million being amortized for the years ended December 31, 2009, 2008 and 2007, respectively.

Stock-based Compensation Expense As required by ASC 718 the Company recognized $2.2 million, $2.4 million and $2.9 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, 2009, 2008 and 2007, respectively, in addition to the amortization of deferred compensation above. As of December 31, 2009, the total unrecognized compensation cost related to unvested stock-based awards granted to employees under the Company's stock option plans was approximately $0.9 million before estimated forfeitures. This cost will be recorded as compensation expense on a straight-line basis over the remaining weighted average requisite service period of approximately 2.1 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. The Company issued options to non-employees, which 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 ASC 505, "Equity," using the following assumptions:

	Years Ended December 31,		
	2009	2008	2007
Risk-free interest rate	2.54%	3.00%	4.25%
Expected life (in years)	5.26	6.02	4.53
Dividend yield	—	—	—
Expected volatility	84%	83%	77%

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 $27,000, $26,000 and $0.1 million for the years ended December 31, 2009, 2008 and 2007, respectively.

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

	Year Ended December 31,		
	2009	2008	2007
Stock-based compensation expense:			
Research and development	$ 1,003	$ 1,504	$ 2,413
General and administrative	1,208	1,748	3,496
	$ 2,211	$ 3,252	$ 5,909

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):

	2009	2008	2007
U.S. federal taxes (benefit) at statutory rate	$(8,040)	$(6,219)	$(10,426)
State federal income tax benefit	(1,284)	(1,132)	(1,840)
Unutilized (utilized) net operating losses	7,396	6,549	11,353
Stock-based compensation	936	602	582
Research and development credits	(503)	(347)	(726)
Tax assets not benefited	703	543	1,051
Non deductible warrant expense	786	—	—
Other	6	4	6
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,		
	2009	2008	2007
Capitalized start-up costs	$ 296	$ 330	$ 401
Net operating loss carryforwards	16,328	48,545	51,248
Research and development credits	1,870	2,903	4,795
Deferred stock compensation	8,674	8,890	8,300
Other (accruals, reserves, depreciation)	1,457	1,238	1,597
Total deferred tax assets	28,625	61,906	66,341
Less: Valuation allowance	(28,625)	(61,906)	(66,341)
	$ —	$ —	$ —

At December 31, 2008, the Company had federal and state net operating loss carryforwards of approximately $41 million available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2022 and 2014, 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, 2009, the Company had state research and development tax credits of approximately $2.8 million, which have no expiration date. During the year ended December 31, 2009, the Company wrote down its deferred tax assets related to net operating loss carryforwards and tax credits that are expected to expire before utilization due to the annual limitation.

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 decreased by $33.3 million and $4.4 million for the year ended December 31, 2009 and 2008, respectively, and increased by $11.4 million for the years ended December 31, 2007.

The Company adopted ASC Topic 740-10-50 "Accounting for Uncertainty of Income Taxes" ("ASC Topic 740-10-50"), on January 1, 2007. As a result of the implementation of ASC Topic 740-10-50, 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. The Company does not believe that its unrecognized tax benefits will change over the next twelve months.

The following table summarizes the activity related to our gross unrecognized tax benefits:

(in thousands)	2009	2008
Gross unrecognized tax benefits at January 1,	$1,100	$1,506
Gross increases (decreases) related to prior year tax positions	—	(406)
Gross increases (decreases) related to current year tax positions	—	—
Settlements	—	—
Expiration of the statute of limitations for the assessment of taxes	—	—
Gross unrecognized tax benefits at December 31,	$1,100	$1,100

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2009 and 2008, 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.

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, 2009, 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, 2009. 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. Net loss per common share, basic and diluted for the four quarters of each fiscal year, may not sum to the total for the fiscal year because of the different weighted average number of shares outstanding in each of the periods.

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in thousands, except per share data)				
Revenue	$ —	$ —	$ —	$ —
Net loss attributable to common stockholders	$ (6,543)	$ (6,219)	$ (6,153)	$ (4,733)
Net loss per common share, basic and diluted	$ (0.43)	$ (0.41)	$ (0.40)	$ (0.15)
Weighted average number of shares used in basic and diluted net loss per common share calculations	15,218	15,223	15,227	32,566

2008				
(in thousands, except per share data)				
Revenue	$ 359	$ 359	$ 362	$ 360
Net loss attributable to common stockholders	$ (4,975)	$ (3,965)	$ (4,558)	$ (4,794)
Net loss per common share, basic and diluted	$ (0.80)	$ (0.64)	$ (0.49)	$ (0.32)
Weighted average number of shares used in basic and diluted net loss per common share calculations	6,219	6,232	9,392	15,213

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation as of December 31, 2009, 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 is 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, 2009.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation requirements by the our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us 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, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

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 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2009 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 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2009 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 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2009 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 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2009 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 2010 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2009 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	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.2 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.4 to our Annual Report on Form 10-K filed on March 13, 2009)
3.3	Amended and Restated Bylaws of the Registration (incorporated by reference to Exhibit 3.4 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
3.4	Certificate of Designations of Rights, Powers and Preferences of Series A Participating Preferred Stock of Registrant (incorporated by reference to Exhibit 3.3 to our Current Report on Form 8-K filed on August 9, 2006)
4.1	Specimen Certificate evidencing shares of common stock (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
4.2	Amended and Restated Investor Rights Agreement dated November 17, 2003 among the Registrant and the parties listed therein (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
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 (incorporated by reference to Exhibit 4.4 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
4.4	Preferred Shares Rights Agreement, dated August 8, 2006, by and between Registrant and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.5 to our Current Report on Form 8-K filed on August 9, 2006)
4.5	Form of Rights Certificate (incorporated by reference to Exhibit 4.6 to our Current Report on Form 8-K filed on August 9, 2006)
4.6	Amendment to Rights Agreement dated July 10, 2008 between the Registrant and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on July 14, 2008)

EXHIBIT NUMBER	DESCRIPTION
4.7	Second Amendment to Rights Agreement dated as of September 29, 2009 between the Registrant and Mellon Investor Services LLC (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on September 30, 2009)
4.8	Form of Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on July 14, 2008)
4.9	Form of Warrant (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 30, 2009)
10.1+	2001 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.2+	2004 Amended and Restated Equity Incentive Plan (as amended on May 22, 2009) (incorporated by reference to Exhibit 99.1 to our Registration Statement on Form S-8 (File No. 333-164865), filed on February 11, 2010)
10.3+	Amended and Restated 2004 Employee Stock Purchase Plan (as amended and restated effective May 22, 2009) (incorporated by reference to Exhibit 99.2 to our Registration Statement on Form S-8 (File No. 333-164865) filed on February 11, 2010)
10.4†	Agreement between the Registrant, Baxter International Inc. and Baxter Oncology GmbH, dated August 5, 2003 (incorporated by reference to Exhibit 10.6 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.5†	Exclusive License Agreement by and between the Registrant, Dr. Theodore Lampidis and Dr. Waldemar Priebe, dated November 11, 2002 (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.6	Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated March 27, 2003 (incorporated by reference to Exhibit 10.8 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.7	Amendment to Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated April 7, 2006 (incorporated by reference to Exhibit 10.26 to our Quarterly Report on Form 10-Q filed on May 15, 2006)
10.8+	Form of Indemnification Agreement by and between the Registrant and its officers and directors (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.9†	Agreement by and between the Registrant and Aziende Chimiche Riunite Angelini Francesco - Acraf S.p.a. dated June 24, 2004 (incorporated by reference to Exhibit 10.10 to our Annual Report on Form 10-K filed on March 28, 2006)
10.10	Sublease by and between the Registrant and ArQule, Inc. dated as of August 31, 2004 (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.11	Offer Letter by and between the Registrant and William A. Halter dated September 3, 2004 (incorporated by reference to Exhibit 10.12 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.12	Offer Letter by and between the Registrant and George G.C. Parker dated September 3, 2004 (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004).

EXHIBIT NUMBER	DESCRIPTION
10.13†	Development Agreement by and between the Registrant and MediBIC Co. Ltd., dated November 30, 2004 (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004).
10.14	Letter Agreement amending Development Agreement by and between the Registrant and MediBIC Co. Ltd. (incorporated by reference to Exhibit 10.18 to our Registration Statement on Form S-1, as amended (File No. 333-114376), filed on April 9, 2004)
10.15+	2004 Amended and Restated Equity Incentive Plan (incorporated by reference to Exhibit 10.20 to our Current Report on Form 8-K filed on May 24, 2005)
10.16+	Consulting Agreement and Amendment to Stock Vesting Agreement by and between the Registrant and Dr. George F. Tidmarsh dated August 18, 2005 (incorporated by reference to Exhibit 10.20 to our Current Report on Form 8-K filed on August 19, 2005)
10.17	Triple Net Space Lease by and between the Registrant and Pacific Shores Investors, LLC, dated January 31, 2006 (incorporated by reference to Exhibit 10.24 to our Current Report on Form 8-K filed on February 9, 2006)
10.18	Form of Notice of Grant of Stock Options and Stock Option Agreement (incorporated by reference to Exhibit 10.25 to our Current Report on Form 8-K filed on March 17, 2006)
10.19+	Offer Letter by and between the Registrant and John G. Curd dated October 3, 2007 (incorporated by reference to Exhibit 10.34 to our Current Report on Form 8-K filed on October 25, 2007)
10.20+	Change of Control and Severance Agreement by and between the Registrant and John G. Curd dated October 19, 2007 (incorporated by reference to Exhibit 10.35 to our Current Report on Form 8-K filed on October 25, 2007)
10.21+	Offer Letter by and between the Registrant and Joel A. Fernandes dated November 1, 2007 (incorporated by reference to Exhibit 10.36 to our Current Report on Form 8-K filed on November 2, 2007)
10.22	Form of Securities Purchase Agreement dated July 9, 2008 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on July 14, 2008)
10.23+	Form of Amended and Restated Change of Control Severance Agreement dated November 19, 2008 (incorporated by reference to Exhibit 10.41 to our Current Report on Form 8-K filed on November 21, 2008)
10.24	Form of Securities Purchase Agreement dated as of September 29, 2009 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 30, 2009)
10.25*	Waiver of rights, dated October 19, 2009, by the Federated Kaufmann Fund ("Kaufmann"), under Section 4.7 of the Securities Purchase Agreement dated as of September 29, 2009 between the Registrant and Kaufmann
10.26*††	Exclusive License Agreement dated October 14, 2009 (effective October 5, 2009) by and between the Registrant and Eleison Pharmaceuticals, Inc.
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, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

EXHIBIT NUMBER	DESCRIPTION
31.2*	Certification Pursuant to Rule 15d-14 of the Securities and Exchange Act of 1934, as amended, 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

* Filed herewith.

