

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from _____ to _____

Commission File Number: 001-32979

Threshold Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3409596
(I.R.S. Employer
Identification No.)

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

(650) 474-8200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

On October 31, 2007, there were 37,375,168 shares of common stock, par value \$0.001 per share, of Threshold Pharmaceuticals, Inc. outstanding.

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FORM 10-Q
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The terms “Threshold,” “we,” “us,” “the Company” and “our” as used in this report refer to Threshold Pharmaceuticals, Inc. Trade-marks, trade names and service marks used in this report are the property of their respective owners.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

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

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,909	\$ 28,450
Marketable securities	13,554	24,360
Prepaid expenses and other current assets	671	547
Total current assets	30,134	53,357
Property and equipment, net	2,363	3,169
Restricted cash and other assets	508	508
Total assets	<u>\$ 33,005</u>	<u>\$ 57,034</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 780	\$ 619
Accrued clinical and development expenses	2,198	4,320
Accrued liabilities	633	2,286
Deferred revenue, current portion	1,437	1,437
Notes payable, current portion	926	997
Total current liabilities	5,974	9,659
Deferred revenue, less current portion	359	1,436
Notes payable, less current portion	571	1,247
Deferred rent	537	454
Total liabilities	7,441	12,796
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value, 150,000,000 shares authorized; issued and outstanding: 37,378,710 shares at September 30, 2007 and 37,345,890 shares at December 31, 2006	37	37
Additional paid-in capital	185,061	182,840
Deferred stock-based compensation	(1,623)	(3,975)
Accumulated other comprehensive gain (loss)	2	(7)
Deficit accumulated during the development stage	(157,913)	(134,657)
Total stockholders' equity	25,564	44,238
Total liabilities and stockholders' equity	<u>\$ 33,005</u>	<u>\$ 57,034</u>

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

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine months Ended</u> <u>September 30,</u>		<u>Cumulative</u> <u>Period from</u> <u>October 17, 2001</u> <u>(date of inception)</u> <u>to September 30,</u> <u>2007</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Revenue	\$ 359	\$ 359	\$ 1,077	\$ 1,077	\$ 3,228
Operating expenses:					
Research and development	4,896	13,990	18,230	38,491	125,281
General and administrative	2,407	3,936	7,517	11,512	43,418
Total operating expenses	<u>7,303</u>	<u>17,926</u>	<u>25,747</u>	<u>50,003</u>	<u>168,699</u>
Loss from operations	(6,944)	(17,567)	(24,670)	(48,926)	(165,471)
Interest income, net	415	907	1,524	2,972	7,947
Interest expense	(30)	(53)	(110)	(112)	(389)
Net loss	(6,559)	(16,713)	(23,256)	(46,066)	(157,913)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	—	—	(40,862)
Net loss attributable to common stockholders	<u>\$ (6,559)</u>	<u>\$ (16,713)</u>	<u>\$ (23,256)</u>	<u>\$ (46,066)</u>	<u>\$ (198,775)</u>
Net loss per common share, basic and diluted	<u>\$ (0.18)</u>	<u>\$ (0.46)</u>	<u>\$ (0.63)</u>	<u>\$ (1.27)</u>	
Weighted average number of shares used in per common share calculations: basic and diluted	<u>37,079</u>	<u>36,502</u>	<u>36,992</u>	<u>36,181</u>	

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

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

	<u>Nine months Ended</u> <u>September 30,</u>		<u>Cumulative</u> <u>Period from</u> <u>October 17, 2001</u> <u>(date of inception)</u> <u>to September 30,</u> <u>2007</u>
	<u>2007</u>	<u>2006</u>	
Cash flows from operating activities:			
Net loss	\$(23,256)	\$(46,066)	\$ (157,913)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	784	658	2,539
Stock-based compensation expense	4,475	8,334	31,108
Amortization of debt issuance costs	—	—	44
Gain on sale of investments, property and equipment	—	(41)	(36)
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	(124)	(203)	(697)
Accounts payable	161	(491)	780
Accrued clinical and development expenses	(2,122)	2,652	2,198
Accrued liabilities	(1,652)	(220)	634
Deferred rent	83	335	537
Deferred revenue	(1,077)	(1,077)	1,796
Net cash used in operating activities	<u>(22,728)</u>	<u>(36,119)</u>	<u>(119,010)</u>
Cash flows from investing activities:			
Acquisition of property and equipment	(10)	(2,352)	(4,904)
Acquisition of marketable securities	(18,233)	(35,815)	(132,517)
Proceeds from sale and maturity of marketable securities	29,079	35,438	119,003
Restricted cash	—	(292)	(483)
Net cash provided by (used in) investing activities	<u>10,836</u>	<u>(3,021)</u>	<u>(18,901)</u>
Cash flows from financing activities:			
Proceeds from redeemable convertible preferred stock, net	—	—	49,839
Proceeds from issuance of common stock, net of offering expenses	98	488	102,485
Proceeds from issuance of notes payable	—	2,617	3,616
Repayment of notes payable	(747)	(510)	(2,120)
Net cash provided by (used in) financing activities	<u>(649)</u>	<u>2,595</u>	<u>153,820</u>
Net increase (decrease) in cash and cash equivalents	(12,541)	(36,545)	15,909
Cash and cash equivalents, beginning of period	<u>28,450</u>	<u>74,947</u>	<u>—</u>
Cash and cash equivalents, end of period	<u>\$ 15,909</u>	<u>\$ 38,042</u>	<u>\$ 15,909</u>
Supplemental schedule of non-cash investing and financing activities			
Deferred stock-based compensation	<u>\$ (158)</u>	<u>\$ (1,734)</u>	<u>\$ 20,073</u>
Fair value of redeemable convertible preferred stock warrant	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 44</u>
Change in unrealized gain (loss) on marketable securities	<u>\$ 9</u>	<u>\$ (26)</u>	<u>\$ 2</u>
Conversion of redeemable preferred stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 49,839</u>
Dividend related to beneficial conversion feature of redeemable convertible preferred stock.	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 40,862</u>