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

†† Confidential treatment request with respect to certain portions of this exhibit has been filed with the SEC.

+ Indicates a management contract or compensatory plan or arrangement.

Table of Contents

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 8, 2010

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 8, 2010
/s/ JOEL A. FERNANDES **Joel A. Fernandes**	Senior Director, Finance and Controller (principal financial and accounting officer)	March 8, 2010
/s/ JEFFREY W. BIRD, M.D., PH.D. **Jeffrey W. Bird, M.D., Ph.D.**	Director	March 8, 2010
/s/ BRUCE C. COZADD **Bruce C. Cozadd**	Director	March 8, 2010
/s/ DAVID R. HOFFMANN **David R. Hoffmann**	Director	March 8, 2010
/s/ WILFRED E. JAEGER, M.D. **Wilfred E. Jaeger, M.D.**	Director	March 8, 2010
/s/ GEORGE G. C. PARKER, PH.D. **George G. C. Parker, Ph.D.**	Director	March 8, 2010

Exhibit 10.25

Federated Investment
Management Companies
Federated Kaufmann Fund
140 East 45th Street
43rd Floor
New York, N.Y. 10017

212-922-0123 Phone
www.federatedinvestors.com

Federated
WORLD-CLASS INVESTMENT MANAGER

October 19, 2009

Threshold Pharmaceuticals, Inc.
1300 Seaport Boulevard
Redwood City, CA 94063
Fax: (650) 474-2529
Attn: Joel A. Fernandes, Senior Director, Finance and Controller

Re: Board Designee

Dear Mr. Fernandes:

Reference is made to that certain Securities Purchase Agreement (the "SPA"), dated September 29, 2009, by and among Threshold Pharmaceuticals, Inc. (the "Company"), Federated Kaufmann Fund, and the other investors that are signatories thereto. The Company is hereby instructed that Federated Kaufmann Fund has no intention, whether now or in the future, to exercise its right to designate a nominee to the Board of Directors of the Company pursuant to Section 4.7 of the SPA. Federated Kaufmann Fund hereby waives, now and forever, its rights under Section 4.7 of the SPA.

Very truly yours,

FEDERATED KAUFMANN FUND

By: /s/ Hans P. Utsch
Name: Hans P. Utsch
Title: Vice President, Federated Global Investment Management, as attorney in fact for Federated Kaufmann Fund, a portfolio of Federated Equity Funds

Exhibit 10.26

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

EXCLUSIVE LICENSE AGREEMENT

This Exclusive License Agreement (this "Agreement") is made effective as of October 5, 2009 (the "Effective Date"), by and between Threshold Pharmaceuticals, Inc., a Delaware corporation with a principal place of business at 1300 Seaport Boulevard, Suite 500, Redwood City, CA 94063 ("Licensor"), and Eleison Pharmaceuticals, Inc., a Delaware corporation with a place of business at 103 Carnegie Center, Suite 300, Princeton, NJ 08540 ("Licensee"). Licensor and Licensee are each hereafter referred to individually as a "Party" and together as the "Parties".

WHEREAS, Licensor is the owner of or otherwise controls certain proprietary Licensed Patents and Licensed Technology (as defined below); and

WHEREAS, Licensee desires to obtain an exclusive license from Licensor under such Licensed Patents and Licensed Technology to develop and commercialize Licensed Products; and

WHEREAS, Licensor desires to grant such license to Licensee on the terms and subject to the conditions of this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties hereby agree as follows.

1. DEFINITIONS

Whenever used in the Agreement with an initial capital letter, the terms defined in this Article 1 shall have the meanings specified.

1.1 "**Affiliate**" shall mean any corporation, firm, limited liability company, partnership or other entity that directly controls or is controlled by or is under common control with a Party to this Agreement. For purposes of this Section 1.1, "control" means ownership, directly or indirectly through one or more Affiliates, of fifty percent (50%) or more of the shares of stock entitled to vote for the election of directors, in the case of a corporation, or fifty percent (50%) or more of the equity interests in the case of any other type of legal entity, status as a general partner in any partnership, or any other arrangement whereby a Party controls or has the right to control the Board of Directors or equivalent governing body of a corporation or other entity.

1.2 "**Adverse Event**" shall mean any untoward medical occurrence in a patient or subject who is administered a Licensed Product, whether or not considered related to the Licensed Product, including, without limitation, any undesirable sign (including abnormal laboratory findings of clinical concern), symptom or disease temporally associated with the use of such Licensed Product.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

1.3 **"Confidential Information**" shall mean with respect to a Party (the "Receiving Party"), all information which is disclosed by the other Party (the "Disclosing Party") to the Receiving Party hereunder or to any of its employees, consultants, Affiliates, licensees or sublicensees, except to the extent that the Receiving Party can demonstrate by written record or other suitable physical evidence that such information, (a) as of the date of disclosure is demonstrably known to the Receiving Party or its Affiliates other than by virtue of a prior confidential disclosure to such Party or its Affiliates; (b) as of the date of disclosure is in, or subsequently enters, the public domain, through no fault or omission of the Receiving Party; (c) is obtained from a Third Party having a lawful right to make such disclosure free from any obligation of confidentiality to the Disclosing Party; or (d) is independently developed by or for the Receiving Party without reference to or reliance upon any Confidential Information of the Disclosing Party.

1.4 **"Control"** or **"Controlled"** shall mean with respect to any Patent Rights or Technology, the possession by a Party of the ability to grant a license or sublicense of such Patent Rights or Technology as provided for herein without violating the terms of any arrangement or agreements between such Party and any Third Party.

1.5 "**Development**" and "**Develop**" shall mean, with respect to any Licensed Product, all activities with respect to such Licensed Product relating to research and development in connection with seeking, obtaining and/or maintaining any Regulatory Approval for such Licensed Product in the Licensed Field in the Territory, including without limitation, all pre-clinical research and development activities, all human clinical studies, all activities relating to developing the ability to manufacture any Licensed Product or any component thereof (including, without limitation, process development work), and all other activities relating to seeking, obtaining and/or maintaining any Regulatory Approvals from the FDA and/or any Foreign Regulatory Authority.

1.6 "**Drug Approval Application**" shall mean any application for Regulatory Approval (including pricing and reimbursement approvals) required prior to any commercial sale or use of a Licensed Product in any country or jurisdiction in the Territory, including, without limitation, (a) any NDA or MAA filed with the FDA or any Foreign Regulatory Authority, and (b) any equivalent application filed with any Foreign Regulatory Authority for Regulatory Approval (including pricing and reimbursement approvals) required prior to any commercial sale or use of a Licensed Product in any country or jurisdiction in the Territory.

1.7 "**First Commercial Sale**" shall mean, on a country-by-country basis, the date of the first arm's length transaction, transfer or disposition for value to a Third Party of a Licensed Product by or on behalf of Licensee or any Affiliate or Sublicensee of Licensee in such country.

1.8 "**FDA**" shall mean the United States Food and Drug Administration and any successor agency or authority thereto.

1.9 "**Foreign Regulatory Authorities**" shall mean any applicable supranational, national, federal, state or local regulatory agency, department, bureau or other governmental entity of any country or jurisdiction in the Territory (other than the FDA in the United States), having responsibility in such country or jurisdiction for any Regulatory Approvals of any kind in such country or jurisdiction, and any successor agency or authority thereto.

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1.10 "**IND**" shall mean an investigational new drug application (as defined in Title 21 of the United States Code of Federal Regulations, as amended from time to time) filed or to be filed with the FDA with regard to any Licensed Product.

1.11 **"Improvements"** shall mean any enhancement, invention or discovery Controlled by Licensor during the License Term, which constitutes an improvement to the subject matter of the Licensed Patent Rights or Licensed Technology to the extent covered by or under the Licensed Patent Rights or Licensed Technology.

1.12 "**Indemnitees**" **and** "**Indemnifying Party**" shall mean a Party, its Affiliates and their respective directors, officers, employees, stockholders and agents and their respective successors, heirs and assigns.

1.13 "**Licensed Field**" shall mean all uses a) relating to treatment of cancer with Glufosfamide in humans and animals, or b) permitted to Licensor under the Baxter Agreement (hereinafter defined).

1.14 "**Licensed Patent Rights**" shall mean the Patent Rights of Licensor during the term of this Agreement that include a Valid Claim that covers the manufacture, use or sale of a Licensed Product, including, without limitation, those described in Schedule A attached hereto. Licensed Patent Rights include an exclusive sublicense to Patent Rights of Licensor under that certain exclusive license agreement between Baxter International and Licensor having an Effective Date of 5 August 2003 (the "Baxter License").

1.15 "**Licensed Product**" shall mean Glufosfamide (also known as beta-D-glucosyl-ifosfamide or beta-D-glucosyl-isophosphoramide mustard).

1.16 "**Licensed Technology**" shall mean and include all Technology, whether or not patentable, including but not limited to formulations, techniques and materials, Controlled by Licensor as of the Effective Date that are necessary or useful for Licensee to practice the license granted to it hereunder to develop and market Licensed Product. Licensed Technology includes all rights and information Controlled by Licensor under that certain development agreement between MediBIC Co., Ltd., and Licensor having an Effective Date of 30 November 2004, as amended (the "MediBIC Agreement").

1.17 "**License Term**" shall mean, with respect to each Licensed Product, the period commencing on the Effective Date and continuing on a country-by-country, and product-by-product basis until a Licensed Product is no longer sold in such country.

1.18 "**MAA**" shall mean an application filed with the relevant Foreign Regulatory Authorities in Europe seeking Regulatory Approval to market and sell any Licensed Product in Europe or any country or territory therein for a particular indication within the Field.

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1.19 "**NDA**" shall mean a new drug application (as defined in Title 21 of the United States Code of Federal Regulations, as amended from time to time) filed with the FDA seeking Regulatory Approval to market and sell any Licensed Product in the United States for a particular indication within the Field.

1.20 "**Patent Rights**" shall mean the rights and interests in and to issued patents and pending patent applications (including inventor's certificates and utility models) in any country or jurisdiction within the Territory, including all provisionals, substitutions, continuations, continuations-in-part, divisionals, supplementary protection certificates, renewals, all letters patent granted thereon, and all reissues, reexaminations, extensions, confirmations, revalidations, registrations, patents of addition thereof, PCTs and foreign counterparts, Controlled by a Party.

1.21 "**Profit**" shall mean the gross invoiced sales price for all Licensed Products sold by Licensee or its Affiliates to Third Parties throughout the Territory during each calendar quarter, less the following amounts incurred or paid by Licensee or its Affiliates during such calendar quarter with respect to sales of Licensed Products regardless of the calendar quarter in which such sales were made:

(a) trade, cash and quantity discounts or rebates actually allowed or taken, including discounts or rebates to governmental or managed care organizations and bad debt (any deduction for bad debt shall not be more than [***] of sales of Licensed Products and any allowances for amounts written off as bad debt shall be included in Profit if later paid);

(b) credits or allowances actually given or made to a Third Party for rejection of or return of previously sold Licensed Products (including Medicare and similar types of rebates);

(c) any charges for insurance, freight, and other transportation costs directly related to the delivery of Licensed Product to the extent included in the gross invoiced sales price;

(d) any tax, tariff, duty or governmental charge levied on the transfer, transportation or delivery of a Licensed Product (including any tax such as a value added or similar tax or government charge) borne by the seller thereof, other than franchise or income tax of any kind whatsoever;

(e) any import or export duties or their equivalent borne by the seller;

(f) any payment made to Baxter International or MediBIC Co., Ltd. under the Baxter License and the MediBIC Agreement (in each case during the relevant calendar quarter for which such Profits are being determined);

(g) the direct costs of manufacturing and commercializing Licensed Product including, without limitation, the costs of goods, distribution costs, sales force expense, drug regulatory expense, and other reasonable commercialization expenses; and

(h) Third Party license expenses for licenses approved by Licensor, such approval not to be unreasonably withheld, all of the foregoing determined in accordance with US GAAP. Except as expressly set forth above, [***] shall be used as a deduction in the calculation of Profit. In the determination of Profit, an offset or cost must be taken in the calendar quarter in which it is incurred.

1.22 "**Regulatory Approval**" shall mean any and all approvals (including pricing and reimbursement approvals), product and establishment licenses, registrations or authorizations of any kind of the FDA or any Foreign Regulatory Authority necessary for the development, pre-clinical and/or human clinical testing, manufacture, quality testing, supply, use, storage, importation, export, transport, marketing and sale of a Licensed Product (or any component thereof) for use in the Field in any country or other jurisdiction in the Territory. "Regulatory Approval" shall include, without limitation, any NDA, MAA or other Drug Approval Application.

1.23 "**Sublicensee**" shall mean any Third Party to whom Licensee grants a sublicense of some or all of the rights granted to Licensee under this Agreement or any other arrangement by which Licensee collaborates or grants rights to sell Licensed Product.

1.24 "**Technology**" shall mean and include any and all unpatented, proprietary ideas, inventions, discoveries, Confidential Information, biologic materials, data, results, formulae, designs, specifications, methods, processes, formulations, techniques, ideas, know-how, technical information (including, without limitation, structural and functional information), process information, pre-clinical information, clinical information, regulatory filings, and any and all proprietary biological, chemical, pharmacological, toxicological, pre-clinical, clinical, assay, control and manufacturing data and materials.

1.25 "**Term**" shall mean the period commencing on the Effective Date and continuing until the expiration or termination of this Agreement in accordance with the terms hereof (including Section 9).

1.26 "**Territory**" shall mean all countries and jurisdictions of the world.

1.27 "**Third Party**" shall mean any person or entity other than Licensee, Licensor, and their respective Affiliates.

1.28 "**Valid Claim**" shall mean a claim in an issued, unexpired patent or in a pending patent application within the Licensed Patent Rights that (a) has not been finally cancelled, withdrawn, abandoned or rejected by any administrative agency or other body of competent jurisdiction, (b) has not been revoked, held invalid, or declared unpatentable or unenforceable in a decision of a court or other body of competent jurisdiction that is unappealable or unappealed within the time allowed for appeal, (c) has not been rendered unenforceable through disclaimer or otherwise, and (d) is not lost through an interference proceeding.

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2. GRANT OF RIGHTS

2.1 License to Licensee.

2.1.1 Grant of License. Licensor hereby grants to Licensee an exclusive, royalty-bearing license, including the right to grant sublicenses in accordance with Section 2.1.2, under the Licensed Patent Rights and Licensed Technology and Licensor's interest in any Improvements, to Develop, have Developed, make, have made, use, have used, sell, offer for sale, have sold, import, have imported, export and have exported, Licensed Products and to practice the Licensed Technology in the Territory, for any and all uses within the Licensed Field, subject to the terms and conditions of this Agreement. Licensee acknowledges that all licenses and sublicenses granted hereunder are subject to the terms and conditions of the Baxter Agreement and the MediBIC agreement and Licensee agrees to observe the terms and conditions of each of those agreements.

2.1.2 Right to Sublicense. Licensee shall have the right to grant sublicenses to any Sublicensee to all or any portion of its rights under the license granted pursuant to this Section 2; provided, however, that (a) Licensor shall be notified of and shall have consented to the grant of a sublicense to (which consent shall not be unreasonably withheld or delayed) any and all potential sublicenses, (b) all sublicensees shall have the financial wherewithal to assume and fulfill all the obligations of Licensee under this Agreement; (c) the Sublicensee has entered into a written agreement to be bound by the terms and conditions of this Agreement, (d) Licensee shall remain primarily obligated for the payment to Licensor of all of its payment obligations hereunder, and (e) Licensee shall provide Licensor with a copy of each such sublicense agreement within thirty (30) days of execution.

2.1.3 Retained Rights. Subject to the other terms of this Agreement, Licensor retains the right to use the Licensed Technology and practice the Licensed Patent Rights and to use Licensor's interest in all Improvements (a) to develop, have developed, make, have made, use, have used, sell have sold, offer for sale, import, have imported, export and have exported any product that is not a Licensed Product, and (b) to otherwise exploit such Licensed Technology, Licensed Patent Rights, and Improvements for any and all uses outside of the Field.

2.1.4 No Patent Challenge. Licensee and its Affiliates and Sublicensees shall not challenge, or assist, aid or encourage in any manner a challenge to, in any forum the Licensed Patent Rights including a challenge, directly or indirectly, to the validity, scope or enforceability of any claim within the Licensed Patent Rights. In the event of any such challenge or assistance, aid or encouragement, Licensor may, in its sole discretion (a) immediately terminate the licenses granted under Section 2 of this Agreement for breach under Section 9.2 below, or (b) convert the licenses granted under Section 2 of this Agreement from exclusive licenses to non-exclusive licenses, which conversion shall be effective upon written notice thereof by Licensor.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

3. DEVELOPMENT AND COMMERCIALIZATION OF LICENSED PRODUCTS

3.1 **Commercialization**.

3.1.1 Responsibility. From and after the Effective Date, Licensee shall have full control and authority over the Development and commercialization of Licensed Products in the Licensed Field in the Territory, including without limitation, (a) all pre-clinical Development activities (including any pharmaceutical development work on formulations or process development relating to any Licensed Product), (b) all activities related to human clinical trials (including all clinical studies, (c) all activities relating to manufacture and supply of all Licensed Products (including all required process development and scale up work with respect thereto), (d) all marketing, promotion, sales, distribution, import and export activities relating to any Licensed Product, and (e) all activities relating to any regulatory filings, registrations, applications and Regulatory Approvals relating to any of the foregoing (including any INDs or foreign equivalents, any manufacturing facility validation and/or licensure, any Drug Approval Applications and any other Regulatory Approvals). Licensee shall own all data, results and all other information arising from any such activities under this Agreement, including without limitation, all regulatory filings, registrations, applications and Regulatory Approvals relating to Licensed Products (including any INDs or foreign equivalents, any Drug Approval Applications and any other Regulatory Approvals), and all of the foregoing information, documentation and materials shall be considered Confidential Information and Technology solely owned by Licensee. All activities relating to Development and commercialization under this Agreement shall be undertaken at Licensee's sole cost and expense, except as otherwise expressly provided in this Agreement.