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

Threshold Pharmaceuticals, Inc.
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Threshold Pharmaceuticals, Inc. (the “Company”) is a development stage enterprise engaged primarily in the research and development of targeted small molecule therapies for the treatment of cancer. The Company was incorporated in the State of Delaware on October 17, 2001, and has devoted substantially all of its time and efforts to performing research and development, raising capital and recruiting personnel. The Company has incurred significant losses since its inception. At September 30, 2007, the Company had an accumulated deficit of \$157.9 million. Prior to the first quarter of 2009, the Company expects to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

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

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

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair statement of results for the periods presented, have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year or any other interim period.

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

The unaudited condensed consolidated financial statements and related disclosures have been prepared with the presumption that users of the interim unaudited condensed consolidated financial statements have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006 included in the Company’s annual report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2007.

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

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Income Taxes

The Company adopted Financial Accounting Standards Board (“FASB”) Interpretation 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded a \$1.5 million reduction to deferred tax assets for unrecognized tax benefits, all of which is currently offset by a full valuation allowance and the Company therefore did not record any adjustment to the beginning balance of accumulated deficit on the balance sheet. As of September 30, 2007, the Company’s unrecognized tax benefits remain unchanged from January 1, 2007.

The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of September 30, 2007, the Company had no accrued interest or penalties. 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, substantially all of its tax years are subject to federal and state tax examination.

Recent Accounting Pronouncements

In June 2007, the Emerging Issues Task Force (“EITF”) ratified consensus EITF Issue No. 07-3 “*Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*” (“EITF 07-3”), which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and capitalized. EITF 07-3 is effective for the Company beginning in the first quarter of fiscal year 2008. The Company is currently evaluating the impact of the provisions of EITF 07-3 on its financial position, results of operations and cash flows.

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

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

NOTE 2 — NET LOSS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Numerator:				
Net loss	<u>\$ (6,559)</u>	<u>\$ (16,713)</u>	<u>\$ (23,256)</u>	<u>\$ (46,066)</u>
Denominator:				
Weighted average common shares outstanding	37,355	37,457	37,413	37,356
Less: Weighted average unvested common shares subject to repurchase	<u>(276)</u>	<u>(955)</u>	<u>(421)</u>	<u>(1,175)</u>
Denominator for basic and diluted calculations	<u>37,079</u>	<u>36,502</u>	<u>36,992</u>	<u>36,181</u>
Basic and diluted net loss per share	<u>\$ (0.18)</u>	<u>\$ (0.46)</u>	<u>\$ (0.63)</u>	<u>\$ (1.27)</u>

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

	As of September 30,	
	2007	2006
Shares issuable upon exercise of stock options	2,818	2,691
Shares issuable related to the ESPP	30	53
Common shares subject to repurchase	227	845

NOTE 3 — STOCK BASED COMPENSATION

Equity Incentive Plans

2004 Equity Incentive Plan The 2004 Amended and Restated Equity Incentive Plan, adopted by the board of directors and approved by stockholders, provides for the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, stock awards and cash awards to employees, officers, non-employee directors and consultants. Stock options to employees and officers are generally granted with an exercise price equal to the closing market price of the Company's stock at the date of grant; those option awards expire after 10 years or three months after termination of service and generally vest based over four years of continuous service, with options for new employees generally including a one-year cliff vesting period. At September 30, 2007, 2,488,831 shares were authorized and available for issuance under the stock option plan, which included the automatic annual increase of 1,214,402 shares approved by the board of directors on April 2, 2007.

2004 Employee Stock Purchase Plan The 2004 Employee Stock Purchase Plan, adopted by the board of directors and approved by the stockholders, contains consecutive, overlapping 24-month offering periods. Each offering period includes four six-month purchase periods. The price of the common stock purchased will be the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of the purchase period. For the quarter ended September 30, 2007, plan participants had purchased 51,782 shares at an average purchase price of \$0.69. At September 30, 2007, plan participants had \$21,000 withheld to purchase stock on February 14, 2008, which is included in accrued liabilities on the accompanying unaudited condensed consolidated balance sheet. At September 30, 2007, 803,525 shares were authorized and available for issuance under the ESPP.