3.1.2 Diligence. A development plan and budget setting forth minimum parameters for Development and commercialization of Licensed Product shall be annexed as Schedule B hereto (the "Development Plan and Budget"). Licensee will exercise commercially reasonable efforts and diligence in developing and commercializing Licensed Products and in undertaking investigations and actions required to obtain Regulatory Approvals necessary to market Licensed Products in the Licensed Field in the Territory, including without limitation the prompt and efficient execution of the Development Plan and Budget, such reasonable efforts and diligence to be, in any event, in accordance with the Development Plan and Budget. In the event that Licensee fails to use due diligence as required hereunder or if the Licensee does not perform in accordance with the requirements of the Development Plan and Budget including, without limitation, timelines and minimum budgets, then Licensor may, in its sole discretion (a) terminate the licenses granted under Section 2 of this Agreement for breach under Section 9.2 below, or (b) convert the licenses granted under Section 2 of this Agreement from exclusive licenses to non-exclusive licenses, which conversion shall be effective upon written notice thereof by Licensor.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

3.2 **Updates and Reports.**

3.2.1 Updates and Reports. Licensee shall provide Licensor with detailed written reports no less frequently than [***] during the License Term (commencing three (3) months after the Effective Date) summarizing Licensee's efforts to Develop and commercialize Licensed Products hereunder. In addition, Licensee shall provide Licensor with prompt written notice of the occurrence of the First Commercial Sale of any Licensed Product in each country in which there occurs a First Commercial Sale. In addition to such reports, Licensee agrees to provide Licensor with Adverse Event information and product complaint information relating to Licensed Products as compiled and prepared by Licensee in the normal course of business in connection with the Development, commercialization or sale of any Licensed Product, within time frames consistent with reporting obligations under applicable laws and regulations. All reports, updates, Adverse Event, product complaint, and other information provided by one Party to the other Party under this Agreement (including under this Section 3), shall be considered Confidential Information of the Disclosing Party, subject to the terms of Section 5 hereof.

4. PAYMENTS

4.1 **Profit Sharing; and Sublicensee Revenue Split.**

4.1.1 Profit-Sharing. In partial consideration of the grant of the license by Licensor hereunder, and subject to the other terms of this Agreement (including the remainder of this Section 4), and continuing for the duration of the License Term, Licensee shall pay to Licensor half of its Profit from sales of Licensed Product sold by Licensee and/or its Affiliates in each country in the Territory. Profit-sharing payments shall be made [***], beginning on the [***] following the date on which the First Commercial Sale of a Licensed Product occurs.

4.1.2 Sublicense Revenue Sharing. In partial consideration of the grant of the license by Licensor hereunder, and subject to the other terms of this Agreement (including the remainder of this Section 4), throughout the License Term, Licensee agrees to pay Licensor fifty percent (50%) of any payment including, without limitation, royalty payments, license fee payments, milestone payments, and payments for equity or debt purchases, made to Licensee by a Sublicensee, such payment to be made within [***] of receipt of such payment by Licensee.

4.2 **Other Payments.**

4.2.1 Payments Due under the Baxter License and the MediBIC Agreement. In consideration of the grant of the license by Licensor hereunder, and subject to the other terms of this Agreement (including the remainder of this Section 4), Licensee agrees to pay to Baxter International and to MediBic Co., Ltd., any payments due under the Baxter License and the MediBIC Agreement, respectively.

4.2.2 Patent Costs. After the Effective Date, Licensee shall be obligated to pay all fees, expenses, and costs associated with prosecuting patent applications and maintaining, defending, enforcing and litigating patents within the Licensed Patent Rights.

4.2.3. Development and Marketing Costs. Licensee shall pay all fees, expenses, and costs associated with the further clinical Development of Licensed Product to the first marketing approval from the FDA as described in the Development Plan and Budget. Thereafter, such costs shall be borne by Licensee, and its Affiliates and Sublicensees, with such costs being deductible as a part of the calculation of Profit.

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4.3 **Payment Terms**.

4.3.1 Payment of Profit-Sharing and Revenue-Sharing. Unless otherwise expressly provided otherwise herein, Licensee shall make any profit-sharing payments owed to Licensor hereunder in arrears, within [***] in which such payment accrues. For purposes of determining when a sale of any Licensed Product occurs under this Agreement, the sale shall be deemed to occur on the earlier of (a) the date the Licensed Product is shipped or (b) on the date of the invoice to the purchaser of the Licensed Product. Each such payment shall be accompanied by a report for each country in the Territory in which sales of Licensed Products occurred in the calendar quarter covered by such statement, specifying: the gross sales and Profits in each country's currency; the applicable profit-sharing amount under this Agreement; the profit-sharing amount payable in each country's currency, including an accounting of deductions taken in the calculation of Profit; the applicable exchange rate to convert from each country's currency to United States Dollars under Section 4.3.3; and the royalties payable in United States Dollars.

4.3.2 Overdue Payments. Subject to the other terms of this Agreement, any payments not paid within the time period set forth in this Section 4 shall bear interest at a rate of [***] per month from the due date until paid in full, provided that in no event shall said annual rate exceed the maximum interest rate permitted by law in regard to such payments. Such payment when made shall be accompanied by all interest so accrued. Said interest and the payment and acceptance thereof shall not negate or waive the right of Licensor to any other remedy, legal or equitable, to which it may be entitled because of the delinquency of the payment.

4.3.3 Accounting. Unless requested otherwise by Licensor, all payments hereunder shall be made in the United States in United States dollars. Conversion of foreign currency to United States dollars shall be made at the conversion rate existing in the United States (as reported in *The Wall Street Journal*) on the last business day of the quarter immediately preceding the applicable calendar quarter. If *The Wall Street Journal* ceases to be published, then the rate of exchange to be used shall be that reported in such other business publication of national circulation in the United States as the Parties reasonably agree.

4.3.4 Tax Withholding; Restrictions on Payment. All payments hereunder shall be made free and clear of any taxes, duties, levies, fees or charges, except for withholding taxes (to the extent applicable). Licensee shall make any applicable withholding payments due on behalf of Licensor and shall provide Licensor upon request with such written documentation regarding any such payment as available to Licensee relating to an application by Licensor for a foreign tax credit for such payment with the United States Internal Revenue Service. If by law, regulations or fiscal policy of a particular country in the Territory, remittance of royalties in United States Dollars is restricted or forbidden, written notice thereof shall promptly be given to Licensor, and payment shall be made by the deposit thereof in local currency to the credit of Licensor in a recognized banking institution designated by Licensor by written notice to Licensee.

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4.4 **Records Retention; Review**.

4.4.1 Royalties and Profit-Sharing. Commencing as of the date of First Commercial Sale of the first Licensed Product hereunder, Licensee and its Affiliates and Sublicensees shall keep for at least [***] from the end of the calendar year to which they pertain complete and accurate records of sales by Licensee or its Affiliates and Sublicensees, as the case may be, of each Licensed Product, in sufficient detail to allow the accuracy of the payments hereunder to be confirmed.

4.4.2 Review. Subject to the other terms of this Section 4.4.2, at the request of Licensor, which shall not be made more frequently than [***] during the Term, upon at least [***] prior written notice from Licensor, and at the expense of Licensor (except as otherwise provided herein), Licensee shall permit an independent certified public accountant reasonably selected by Licensor and reasonably acceptable to Licensee to inspect (during regular business hours) the relevant records required to be maintained by Licensee under this Section 4.4. In every case the accountant must have previously entered into a confidentiality agreement with both Parties substantially similar to the provisions of Section 5 and limiting the disclosure and use of such information by such accountant to authorized representatives of the Parties and the purposes germane to this Section 4.4. Results of any such review shall be binding on both Parties absent manifest error. Each Party agrees to treat the results of any such accountant's review of the other Party's records under this Section 4.4 as Confidential Information of the other Party subject to the terms of Section 5. If any review reveals a deficiency in the calculation and/or payment of royalties by Licensee, then (a) Licensee shall promptly pay Licensor the amount remaining to be paid, and (b) if such underpayment is by [***] or more, Licensee shall pay the reasonable out-of-pocket costs and expenses incurred by Licensor in connection with the review.

4.4.3 Other Parties. Licensee shall include in any agreement with its Affiliates or Sublicensees terms requiring such party to retain records as required in this Section 4.4 and to permit Licensor to inspect such records as required by this Section 4.4.

5. TREATMENT OF CONFIDENTIAL INFORMATION

5.1 **Confidential Obligations**. Licensor and Licensee each recognize that the other Party's Confidential Information constitutes highly valuable and proprietary confidential information. Licensor and Licensee each agree that during the License Term and for [***] thereafter, it will keep confidential, and will cause its employees, consultants, Affiliates and sublicensees to keep confidential, all Confidential Information of the other Party. Neither Licensor nor Licensee nor any of their respective employees, consultants, Affiliates or sublicensees shall use Confidential Information of the other Party for any purpose whatsoever other than exercising any rights granted to it or reserved by it hereunder. Without limiting the foregoing, each Party may disclose information to the extent such disclosure is reasonably necessary to (a) file and prosecute patent applications and/or maintain patents which are filed or

prosecuted in accordance with the provisions of this Agreement, or (b) file, prosecute or defend litigation in accordance with the provisions of this Agreement or (c) comply with applicable laws, regulations or court orders; provided, however, that if a Party is required to make any such disclosure of the other Party's Confidential Information in connection with any of the foregoing, it will give reasonable advance notice to the other Party of such disclosure requirement and will use reasonable efforts to assist such other Party in efforts to secure confidential treatment of such information required to be disclosed.

5.2 **Limited Disclosure and Use.** Licensor and Licensee each agree that any disclosure of the other Party's Confidential Information to any officer, employee, consultant or agent of the other Party or any of its Affiliates or Sublicensees shall be made only if and to the extent necessary to carry out its rights and responsibilities under this Agreement, shall be limited to the maximum extent possible consistent with such rights and responsibilities and shall only be made to the extent any such persons are bound by written confidentiality obligations to maintain the confidentiality thereof and not to use such Confidential Information except as expressly permitted by this Agreement. Licensor and Licensee each further agree not to disclose or transfer the other Party's Confidential Information to any Third Parties under any circumstance without the prior written approval from the other Party (such approval not to be unreasonably withheld), except as otherwise required by law, and except as otherwise expressly permitted by this Agreement. Each Party shall take such action, and shall cause its Affiliates or Sublicensees to take such action, to preserve the confidentiality of each other's Confidential Information as it would customarily take to preserve the confidentiality of its own Confidential Information, using, in all such circumstances, not less than reasonable care. Each Party, upon the request of the other Party, will return all the Confidential Information disclosed or transferred to it by the other Party pursuant to this Agreement, including all copies and extracts of documents and all manifestations in whatever form, within sixty (60) days of such request or, if earlier, the termination or expiration of this Agreement; provided, however, that a Party may retain (a) any Confidential Information of the other Party relating to any license which expressly survives such termination and (b) one (1) copy of all other Confidential Information in inactive archives solely for the purpose of establishing the contents thereof.

5.3 **Publicity**. The Parties agree to release, within three (3) days of the Effective Date, a press release in the form set forth in Schedule C. Otherwise, neither Party may publicly disclose the existence or terms or any other matter of fact regarding this Agreement or the activities performed hereunder without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed; provided, however, that either Party may make such a disclosure (a) to the extent required by law or by the requirements of any nationally recognized securities exchange, quotation system or over-the-counter market on which such Party has its securities listed or traded, or (b) to any investors, prospective investors, lenders and other potential financing sources who are obligated to keep such information confidential. In the event that such disclosure is required as aforesaid, the disclosing Party shall make reasonable efforts to provide the other Party with notice beforehand and to coordinate with the other Party with respect to the wording and timing of any such disclosure. The Parties, upon the execution of this Agreement, will mutually agree to a press release with respect to this transaction for publication. Once such press release or any other written statement is approved for disclosure by both Parties, either Party may make subsequent public disclosure of the contents of such statement without the further approval of the other Party.

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5.4 **Use of Name.** Neither Party shall employ or use the name of the other Party in any promotional materials or advertising without the prior express written permission of the other party.

6. PROVISIONS CONCERNING THE FILING, PROSECUTION AND MAINTENANCE OF PATENT RIGHTS

6.1 **Patent Filing, Prosecution and Maintenance**. Subject to the other terms of this Section 6.1, Licensee shall be responsible for preparing, filing, prosecuting, obtaining and maintaining, at its sole cost, expense and discretion**,** and using patent counsel reasonably acceptable to Licensee, all Licensed Patent Rights in all relevant countries. Licensee (i) will provide Licensor with a copy of any proposed patent application or prosecution or other document relating to a patent or application within Licensed Patent Rights and relevant to the Licensed Field for review and comment reasonably in advance of filing which shall under no circumstances be less than thirty (30) days, and (ii) will keep Licensee reasonably informed of the status of such filing, prosecution and maintenance, including, without limitation, (A) by providing Licensor with copies of all communications received from or filed in patent office(s) with respect to such filing, and (B) by providing Licensor, a reasonable time prior to taking or failing to take any action that would affect the scope or validity of any such of any such filing (including the substantially narrowing, cancellation or abandonment of any claim(s) without retaining the right to pursue such subject matter in a separate application, or the failure to file or perfect the filing of any claim(s) in any country), with prior written notice of such proposed action or inaction so that Licensor has a reasonable opportunity to review and comment. If Licensee fails to undertake the filing(s) of any patent application or submission with respect to any invention under such Licensed Patent Rights, then not less than ninety (90) days prior to the last date for making the applicable filing or submission to preserve rights under such patent application, Licensor may undertake such filing(s) at its own expense, in which case Licensee will assign to Licensor all of its rights to such patent application and invention and any subsequently issued patent thereon in the country or countries in which Licensor undertakes such filing(s), each of which thereafter will be owned solely by Licensor.

6.2 **Enforcement**. If, during the License Term, either Party learns of any actual, alleged or threatened infringement by a Third Party of any Licensed Patent Rights under this Agreement, such Party shall promptly notify the other Party and shall provide such other Party with available evidence of such infringement. Licensee shall have the first right (but not the obligation), at its own expense and with legal counsel of its own choice, to bring suit (or take other appropriate legal action) against any actual, alleged or threatened infringement of the Licensed Patent Rights in the Licensed Field. Licensor shall have the right, at its own expense, to be represented in any such action by counsel of Licensor's own choice; provided, however, that under no circumstances shall the foregoing affect the right of Licensee to control the suit as described in the second sentence of this Section 6.2. If Licensee does not file any action or proceeding against any such material infringement within three (3) months after the later of (i) Licensor's notice to Licensee hereunder, (ii) Licensee's notice to Licensor hereunder, or (iii) a

written request from Licensor to take action with respect to such infringement, then Licensor shall have the right (but not the obligation), at its own expense, to bring suit (or take other appropriate legal action) against such actual, alleged or threatened infringement, with legal counsel of its own choice, including the right to settle any such suit without the prior consent of Licensee. Irrespective of which party is taking the lead with respect to the defense of a claim, the party taking the lead shall keep the other party reasonably informed as to the status of any such action and shall give due regard to the comments and suggestions of the other party with respect to the defense of such claims. Any damages, monetary awards or other amounts recovered, whether by judgment or settlement, pursuant to any suit, proceeding or other legal action taken under this Section 6.2, shall applied as follows:

(a) first, to reimburse the Parties for their respective costs and expenses (including reasonable attorneys' fees and costs) incurred in prosecuting such enforcement action and

(b) second, any amounts remaining shall be allocated equally between the Parties.

If a Party brings any such action or proceeding hereunder, the other Party agrees to be joined as party plaintiff if necessary to prosecute such action or proceeding, and to give the Party bringing such action or proceeding reasonable assistance and authority to file and prosecute the suit; provided, however, that neither Party shall be required to transfer any right, title or interest in or to any property to the other Party or any Third Party to confer standing on a Party hereunder.

6.3. **Defense.** Each party shall promptly notify the other party in writing of any allegation by a third party that the activity of either of the Parties or their Affiliates or Sublicensees pursuant to this Agreement infringes or may infringe the intellectual property rights of such third party. Licensee shall have the responsibility to control, at its own expense, the defense of any claim alleging that the development, sale or marketing of the Licensed Product in the Territory infringes any such third party rights. If Licensee fails to proceed in a timely manner with respect to such defense, Licensor shall have the option to assume control the defense of such claim with reimbursement by Licensee of relevant fees, expenses and costs of Licensor. Irrespective of which party is taking the lead with respect to the defense of a claim, the party taking the lead shall keep the other party reasonably informed as to the status of any such action and shall give due regard to the comments and suggestions of the other party with respect to the defense of such claims. Licensor shall have the right to participate in the defense of any such claim with counsel of its choice at its own expense. Licensee shall not have the right to settle any claim or litigation described in this Section without the consent of the Licensor, such consent not to be unreasonably withheld. If a Party brings any such action or proceeding hereunder, the other Party agrees to be joined as party plaintiff if necessary to prosecute such action or proceeding, and to give the Party bringing such action or proceeding reasonable assistance and authority to file and prosecute the suit; provided, however, that neither Party shall be required to transfer any right, title or interest in or to any property to the other Party or any Third Party to confer standing on a Party hereunder.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

7. REPRESENTATIONS AND WARRANTIES

7.1 **Licensor Representations**. Licensor represents and warrants to Licensee that:

(a) the execution and delivery of this Agreement and the performance of the transactions contemplated hereby have been duly authorized by all appropriate Licensor corporate action;

(b) this Agreement is a legal and valid obligation binding upon Licensor and enforceable in accordance with its terms, and the execution, delivery and performance of this Agreement by the Parties does not conflict with any agreement, instrument or understanding to which Licensor is a party or by which it is bound; and

(c) Licensor has the full right and legal capacity to grant the rights granted to Licensee hereunder without violating the rights of any Third Party.

(d) As of the Effective Date, Licensor is in full compliance of the terms and provisions of the Baxter License and the MediBIC Agreement and both agreements are in full force and effect except that Threshold and Baxter never entered into a manufacturing and supply agreement as contemplated therein.

7.2 **Licensee Representations**. Licensee represents and warrants to Licensor that:

(a) the execution and delivery of this Agreement and the performance of the transactions contemplated hereby have been duly authorized by all appropriate Licensee corporate action; and

(b) this Agreement is a legal and valid obligation binding upon Licensee and enforceable in accordance with its terms, and the execution, delivery and performance of this Agreement by the Parties does not conflict with any agreement, instrument or understanding to which Licensee is a party of or by which it is bound.

7.3 **No Warranties**.

7.3.1 Nothing in this Agreement is or shall be construed as:

(a) a warranty or representation by either Party as to the validity or scope of any patent application or patent licensed hereunder or

(b) a warranty or representation that anything made, used, sold or otherwise disposed of under any license granted pursuant to this Agreement is or will be free from infringement of patents, copyrights, and other rights of third parties.

7.3.2 EXCEPT AS EXPRESSLY SET FORTH IN THIS AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATION OR EXTENDS ANY WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED. THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR OF NON-INFRINGEMENT OF ANY PATENT, COPYRIGHT, TRADEMARK, OR OTHER RIGHTS OF THIRD PARTIES, OR ANY OTHER EXPRESS OR IMPLIED WARRANTIES.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

8. INDEMNIFICATION

8.1 **Indemnification**.