Adoption of SFAS No. 123(R)

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

On January 1, 2006, the Company adopted the fair value provisions of SFAS 123(R) using the modified prospective transition method, except for options granted prior to the Company's initial public offering in February 2005, for which the fair value was determined for disclosure purposes using the minimum value method. Under this transition method, stock-based compensation cost recognized for the three and nine months ended September 30, 2007 and 2006 includes:

- compensation cost for all unvested stock-based awards as of January 1, 2006 that were granted subsequent to the Company's initial public offering in February 2005, and prior to January 1, 2006, that were earned during the three and nine months ended September 30, 2007 and 2006, based on the recognition of the grant date fair value estimated in accordance with the original provisions of SFAS 123 over the service period, which is generally the vesting period;

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- compensation cost for all stock-based awards granted or modified subsequent to January 1, 2006, that were earned during the three and nine months ended September 30, 2007 and 2006, based on the recognition of the grant date fair value estimated in accordance with the provisions of SFAS 123(R) over the service period, which is generally the vesting period; and
- compensation cost for options granted prior to the Company's initial public offering in February 2005 that were earned during the three months and nine months ended September 30, 2007 and 2006, based on the grant date intrinsic value over the service period, which is generally the vesting period.

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

Stock-based compensation expense recognized under SFAS 123(R) and APB 25 in the unaudited condensed consolidated statement of operations for the three and nine months ended September 30, 2007 related to stock options and ESPP was \$1.5 million and \$4.5 million, respectively. The stock-based compensation expense for the three and nine months ended September 30, 2007, included \$0.7 million and \$2.2 million, respectively, related to options granted prior to the initial public offering that were valued using the intrinsic value method in accordance with the provisions of APB 25.

Valuation Assumptions

The Company estimated the fair value of stock options granted using the Black-Scholes option-pricing model and a single option award approach. This fair value is being recorded as compensation expense 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 three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Employee Stock Options				
Risk-free interest rate	4.70%	4.62%	4.63%	4.68%
Expected term (in years)	6.05	5.52	5.97	5.82
Dividend yield	—	—	—	—
Volatility	77%	77%	77%	77%
Weighted-average fair value of stock options granted	\$ 0.65	\$ 0.89	\$ 1.62	\$ 4.52
Employee Stock Purchase Plan (ESPP):				
Risk-free interest rate	4.53%	5.03%	4.55%	5.01%
Expected term (in years)	1.25	1.25	1.25	1.25
Dividend yield	—	—	—	—
Volatility	67%	67%	67%	67%
Weighted-average fair value of ESPP purchase rights	\$ 0.35	\$ 0.68	\$ 0.39	\$ 0.87

To determine the expected term of the Company's employee stock options granted during the three and nine months ended September 30, 2007 and 2006, the Company utilized the simplified approach as defined by SEC Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"). To determine the risk-free interest rate, the Company utilized an average interest rate based on U.S. Treasury instruments with a term consistent with the expected term of the Company's awards. To determine the expected stock price volatility for the Company's stock options for the three and nine months ended September 30, 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 three and nine months ended September 30, 2006 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 awards assumes no dividends as the Company does not anticipate paying cash dividends on its common stock.

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Employee Stock-based Compensation Expense

Deferred stock-based compensation Prior to the initial public offering, the Company issued options to certain employees with exercise prices below the fair market value of the Company's common stock at the date of grant, determined with hindsight. In accordance with the requirements of APB 25, the Company recorded deferred stock-based compensation aggregating \$20.1 million, net of forfeitures for the difference between the exercise price of the stock option and the fair market value of the Company's stock at the date of grant. This deferred stock-based compensation is being amortized on a straight-line basis over the period during which the Company's right to repurchase the stock lapses or the options vest, generally four years. Through September 30, 2007, the Company amortized approximately \$18.0 million of such compensation expense, net of forfeitures, with approximately \$0.7 million and \$2.2 million being amortized in the three and nine months ended September 30, 2007, respectively, and \$1.0 million \$3.5 million being amortized in the three and nine months ended September 30, 2006, respectively.

Stock-based compensation expense As required by SFAS 123(R) the Company recognized \$0.7 million and \$2.2 million of stock-based compensation expense related to stock options and purchase rights granted subsequent to the Company's initial public offering in February 2005, under the Company's stock option plans, for the three and nine months ended September 30, 2007, respectively, and \$1.3 million and \$3.9 million of stock-based compensation expense for the three and nine months ended September 30, 2006, respectively, in addition to the amortization of deferred compensation above. As of September 30, 2007, the total unrecognized compensation cost related to unvested stock-based awards granted to employees under the Company's stock option plans was approximately \$7.8 million before forfeitures. This cost will be recorded as compensation expense on a straight-line basis over the remaining weighted average requisite service period of approximately 2.8 years.

Non-employee Stock-based Compensation Expense

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." The equity instruments consisting of stock options are valued using the Black-Scholes option pricing model. The values attributable to these options are amortized over the service period and the unvested portion of these options is remeasured at each vesting date. In connection with the grant of stock options to non-employees, the Company recorded stock-based compensation of approximately \$24,000 and \$0.1 million for the three months and nine months ended September 30, 2007, respectively, and \$0.2 million and \$0.9 million for the three months and nine months ended September 30, 2006, respectively.