8.1.1 Licensee Indemnity. Licensee shall indemnify, defend and hold harmless Licensor, its Affiliates and their respective directors, officers, employees, stockholders and agents and their respective successors, heirs and assigns (the "Licensor Indemnitees") from and against any liability, damage, loss or expense (including reasonable attorneys' fees and expenses of litigation) incurred by or imposed upon such Licensor Indemnitees, or any of them, in connection with any Third Party claims, suits, actions, demands or judgments, including, without limitation, personal injury and product liability matters, to the extent arising out of (a) the development, testing, production, manufacture, supply, promotion, import, sale or use by any person of any Licensed Product (or any component thereof) manufactured or sold by Licensee or any Affiliate or Sublicensee under this Agreement, (b) any material breach of this Agreement by Licensee, or (c) the negligence or willful misconduct on the part of Licensee or any Affiliate or Sublicensee, in any such case under this Section 8.1.1, except to the extent of Licensor's responsibility therefor under Section 8.1.2 below.

8.1.2 Licensor Indemnity. Subject to Section 8.1.1 above, Licensor shall indemnify, defend and hold harmless Licensee, its Affiliates and their respective directors, officers, employees, and agents, and their respective successors, heirs and assigns (the "Licensee Indemnitees"), from and against any liability, damage, loss or expense (including reasonable attorneys' fees and expenses of litigation) incurred by or imposed upon such Licensee Indemnitees, or any of them, in connection with any Third Party claims, suits, actions, demands or judgments, including, without limitation, personal injury and product liability matters (but excluding any patent infringement matters, which are governed by Section 6 above), to the extent arising out of (a) any actions or omissions of Licensor under this Agreement, (b) any material breach of this Agreement by Licensor, or (c) the negligence or willful misconduct on the part of Licensor or any Affiliate.

8.2 **Indemnification Procedures**. In the event that any Indemnitee is seeking indemnification under Section 8.1 above from a Party (the "Indemnifying Party"), the other Party shall notify the Indemnifying Party of such claim with respect to such Indemnitee as soon as reasonably practicable after the Indemnitee receives notice of the claim, and the Party (on behalf of itself and such Indemnitee) shall permit the Indemnifying Party to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration) and shall cooperate as requested (at the expense of the Indemnifying Party) in the defense of the claim. The indemnification obligations under Article 8 shall not apply to any harm suffered as a direct result of any delay in notice to the Indemnifying Party hereunder or to amounts paid in settlement of any claim, demand, action or other proceeding if such settlement is effected without the consent of the Indemnifying Party, which consent shall not be withheld or delayed unreasonably. The Indemnitee, its employees and agents, shall reasonably cooperate with the Indemnifying Party and its legal representatives in the investigation of any claim, demand, action or other proceeding covered by Section 8.1.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

8.3 **Limitation on Liability**. LICENSOR SHALL NOT BE LIABLE TO THE LICENSEE FOR LOSS, DAMAGE, OR LIABILITY WITH RESPECT TO LOSS OF PROFITS, BUSINESS OR REVENUE LOSS, SPECIAL, INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGE OR LOSS (EVEN IF FORESEEABLE OR IN THE CONTEMPLATION OF EITHER PARTY). LICENSEE SHALL NOT BE LIABLE TO THE LICENSOR FOR LOSS, DAMAGE, OR LIABILITY WITH RESPECT TO SPECIAL, INDIRECT, CONSEQUENTIAL, OR PUNITIVE DAMAGE OR LOSS (EVEN IF FORESEEABLE OR IN THE CONTEMPLATION OF EITHER PARTY).

9. TERM AND TERMINATION

9.1 **Term; Expiration**. The term of this Agreement ("Term") shall expire upon the expiration of the final payment obligation under Article 4 above.

9.2 **Termination Rights for Breach**.

9.2.1 Termination for Breach. Subject to the other terms of this Agreement, this Agreement and the rights and options granted herein may be terminated by either Party upon any material breach by the other Party of any material obligation or condition, effective thirty (30) days after giving written notice to the breaching Party of such termination in the case of a payment breach and sixty (60) days after giving written notice to the breaching Party of such termination in the case of any other breach, which notice shall describe such breach in reasonable detail. The foregoing notwithstanding, if such default or breach is cured or remedied or shown to be non-existent within the aforesaid thirty (30) or sixty (60) day period, the notice shall be automatically withdrawn and of no effect. However, prior to giving any notice of termination for breach, the Parties shall first attempt to resolve any disputes as to the existence of any breach as set forth in Article 10.

9.2.2 Voluntary Termination. Licensee shall have the right to terminate this Agreement at any time upon ninety (90) days written notice to Licensor.

9.3 **Termination for Bankruptcy**. In the event that either Party files for protection under bankruptcy laws, makes an assignment for the benefit of creditors, appoints or suffers appointment of a receiver or trustee over its property, files a petition under any bankruptcy or insolvency act or has any such petition filed against it which is not discharged within sixty (60) days of the filing thereof, then the other Party may terminate this Agreement effective immediately upon written notice to such Party.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

9.4 **Effects of Termination**.

9.4.1 Termination for Licensee Breach. Upon any termination of this Agreement by Licensor under Section 9.2.1 or by Licensee pursuant to Section 9.2.2, as of the effective date of such termination all relevant licenses and sublicenses granted by Licensor to Licensee hereunder shall terminate automatically. Notwithstanding the foregoing, no such termination of this Agreement shall be construed as a termination of any valid sublicense of any Sublicensee hereunder, and thereafter each such Sublicensee shall be considered a direct licensee of Licensor, provided that (i) such Sublicensee is then in full compliance with all terms and conditions of its sublicense, (ii) the Sublicensees have cured all breaches of Licensee, (iii) all accrued payments obligations to Licensor (including those of Licensee) have been paid, and (iv) such Sublicensee agrees in writing to assume all applicable obligations of Licensee under this Agreement. In the event of a termination hereunder, all materials, information, Regulatory Approvals, and intellectual property will be transferred to Licensor so that Licensor may continue to Develop and commercialize Licensed Product.

9.4.2 Termination for Licensor Breach. Upon any termination of this Agreement by Licensee under Section 9.2.1, as of the effective date of such termination, Licensee thereafter automatically shall have a fully sublicensable and transferable, fully paid up (subject to the remainder of this Section 9.4.2), exclusive license in the Territory under the Licensed Patent Rights and Licensed Technology, to Develop, have Developed, make, have made, use, have used, sell, have sold, offer for sale, import and have imported any and all Licensed Products and to practice the Licensed Technology in the Territory, provided that Licensee shall pay, for the remainder of the License Term, in lieu of any profit-sharing payments it would otherwise owe to Licensor under this Agreement, a profit-sharing payment equal to one half (1/2) of the profit-sharing payment that would otherwise apply with respect to the Licensed Product under Sections 4 of this Agreement.

9.5 **Remedies**. Except as otherwise expressly set forth in this Agreement, the termination provisions of this Article 9 are in addition to any other relief and remedies available to either Party at law.

9.6 **Surviving Provisions**. Notwithstanding any provision herein to the contrary, the rights and obligations of the Parties set forth in Sections 4 (with respect to Profits from the sale of Licensed Products before the date of termination and as set forth in Section 4.4), 5, 8, 9.6, 10 and 11, as well as any rights or obligations otherwise accrued hereunder (including any accrued payment obligations), shall survive the expiration or termination of the Term. Without limiting the generality of the foregoing, Licensee shall have no obligation to make any milestone or profit payment to Licensor that has not accrued prior to the effective date of any termination of this Agreement, but shall remain liable for all such payment obligations accruing prior to the effective date of such termination.

10. DISPUTES

10.1 **Negotiation**. The Parties recognize that a bona fide dispute as to certain matters may from time to time arise during the term of this Agreement that relates to either Party's rights and/or obligations hereunder. In the event of the occurrence of such a dispute, either Party may, by written notice to the other Party, have such dispute referred to their respective senior officials designated below or their successors, for attempted resolution by good

faith negotiations within thirty (30) days after such notice is received. Said designated senior officials are as follows:

For Licensee: Chief Executive Officer

For Licensor: Chief Executive Officer

In the event the designated senior officials are not able to resolve such dispute within the thirty (30) day period, either Party may invoke the provisions of Section 10.2.

10.2 **Arbitration**. Subject to Section 10.1 and except with respect to disputes relating to the intellectual property or a breach of the confidentiality obligations of this Agreement, any dispute, controversy or claim initiated by either Party arising out of, resulting from or relating to this Agreement, or the performance by either Party of its obligations under this Agreement (other than bona fide Third Party actions or proceedings filed or instituted in an action or proceeding by a Third Party against a Party), whether before or after termination of this Agreement, shall be finally resolved by binding arbitration. Whenever a Party shall decide to institute arbitration proceedings, it shall give written notice to that effect to the other Party. Any such arbitration shall be conducted under the Commercial Arbitration Rules of the American Arbitration Association by a panel of three arbitrators appointed in accordance with such rules. Any such arbitration shall be held in the City, County and State of New York, New York. The method and manner of discovery in any such arbitration proceeding shall be governed by the laws of the State of New York**.** The arbitrators shall have the authority to grant injunctions and/or specific performance and to allocate between the parties the costs of arbitration in such equitable manner as they determine. Judgment upon the award so rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of any award and an order of enforcement, as the case may be. In no event shall a demand for arbitration be made after the date when institution of a legal or equitable proceeding based upon such claim, dispute or other matter in question would be barred by the applicable statute of limitations. Notwithstanding the foregoing, either Party shall have the right, without waiving any right or remedy available to such Party under this Agreement or otherwise, to seek and obtain from any court of competent jurisdiction any interim or provisional relief that is necessary or desirable to protect the rights or property of such Party, pending the selection of the arbitrators hereunder or pending the arbitrators' determination of any dispute, controversy or claim hereunder.