Stock Option Activity

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

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	2,074,801	\$ 2.60	—	—
Granted	1,210,500	\$ 2.32	—	—
Exercised	(2,027)	\$ 2.42	—	—
Forfeitures	(465,535)	\$ 2.66	—	—
Outstanding at September 30, 2007	<u>2,817,739</u>	\$ 2.47	8.56	\$57,317
Vested and expected to vest September 30, 2007	<u>2,745,805</u>	\$ 2.47	8.56	\$57,034
Exercisable at September 30, 2007	<u>886,495</u>	\$ 2.54	8.08	\$49,449

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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 September 30, 2007. The total intrinsic value of stock options exercised during the nine months ended September 30, 2007 and 2006 was \$2,000 and \$0.5 million, respectively, determined at the date of the option exercise. Cash received from stock option exercises was \$5,000 and \$0.1 million for the nine months ended September 30, 2007 and 2006, respectively. The Company issues new shares of common stock upon exercise of options. In connection with these exercises, there was no tax benefit realized by the Company due to the Company's current loss position.

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

	Three Months Ended		Nine months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Amortization of stock-based compensation:				
Research and development	\$ 602	\$ 1,279	\$ 1,797	\$ 4,114
General and administrative	892	1,290	2,678	4,220
	<u>\$ 1,494</u>	<u>\$ 2,569</u>	<u>\$ 4,475</u>	<u>\$ 8,334</u>

NOTE 4 — NOTES PAYABLE

In April 2006, the Company amended the existing loan and security agreement with a financial institution to borrow up to an additional \$4.0 million for working capital and equipment purchases. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. Upon the signing of the amendment, the Company borrowed \$2.0 million under this facility, which will be repaid over a 36-month period from the date of borrowing. In May 2006, the Company borrowed an additional \$0.6 million under this facility. The interest rate on these borrowings is approximately 7.2% per annum. The amended agreement requires the Company to maintain the lower of 85% of its total cash and cash equivalents or \$10.0 million at the financial institution. At September 30, 2007, the Company was in compliance with this covenant.

At September 30, 2007, future principal payments under the amended loan and security agreement are as follows (in thousands):

<u>Years Ending December 31,</u>	
2007 (remaining three months)	\$ 250
2008	910
2009	337
Total	<u>\$1,497</u>

NOTE 5 — COMMITMENTS AND CONTINGENCIES

Leases and other commitments

The Company leases certain of its facilities under noncancelable leases, which qualify for operating lease accounting treatment under SFAS No. 13, "Accounting for Leases," and, as such, these facilities are not included on its unaudited condensed consolidated balance sheets. On February 3, 2006, the Company entered into a 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. 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.

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

<u>Years Ending December 31,</u>	
2007 (remaining three months)	\$ 310
2008	1,358
2009	1,398
2010	1,462
2011	<u>1,129</u>
Total	<u>\$5,657</u>

The Company's purchase commitments at September 30, 2007 were \$1.2 million.

Indemnification

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including business partners, contractors and parties performing its clinical trials. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party as a result of the Company's activities. The duration of these indemnification agreements is 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. The Company has entered into separate indemnification agreements with its directors and executive officers, in addition to the indemnification provided for in the Company's bylaws.

Legal Proceedings

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

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NOTE 6 — COMPREHENSIVE LOSS

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Net loss	<u>\$ (6,559)</u>	<u>\$ (16,713)</u>	<u>\$ (23,656)</u>	<u>\$ (46,066)</u>
Other comprehensive loss:				
Unrealized gain (loss) on marketable securities	<u>11</u>	<u>76</u>	<u>9</u>	<u>(26)</u>
Total comprehensive loss	<u>\$ (6,548)</u>	<u>\$ (16,637)</u>	<u>\$ (23,647)</u>	<u>\$ (46,092)</u>

NOTE 7 — SUBSEQUENT EVENTS

In October 2007, the Company adopted a plan to reduce its operating expenses and refocus its research and development efforts. The plan includes 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 expects to pay severance benefits of approximately \$1.2 million in the fourth quarter of 2007.

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

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

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

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

Overview

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

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

- Glufosfamide is our lead product candidate for the potential treatment of cancer. We initiated a pivotal Phase 3 clinical trial of glufosfamide for the second-line treatment of pancreatic cancer in September 2004, and completed enrollment in August 2006. In February 2007, we announced that this Phase 3 clinical trial failed to reach its primary endpoint of survival benefit for patients with metastatic pancreatic cancer that have relapsed following chemotherapy with gemcitabine. In July 2006, we completed enrollment in the Phase 2 stage of a study of glufosfamide plus gemcitabine for the first-line treatment of pancreatic cancer, for which top line results were announced in December 2006 and final results are expected in third quarter of 2007. We have initiated Phase 2 trials of glufosfamide in platinum-resistant ovarian cancer, recurrent sensitive small cell lung cancer and soft-tissue sarcoma. In October 2007, we announced the discontinuation of our Phase 2 trial of glufosfamide in recurrent sensitive small cell lung cancer due to a planned interim analysis, which observed a low response rate in the first stage of the study with 1 out of 21 patients responding. The low response rate did not meet the predetermined criteria for justifying further enrollment of the trial. In fourth quarter of 2007, we expect to analyze preliminary efficacy data on the ovarian Phase 2 trial and complete enrollment and report results on the sarcoma Phase 2 trial.
- 2DG, our second product candidate for the potential treatment of cancer, is being evaluated in a Phase 1 clinical trial alone and in combination with docetaxel as a combination therapy. This trial began in the first quarter of 2004 and we expect to complete enrollment in 2007 and present top-line results for this trial in the first half of 2008.