11. MISCELLANEOUS

11.1 **Notification**. All notices, requests and other communications hereunder shall be in writing, shall be addressed to the receiving party's address set forth below or to such other address as a party may designate by notice hereunder, and shall be either (i) delivered by hand, (ii) made by facsimile transmission (to be followed with written fax confirmation), (iii) sent by private courier service providing evidence of receipt, or (iv) sent by registered or certified mail, return receipt requested, postage prepaid. The addresses and other contact information for the parties are as follows:

If to Licensor: Dr. Barry Selick
Chief Executive Officer
Threshold Pharmaceuticals, Inc.
1300 Seaport Boulevard, Suite 500
Redwood City, CA 94063

If to Licensee: Dr. Edwin Thomas
Chief Executive Officer
Eleison Pharmaceuticals, Inc.
103 Carnegie Center, Suite 300
Princeton, NJ 08540

All notices, requests and other communications hereunder shall be deemed to have been given either (i) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above, (ii) if made by telecopy or facsimile transmission, at the time that receipt thereof has been acknowledged by the recipient, (iii) if sent by private courier, on the day such notice is delivered to the recipient, or (iv) if sent by registered or certified mail, on the fifth (5th) business day following the day such mailing is made.

11.2 **Language**. This Agreement has been prepared in the English language and the English language shall control its interpretation.

11.3 **Governing Law**. This Agreement will be construed, interpreted and applied in accordance with the laws of the state of New York (excluding its body of law controlling conflicts of law).

11.4 **Limitations**. Except as expressly set forth in this Agreement, neither Party grants to the other Party any right or license to any of its intellectual property.

11.5 **Entire Agreement**. This is the entire Agreement between the Parties with respect to the subject matter hereof and supersedes all prior representations, understandings and agreements between the Parties with respect to the subject matter hereof. No modification shall be effective unless in writing with specific reference to this Agreement and signed by the Parties.

11.6 **Waiver**. The terms or conditions of this Agreement may be waived only by a written instrument executed by the Party waiving compliance. The failure of either Party at any time or times to require performance of any provision hereof shall in no manner affect its rights at a later time to enforce the same. No waiver by either Party of any condition or term shall be deemed as a continuing waiver of such condition or term or of another condition or term.

11.7 **Headings**. Section and subsection headings are inserted for convenience of reference only and do not form part of this Agreement.

Confidential treatment has been requested for portions of this exhibit. The copy filed herewith omits the information subject to the confidential treatment request. Omissions are designated as * * *. A complete version of this exhibit has been filed separately with the Securities and Exchange Commission.

11.8 **Assignment**. Neither this Agreement nor any right or obligation hereunder may be assigned, delegated or otherwise transferred, in whole or part, by either Party without the prior express written consent of the other; provided, however, that either Party may, without the written consent of the other party, assign this Agreement and its rights and delegate its obligations hereunder to its Affiliates, or in connection with the transfer or sale of all or substantially all of such Party's assets or business related to this Agreement, or in the event of its merger, consolidation, change in control or similar transaction. Any permitted assignee shall assume all obligations of its assignor under this Agreement. Any purported assignment in violation of this Section 11.8 shall be void. The terms and conditions of this Agreement shall be binding upon and inure to the benefit of the permitted successors and assigns of the parties.

11.9 **Force Majeure**. Neither Party shall be liable for failure of or delay in performing obligations set forth in this Agreement, and neither shall be deemed in breach of its obligations, if such failure or delay is due to natural disasters or any causes beyond the reasonable control of such Party. In event of such force majeure, the Party affected thereby shall use reasonable efforts to cure or overcome the same and resume performance of its obligations hereunder.

11.10 **Construction**. The Parties hereto acknowledge and agree that: (i) each Party and its counsel reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision; (ii) the rule of construction to the effect that any ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement; and (iii) the terms and provisions of this Agreement shall be construed fairly as to all Parties hereto and not in favor of or against any Party, regardless of which Party was generally responsible for the preparation of this Agreement.

11.12 **Severability**. If any provision(s) of this Agreement are or become invalid, are ruled illegal by any court of competent jurisdiction or are deemed unenforceable under then current applicable law from time to time in effect during the Term hereof, it is the intention of the Parties that the remainder of this Agreement shall not be affected thereby provided that a Party's rights under this Agreement are not materially affected. The Parties hereto covenant and agree to renegotiate any such term, covenant or application thereof in good faith in order to provide a reasonably acceptable alternative to the term, covenant or condition of this Agreement or the application thereof that is invalid, illegal or unenforceable, it being the intent of the Parties that the basic purposes of this Agreement are to be effectuated.

11.13 **Status**. Nothing in this Agreement is intended or shall be deemed to constitute a partner, agency, employer-employee, or joint venture relationship between the Parties.

11.14 **Section 365(n)**. All licenses granted under this Agreement are deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of right to "intellectual property" as defined in Section 101 of such Code. The Parties agree that Licensee may fully exercise all of its rights and elections under the U.S. Bankruptcy Code, regardless of whether either Party files for bankruptcy in the United States or other jurisdiction. The Parties further agree that, in the event Licensee elects to retain its rights as a licensee under such Code, Licensee

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shall be entitled to complete access to any technology licensed to it hereunder and all embodiments of such technology. Such embodiments of the technology shall be delivered to the Licensee not later than:

(a) the commencement of bankruptcy proceedings against the licensor, upon written request, unless the licensor elects to perform its obligations under the Agreement, or

(b) if not delivered under this Section 11.14, upon the rejection of this Agreement by or on behalf of Licensee, upon written request.

11.15 **Export Compliance.** Licensee and its Affiliates and Sublicensees shall comply with all United States laws and regulations controlling the export of certain commodities and technical data, including without limitation all Export Administration Regulations of the United States Department of Commerce. Among other things, these laws and regulations prohibit or require a license for the export of certain types of commodities and technical data to specified countries. Licensee hereby gives written assurance that it will comply with, and will cause its Affiliates and Sublicensees to comply with, all United States export control laws and regulations, that it bears sole responsibility for any violation of such laws and regulations by itself or its Affiliates or Sublicensees, and that it will indemnify, defend, and hold Licensor harmless (in accordance with Section 8) for the consequences of any such violation.

11.16 **Further Assurances**. Each Party agrees to execute, acknowledge and deliver such further instructions, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of this Agreement.

11.17 **Counterparts**. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representative in two (2) originals.

Threshold Pharmaceuticals, Inc.

By: /s/ Harold E. Selick 10/14/09
Dr. Barry Selick, CEO

Eleison Pharmaceuticals, Inc.

By: /s/ Edwin J. Thomas 10/14/09
Edwin Thomas, CEO

Schedule A

Licensed Patent Rights

Administration of Glufosfamide for the Treatment of Cancer – Curd

Country/Filed	App. No.	THLD. No.	Pub. No.
PC/31 Jul 09	US09/052370	13-301-PC281	

Glufosfamide Combination Therapy – Handisides, Kroll, Duan, Selick

Country/Filed	App. No.	THLD. No.	Pub. No.
US/5 Oct 09			
PC/7 Apr 08	US08/059578	036-276-PC220	2008/124691 – 16 Oct 08

Unit Dose Form of Glufosfamide – Li

Country/Filed	App. No.	THLD. No.	Pub. No.
US/NP 4 Dec 08	12/303,551	026-287-US223	
JP/NP	2009-514487	026-286-JP223	
EP/NP	07784306.8	026-285-EP223	2034950 – 18 Mar 09
PC/4 Jun 07	US07/070351	026-223-PC187	2007/146652 – 21 Dec 2007

Glufosfamide Combination Therapy – Tidmarsh

Country/Filed	App. No.	THLD. No.	Pub. No.
US/21 Jun 07	11/794,110	013-241-US166	
PCT/22 Dec 05	US05/047314	013-166-PC51	2006/071955 – 6 Jul 06

Anti-Cancer Therapies – Tidmarsh

Country/Filed	App. No.	THLD. No.	Pub. No.	Pat. No.
ZA/NP	2006/06456	013-208-ZA53		2006/06456 – 30 Jan 08
US/3 Aug 06	10/588,409	013-194-US53		
NZ/NP	549605	013-206-NZ53		
NO/NP	20063987	013-205-NO53		
MX/NP	PA/a/2006/008954	013-204-MX53		
KR/NP	10-2006-7017702	013-209-KR53	2006-0131869 – 20 Dec 06	
JP/NP	2006-552230	013-203-JP53		
IL/NP	177136	013-202-IL53		
EP/NP	05712714.4	013-199-EP53	1711177 – 18 Oct 06	
CN/NP	200580004102.x	013-198-CN53	1917885 – 21 Feb 07	
CA/NP	2554463	013-197-CA53		
BR/NP	P10507463-0	013-196-BR53		
AU/NP	2005213372	013-195-AU53		
PC/4 Feb 05	US05/003370	013-053-PC30	2005/076888 – 25 Aug 05	

Method for Determining Susceptibility of Tumor to Treatment with Anti-Neoplastic Agent – Tidmarsh

Country/Filed	App. No.	THLD. No.	Pub. No.	Pat. No.
SG/NP	200505735.1	005-137-SG31	114995 – 31 Dec 07	114995 – 31 Dec 07
US/18 Aug 05	10/546,612	005-138-US31	20060172305	7,560,230 – 14 Jul 08
PC/4 Mar 04	US04/006897	005-031-PC9	2004/081181 – 23 Sep 04	

Baxter International License Patents 5 Aug 03

Antitumor Saccharide Conjugates –Wiessler and Dickes (Uiisureru and Deikesu JP)