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- TH-302 is a hypoxically activated prodrug for the potential treatment of solid tumors and is in Phase 1 clinical trials. TH-302 was discovered by Threshold. It is a novel drug candidate that is activated under the hypoxic conditions typical of certain cancer tumor cells. In May 2007, we announced the filing of an investigational new drug application (“IND”) with the FDA for TH-302, and in July 2007, we initiated a Phase 1 clinical trial evaluating the safety of TH-302 in patients with advanced solid tumors.

We are working to discover additional novel drug candidates that will specifically target cancer cells and also are actively seeking to in-license other promising compounds or programs. We would require additional funding to in-license or otherwise acquire and develop additional compounds or programs.

We are a development stage company incorporated in October 2001. We have devoted substantially all of our resources to research and development of our product candidates. We have not generated any revenue from the sale of our product candidates, and, prior to our initial public offering in February 2005, we funded our operations through the private placement of equity securities. In February 2005, we completed our initial public offering that raised net proceeds of \$38.1 million, and in October 2005, we completed an offering of common stock that raised net proceeds of \$62.4 million. As of September 30, 2007, we had cash, cash equivalents and marketable securities of \$29.5 million. The net loss for the three and nine months ended September 30, 2007, was \$6.6 million and \$23.3 million, respectively, and the cumulative net loss since our inception through September 30, 2007 was \$157.9 million.

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

We expect to continue to incur losses from operations in the future. We expect that expenses will decrease in 2007 compared to 2006 due to a reduced workforce and reduced number of patients in smaller clinical trials, and that our cash, cash equivalents and marketable securities will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current and planned clinical trials and conducting research and discovery efforts toward additional product candidates. Research and development expenses may fluctuate significantly from period to period as a result of the progress and results of our clinical trials. See detailed discussion in Liquidity and Capital Resources regarding raising capital for funding future operations beyond the first quarter of 2009.

Results of Operations

Revenue. For the three and nine months ended September 30, 2007 and 2006, we recognized revenue of \$0.4 million and \$1.1 million, respectively, related to a \$5.0 million upfront payment received in connection with a 2004 agreement with MediBIC Co. Ltd for the development of glufosfamide in Japan and several other Asian countries. We are responsible for the costs of all development activities under this agreement.

Research and Development. Research and development expenses were \$4.9 million for the three months ended September 30, 2007 compared to \$14.0 million for the three months ended September 30, 2006. The \$9.1 million decrease in expenses is due to a \$6.6 million decrease in clinical and development expenses, and \$1.9 million in lower staffing expenses due to a lower headcount compared to the prior year’s period. Stock-based compensation decreased by \$0.7 million primarily due to a reduction in the number of employees and consultants compared to the prior year, as well a lower valuation for 2007 stock options primarily due to a lower stock price. Research and development expenses were \$18.2 million for the nine months ended September 30, 2007 compared to \$38.5 million for the nine months September 30, 2006. The \$20.3 million decrease in expenses is due to a \$13.9 million decrease in clinical and development expenses, and \$4.5 million in lower staffing expense, partially offset by an increase of \$0.5 million in facilities expenses. Stock-based compensation expense decreased by \$2.3 million primarily due to a reduction in the number of employees and consultants compared to the prior year, as well a lower valuation for 2007 stock options primarily due to a lower stock price.

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Research and development expenses by project (in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Glufosfamide	\$2,448	\$ 5,038	\$ 9,804	\$ 12,308
TH-302	846	1,297	3,827	1,297
2DG	285	454	931	1,336
Discovery research	1,341	2,231	3,807	7,992
TH-070	(24)	4,970	(139)	15,558
Total research and development expenses	<u>\$4,896</u>	<u>\$ 13,990</u>	<u>\$ 18,230</u>	<u>\$ 38,491</u>

Research and development expenses associated with glufosfamide were \$2.4 million for the three months ended September 30, 2007 and \$5.0 million for the three months ended September 30, 2006. This decrease is primarily due to a \$1.9 million decrease in clinical and manufacturing expenses, \$0.5 million decrease in employee-related expenses. Research and development expenses associated with 2DG were \$0.3 million for the three months ended September 30, 2007 and \$0.5 million for the three months ended September 30, 2006, due to \$0.1 million decrease in clinical and manufacturing expenses and a \$0.1 million decrease in employee-related expenses. Research and development expenses associated with our internally-discovered TH-302 compound were \$0.8 million for the three months ended September 30, 2007, and \$1.3 million for the three months ended September 30, 2006. This decrease is primarily due to the completion of preclinical studies and the IND filing in April 2007, and the compound being in the early stages of the Phase 1 trial that commenced in July 2007. Research and development expenses associated with TH-070 were a credit of \$24,000 for the three months ended September 30, 2007 and \$5.0 million for the three months ended September 30, 2006. This decrease in expenses was due to costs associated with fully-enrolled clinical trials in the 2006 quarter, followed by the discontinuation and closing out of the program beginning in July 2006. Discovery research expenses were \$1.3 million for the three months ended September 30, 2007 and \$2.2 million for the three months ended September 30, 2006. The decrease was primarily due to the allocation of resources towards our TH-302 program, and lower staffing and facilities expenses to support our other discovery research programs.