Appl. No.	Pub. No. – Date	Patent No. – Issue Date
US1990000499522		5,622,936 – 22 Apr 97
NO1990000902717	NO0902717A0 – 19 Jun 1990	NO0173548C – 29 Dec 93
FI1990000903123	FI0903123A0 20 Jun 1990	FI0095268C – 10 Jan 96
DK1993000001170	DK0117093A – 18 Oct 93	DK0174539B1 – 19 May 03
DK1990000001492	DK0149290A – 07 Aug 90	DK0170422B1 – 28 Aug 95
PCT/EP89/01251	WO90/04597A1 – 3 May 90	NP 20 May 01
PT1989000092034	PT0092034A – 30 Apr 90	PT0092034B – 31 May 95
JP1995000317538	JP08208680A2 – 13 Aug 96	JP03056408B2 – 26 Jun 00
JP1990000500030	JP03502934T2 – 04 Jul 91	JP02518739B2 – 31 Jul 96
IE1989000003360	IE0067529B – 03 Apr 90	IE0067529B – 03 Apr 90
HU1989000006841	HU0896841A0 – 28 Dec 90	HU0206124B – 28 Aug 92
SE		SE369182
NL		NL 369182
LU		LU 369182
IT		IT 369182
HK1995000001574	HK0157495A 13 Oct 1995	HK0157495A – 13 Oct 95
GR1995000403849		GR3015566T3 – 30 Jun 95
GB		GB 369182
FR		FR 369182
ES1989000119408		ES2072881T3 – 01 Aug 95
DE		DE58909141C0 – 04 May 1995
CH		CH 369182
BE		BE 369182
AT		AT0120465E – 15 Apr 1995
EP1989000119408	EP369,182A1 – 23 Jun 90	EP369,182B1 – 29 Mar 95
CA1989002001129	CA2001129A – 20 Apr 90	CA2001129C – 27 Jun 00
DE1988003835772	DE38357721 – 26 Apr 1990	DE 195 34 366

Schedule B

Glufosfamide Development Plan and Budget

This Schedule B sets for the budget and timeline for continued clinical development of Glufosfamide.

Period 1: Preparation and Filing of SPA
(Ends [***] After the Effective Date)

During Period I, Eleison will finalize the clinical study plan (see Clinical Study Plan, below) and request a formal Special Protocol Assessment (SPA) from the US FDA for the purpose of agreeing to the study design.

Clinical Study Plan. The current plan contemplates a randomized controlled study of glufosfamide versus [***] with a planned sample size of [***] subjects (approximately [***] subjects per treatment group). The primary analysis will take place after the [***] event has occurred. With this design, the Clinical Study has [***] power to detect a [***] improvement in survival on the glufosfamide arm. This is equivalent to a difference in median survival of at least [***] between the glufosfamide-treated group and the [***] group, assuming a median survival of [***] in the glufosfamide-treated group and of [***] in the [***] group. This calculation is based on a [***] test with an [***] of [***] and a [***] for a [***] comparison. Both Eleison and Threshold agree that the clinical study plan may be changed, based on FDA input or other factors, upon their mutual written agreement, which will not be unreasonably withheld. The clinical study is expected to cost about [***].

Period 2: Initiation of the Phase 3 Clinical Trial
(Ends [***] After the Effective Date)

During Period 2, Eleison will identify and engage clinical sites, arrange for the shipment of sufficient study drug (see Study Drug Supply, below) to initiate the clinical study, and enroll the first patient into the clinical study. Prior to enrolling the first patient in the study, Eleison will have raised sufficient capital and secured sufficient study drug to demonstrate that it can fund and conduct at least the first year of the study.

Study Drug Supply. Previously, Threshold has engaged 3rd party contract manufacturing organizations to perform work on process development, validation, registration stability, and NDA-enabling studies for [***]. [***] was selected and qualified as a [***] supplier and [***] as a [***]. [***]. Drug product from previous manufacturing campaigns continues to be stored and followed for stability. Approximately [***] vials are in storage from [***]. [***] manufactured in [***], and [***] that they are stable through the last time point of [***] and can possibly be extended for an additional [***] or longer. Threshold will introduce Eleison to these third party contract manufacturing organizations and authorize them to work with Eleison in connection with carrying out the activities contemplated by this Development Plan.

Period 3: Accrual of Patients to Completion of Phase 3 Clinical Trial
(Ends [***] After the Effective Date)

During Period 3, Eleison will enroll patients into and complete the clinical study. Enrollment shall generally follow the schedule:

No. of Patients Enrolled	Months After Study Initiation
[***]	[***]
[***]	[***]
[***]	[***]

At all times during Period 3, Eleison will maintain sufficient cash reserves and drug supply to continue the clinical study for at least [***].

Period 4: Filing of NDA
(Ends [***] After the Effective Date)

During Period 4, Eleison will prepare and file an NDA based on the results of the clinical study.

Schedule C
Press Release (Threshold Format)

Contact:
Denise T. Powell
Sr. Director, Corporate Communications
Threshold Pharmaceuticals, Inc.
650-474-8206
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THRESHOLD PHARMACEUTICALS LICENSES
GLUFOSFAMIDE TO ELEISON PHARMACEUTICALS

REDWOOD CITY, CA and PRINCETON, NJ – October (XX), 2009 – Threshold Pharmaceuticals, Inc. (Nasdaq: THLD), and Eleison Pharmaceuticals, Inc., today announced the execution of a licensing agreement granting Eleison Pharmaceuticals exclusive worldwide rights to glufosfamide. Glufosfamide is a novel small molecule that has been evaluated by Threshold in a Phase 3 clinical trial and multiple Phase 2 clinical trials.

Under the agreement, Eleison is responsible for the development, manufacturing and marketing of glufosfamide. Eleison and Threshold will share in the profits of commercialization, if the further clinical development of glufosfamide leads to regulatory approval and marketing. Eleison intends to secure funding for the clinical development of glufosfamide. The agreement between Threshold and Eleison contemplates that Eleison, to satisfy its diligence obligations, will raise sufficient funds to commence clinical development activities with glufosfamide.

Glufosfamide was licensed from Baxter to Threshold in 2003. In 2004, Threshold and MediBIC signed a development agreement whereby MediBIC would conduct clinical development activities for glufosfamide in certain Asian countries. Pursuant to those agreements, Baxter and MediBIC may be entitled to certain royalty and milestone payments, if Eleison's clinical development efforts are successful.

"Eleison, with their focus on orphan drug indications and an experienced management team, is an ideal organization to maximize the potential of glufosfamide, a drug candidate that we continue to believe should have a role in the treatment of cancer," said Dr. Barry Selick, chief executive officer of Threshold. "Under this agreement, Eleison will assume full responsibility for the ongoing development of glufosfamide, freeing Threshold to

continue to focus its efforts on TH-302. In return, Threshold will benefit from sharing in any financial upside that results from Eleison's development and commercialization efforts for glufosfamide."

"We are dedicated to improving therapeutic options for patients with rare diseases and are hopeful that glufosfamide may be an important treatment option for pancreatic cancer patients," said Edwin Thomas, chief executive officer of Eleison. "We are pleased to enter into this licensing agreement with Threshold and we are committed to turn this into a great success."

About Glufosfamide

Glufosfamide combines the active part of ifosfamide, a member of a widely used class of chemotherapy drugs known as alkylators, with a glucose molecule. As announced in 2007, a Phase 3 trial of glufosfamide showed that the overall survival in patients with metastatic pancreatic cancer who had relapsed after gemcitabine chemotherapy was 18% higher in the glufosfamide arm compared to those who received best supportive care, but the result did not reach statistical significance.

About Threshold Pharmaceuticals

Threshold is a biotechnology company focused on the discovery and development of drugs targeting Tumor Hypoxia, the low oxygen condition found in microenvironments of most solid tumors. This approach offers broad potential to treat most solid tumors. By selectively targeting tumor cells, Threshold is building a pipeline of drugs that hold promise to be more effective and less toxic to healthy tissues than conventional anticancer drugs. For additional information, please visit the website (www.thresholdpharm.com).

About Eleison Pharmaceuticals

Eleison was founded in 2008. The Company's mission is to acquire, develop, and commercialize clinical stage drug candidates for "orphan" indications, providing new hope for patients with rare life-threatening, diseases. For additional information, please visit the website (www.eleison-pharma.com).

Forward-Looking Statements

Except for statements of historical fact, the statements in this press release are forward-looking statements, including statements regarding Threshold's product candidates, their uses and potential benefits and clinical trial results and plans. These statements involve risks and uncertainties that can cause actual results to

differ materially from those in such forward-looking statements. Potential risks and uncertainties include, but are not limited to, Threshold's ability to enroll and complete its current and anticipated clinical trials, the time and expense required to conduct such clinical trials and analyze data, the possibility that results from these trials will not be confirmed, potential adverse side effects, issues arising in the regulatory or manufacturing process and the results of such clinical trials (including product safety issues and efficacy results). Further information regarding these and other risks is included under the heading "Risk Factors" in Threshold's Quarterly Report on Form 10-Q, which was filed with the Securities Exchange Commission on August 6, 2009 and is available from the SEC's website (www.sec.gov) and on our website (www.thresholdpharm.com) under the heading "Investors." Threshold does not intend to update any forward-looking statement made in this news release.

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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-3 (No. 333-162719 and 333-153475) and Registration Statement on Form S-8 (No. 333-164865, No. 333-156733, No. 333-126276, No. 333-134598, and No. 333-143130) of Threshold Pharmaceuticals, Inc. of our report dated March 8, 2010 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 8, 2010

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 8, 2010

/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 8, 2010

/s/ JOEL A. FERNANDES
Joel A. Fernandes
Senior Director, Finance and Controller
(Principal Accounting Officer)

Exhibit 32.1

Threshold Pharmaceuticals, Inc

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

In connection with the Annual Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-K for the year ended December 31, 2009, 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 8, 2010

/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, 2009, 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 8, 2010

/s/ Joel A. Fernandes
Joel A. Fernandes
Senior Director, Finance and Controller
(Principal Accounting Officer)