Research and development expenses associated with glufosfamide were \$9.8 million for the nine months ended September 30, 2007 and \$12.3 million for the nine months ended September 30, 2006. This decrease is primarily due to a \$2.0 million decrease in clinical development expenses and \$0.5 million decrease in staffing and facilities expenses and stock compensation expense. Research and development expenses associated with 2DG were \$0.9 million for the nine months ended September 30, 2007 and \$1.3 million for the nine months ended September 30, 2006, due to \$0.3 million decrease in clinical and manufacturing expenses and a \$0.1 million decrease in employee-related expenses. Research and development expenses associated with our internally discovered compound TH-302 were \$3.8 million for the nine months ended September 30, 2007 and \$1.3 million for the nine months ended September 30, 2006. This increase was due to the compound's progress through preclinical studies towards the IND filing in April 2007 and commencement of the Phase 1 trial in July 2007. Research and development expenses associated with TH-070 were a credit of \$0.1 million for the nine months ended September 30, 2007 and \$15.6 million for the nine months ended September 30, 2006. This decrease in expenses was due to costs associated with fully-enrolled clinical trials in the 2006 period, followed by the discontinuation and close out of the program beginning in July 2006. For the nine months ended September 30, 2007, we incurred expenses less than previous estimated accruals. Discovery research expenses were \$3.8 million for the nine months ended September 30, 2007 and \$8.0 million for the nine months ended September 30, 2006. The decrease was primarily due to the allocation of resources towards our TH-302 program, and lower staffing and facilities expenses to support our other discovery research programs.

We did not track research and development expenses by project prior to 2003, and therefore we cannot provide cumulative project expenses to date. Due to the risks and uncertainties involved in discovering and developing product candidates, such as clinical trial results, regulatory approval requirements, dependence on third parties and market acceptance, all of which are described in "Risk Factors," we cannot reasonably estimate the costs and timing of completion of each project or when any project will result in net cash inflows.

We expect to continue to devote substantial resources to research and development in future periods as we continue our current clinical trials, start additional trials and continue our discovery efforts. Research and development expenses are expected to decrease for the remainder of 2007 compared to 2006 due to the 2006 discontinuation of the TH-070 program, the Phase 3 glufosfamide clinical trial failing to meet its endpoint, a reduced workforce and smaller clinical trials in 2007.

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General and Administrative. General and administrative expenses were \$2.4 million for the three months ended September 30, 2007, compared to \$3.9 million for the three months ended September 30, 2006. The decrease of \$1.5 million is due to \$0.8 million in lower staffing expense, \$0.4 million in lower consulting expenses and a decrease in stock-based compensation expenses of \$0.4 million. These reductions in expenses were partially offset by \$0.1 million in higher facilities expense.

General and administrative expenses were \$7.5 million for the nine months ended September 30, 2007, compared to \$11.5 million for the nine months ended September 30, 2006. The decrease of \$4.0 million is due to \$2.0 million in lower staffing expense primarily related to staff reductions, \$0.9 million in lower consulting expenses and a decrease in stock-based compensation expenses of \$1.5 million. These reductions in expenses were partially offset by \$0.4 million in higher facilities expense as the lease for the additional floor space at our headquarters began in April 2006.

We currently expect our general and administrative expenses to decrease in 2007 from 2006 levels, primarily due to lower employee-related expenses.

Interest Income, Net. Interest income for the three and nine months ended September 30, 2007 was \$0.4 million and \$1.5 million, respectively, compared to \$0.9 million and \$3.0 million for the three and nine months ended September 30, 2006, respectively. The decrease was primarily due to lower invested cash, cash equivalents and marketable securities balances during the three and nine months ended September 30, 2007 compared to the same periods in the prior year.

Liquidity and Capital Resources

We have incurred net losses of \$157.9 million since inception through September 30, 2007. We have not generated and do not expect to generate revenue from sales of product candidates in the near term. From inception until our initial public offering in February 2005, we funded our operations primarily through the private placement of our preferred stock. In February 2005, we completed our initial public offering of 6,112,601 shares of common stock, raising net proceeds of \$38.1 million. In October 2005, we completed a public offering of 6,399,222 shares of our common stock for net proceeds of \$62.4 million.

We had cash, cash equivalents and marketable securities of \$29.5 million and \$52.8 million at September 30, 2007 and December 31, 2006, respectively, available to fund operations.

Net cash used in operating activities for the nine months ended September 30, 2007 and 2006 was \$22.7 million and \$36.1 million, respectively. The decrease of \$13.4 million in cash used in operations was primarily attributable to a lower net loss in 2007, partially offset by a decrease in accrual balances due to decreases in clinical trial activity and lower headcount, and lower non-cash charges related to stock-based compensation.

Net cash provided by investing activities was \$10.8 million for the nine months ended September 30, 2007 and net cash used in investing activities was \$3.0 million for the nine months ended September 30, 2006. The \$13.8 million increase in cash provided by investing activities for the nine months ended September 30, 2007 compared to the same period in 2006 was due primarily to a decrease in purchases of marketable securities and to a lesser extent, a decrease in capital expenditures, partially offset by a decrease in proceeds from sales of marketable securities.

Net cash used in financing activities was \$0.6 million for the nine months ended September 30, 2007 and net cash provided by financing activities was \$2.6 million for the nine months ended September 30, 2006. The cash used in nine months ended September 30, 2007 was primarily to repay our outstanding notes payable. The cash provided in the nine months ending September 30, 2006 was primarily from the proceeds from issuance of new notes payable and, to lesser extent, stock options exercises and issuances of stock under our employee stock purchase plan.

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 September 30, 2006. In April 2006, we amended the existing loan and security agreement to borrow up to an additional \$4.0 million for working capital and leasehold improvements and equipment purchases related to our additional leased space. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. Upon the signing of the amendment, we borrowed \$2.0 million under this facility, which will be repaid over a 36-month period from the date of borrowing. In May 2006, the Company borrowed an additional \$0.6 million under this facility. The interest rate on these borrowings is approximately 7.2% per annum. We may borrow up to an additional \$1.4 million for equipment purchases. At September 30, 2007 the total amount due under this facility was \$1.5 million. The amended agreement requires us to maintain the lower of 85% of our total cash and cash equivalents or \$10.0 million at the financial institution. At September 30, 2007, we were in compliance with this covenant.

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

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

In addition, the leases require us to pay certain taxes, assessments, fees and other costs and expenses associated with the premises as well as a customary management fee. In connection with the lease, we furnished a letter of credit to the landlord for approximately \$0.3 million. We are currently pursuing sub-leases and other arrangements with third parties to defray our lease expenses. There can be no assurances that these efforts will be successful.

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 September 30, 2007, are as follows (in thousands):

	Remainder of current year (2007)	One to three years (2008 to 2010)	Four to five years (2011 to 2012)	After five Years	Total
Facilities leases	\$ 310	\$ 4,218	\$ 1,129	\$ —	\$5,657
Notes payable, principal and interest	276	1,314	—	—	1,590
Purchase commitments	1,203	—	—	—	1,203
Total	<u>\$ 1,789</u>	<u>\$ 5,532</u>	<u>\$ 1,129</u>	<u>\$ —</u>	<u>\$8,450</u>

We expect 2007 cash requirements to be in the range of \$30.0 million to \$35.0 million. We believe that our cash, cash equivalents and marketable securities as of September 30, 2007 will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current trials, initiating new 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 intend to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently. Prior to first quarter of 2009, we expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

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

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

In addition, our ability to raise additional capital may be dependent upon our stock being quoted on the NASDAQ Global Market. On October 19, 2007, we received a notice from the Listing Qualifications Department of The NASDAQ Stock Market indicating that the Company does not comply with the \$1.00 minimum bid price requirement for continued listing set forth in NASDAQ Marketplace Rule 4450(a)(5). The notice further stated that pursuant to Marketplace Rule

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4450(e)(2), we will be provided 180 calendar days, or until April 16, 2008 to regain compliance. If, at any time before April 16, 2008, the bid price of the our common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, and if we remain in compliance with other listing requirements, NASDAQ will notify the Company that we have regained compliance with NASDAQ's Marketplace Rules. Nasdaq may, in its sole discretion, require the Company to maintain a closing bid price of at least \$1.00 per share for a longer period before determining that the Company has demonstrated the ability to maintain long-term compliance. . There can be no assurance that we will be able to satisfy the criteria for continued listing on the NASDAQ Global Market.

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

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

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

Critical Accounting Policies and Use of Estimates

Our discussion and analysis of our financial condition and results of operations are based on our interim unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses based on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For further information of our critical accounting policies, see the discussion of critical accounting policies in our 2006 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 15, 2007.

Recent Accounting Pronouncements

In June 2007, the Emerging Issues Task Force ("EITF") ratified consensus EITF Issue No. 07-3 "Accounting for Non-Refundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" ("EITF 07-3"), which concluded that non-refundable advance payments for goods or services for use in research and development activities should be deferred and capitalized. EITF 07-3 is effective us beginning in the first quarter of fiscal year 2008. We are currently evaluating the impact of the provisions of EITF 07-3 on its financial position, results of operations and cash flows and therefore, the impact of the adoption.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk. Our exposure to market risk for changes in interest rates relates to our cash equivalents on deposit in highly liquid money market funds and investments in short-term marketable securities. The primary objective of our cash investment activities is to preserve principal while at the same time maximizing the income we receive from our invested cash without significantly increasing risk of loss. We invest in high-quality financial instruments, which currently have 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 trials and safety studies, and manufacture some active pharmaceutical product with vendors outside the United States, most of our transactions are denominated in U.S. dollars.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

Based on their evaluation as of September 30, 2007, our chief executive officer and senior director, finance and controller have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were sufficiently effective to ensure that the information required to be disclosed by us in reports we are required to file under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and Form 10-Q and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Changes in internal controls.

There were no changes in our internal control over financial reporting during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the effectiveness of controls.

Our management, including our chief executive officer and senior director, finance and controller, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot be certain that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and senior director, finance and controller have concluded, based on their evaluation, that our disclosure controls and procedures were sufficiently effective as of September 30, 2007 to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

RISKS RELATED TO OUR BUSINESS

Risks Related to Drug Discovery, Development and Commercialization

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

We will not be able to commercialize our drug candidates, glufosfamide and TH-302, until we obtain FDA approval in the United States or approval by comparable regulatory agencies in Europe and other countries. To satisfy FDA or foreign regulatory approval standards for the commercial sale of our product candidates, we must demonstrate in adequate and controlled clinical trials that our product candidates are safe and effective. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical industry, including us, have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier clinical trials.

Our Phase 3 glufosfamide trial for the second-line treatment of metastatic pancreatic cancer did not meet its primary endpoint for overall survival. Earlier Phase 1 and Phase 2 safety trials of glufosfamide were conducted on small numbers of patients and were designed to evaluate the activity of glufosfamide on a preliminary basis. However, these earlier trials were not designed to establish the efficacy of glufosfamide as a therapeutic agent. No drug for second-line pancreatic cancer has been approved in the United States. We have analyzed the data from the Phase 3 glufosfamide trial and may discuss the results with the FDA to seek guidance and agreement of a revised regulatory strategy towards approval of glufosfamide in patients with pancreatic cancer. Such an approval will require additional clinical trials of uncertain duration and significant additional expense. There can be no assurance that such trials will demonstrate efficacy or lead to a regulatory approval. We are conducting Phase 2 clinical trials of glufosfamide in patients with ovarian cancer, small cell lung cancer and soft tissue sarcoma. The enrollment in the small cell lung cancer study was stopped after only one response was observed in the first 21 patients. We cannot be certain that glufosfamide will show clinical activity in ovarian cancer or soft tissue sarcoma. The FDA will require us to conduct additional clinical trials or other studies prior to accepting our NDA or granting marketing approval.

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

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

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

- our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or preclinical testing or to abandon programs;

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

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

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

We may experience difficulties in enrolling patients in our clinical trials, which could increase the costs or affect the timing or outcome of these trials. This is particularly true with respect to diseases with relatively small patient populations, such as pancreatic cancer, platinum-resistant ovarian cancer and soft-tissue sarcoma, which are the indications we are currently testing for our glufosfamide product candidate.

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.

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

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

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

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

Anti-tumor drugs being developed by Threshold, such as glufosfamide, 2 DG and TH-302 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. The expected side effects or others identified in the course of our clinical trials or that may otherwise be associated with our product candidates may outweigh the benefits of our product candidates. Side effects may prevent or delay regulatory approval or limit market acceptance if our products are approved.

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

Significant delays in clinical testing could materially impact our product development costs and delay regulatory approval of our product candidates. We do not know whether planned glufosfamide, 2DG and TH-302 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 trials and delays in:

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

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

In September 2006, the FDA granted orphan drug designation to glufosfamide, for the treatment of pancreatic cancer. For those drugs that meet the eligible requirements, we intend to seek orphan drug designation for the cancer indications that our drug candidates are intended to treat. Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is defined by the FDA as a disease or condition that affects fewer than 200,000 individuals in the United States. The company that obtains the first FDA approval for a designated orphan drug indication receives marketing exclusivity for use of that drug for that indication for a period of seven years. Orphan drug exclusive marketing rights may be lost if the FDA later determines that the request for designation was materially defective, or if the manufacturer is unable to assure sufficient quantity of the drug. Orphan drug designation does not shorten the development or regulatory review time of a drug.

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

Moreover, due to the uncertainties associated with developing pharmaceutical products, we may not be the first to obtain marketing approval for any orphan drug indication. Even if we obtain orphan drug designation, if a competitor obtains regulatory approval for glufosfamide, 2DG or TH-302 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.

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

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

Risks Related to Our Financial Performance and Operations

We have incurred losses since our inception and anticipate that we will 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. We have devoted substantially all of our resources to research and development of our product candidates. Prior to our initial public offering in February 2005, we financed our operations primarily through private placements of our equity securities. For the nine months ended September 30, 2007, we had a net loss of \$23.3 million and we had an accumulated deficit of \$157.9 million. Clinical trials are costly. We do not expect to generate any revenue from the sale of our product candidates in the near term, and we expect to continue to have significant losses.

To attain profitability, we will need to develop products successfully and market and sell them effectively. We 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;

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- the costs of lawsuits involving us or our product candidates; and
- the costs of establishing sales, marketing and distribution capabilities.

We believe that our cash, cash equivalents and marketable securities will be sufficient to fund our projected operating requirements through the first quarter of 2009, including completing our current and planned clinical trials, conducting research and discovery efforts towards additional product candidates, working capital and general corporate purposes. Additional funds will be required to in-license or otherwise acquire and develop additional products or programs. We expect to seek funds through arrangements with collaborators or others that may require us to relinquish rights to certain products candidates that we might otherwise seek to develop or commercialize independently. We cannot be certain that we will be able to enter into any such arrangements on reasonable terms, if at all.

Prior to the first quarter of 2009 we expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

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

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

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

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

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

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

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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 contracts with Drs. Selick, Curd or Matteucci. The loss of the services of Drs. Selick, Curd or Matteucci or one or more of our other key employees could delay or have an impact on the successful completion of our clinical trials or the development of additional product candidates.

In August 2006, we announced a plan to reduce the number of full-time employees by 29 employees. In October 2007, we announced a plan to reduce the number of full-time employees from 44 to 32 employees. Our success will depend on our ability to retain and motivate remaining personnel and hire additional qualified personnel when required. Competition for qualified personnel in the biotechnology field is intense. We face competition for personnel from other biotechnology and pharmaceutical companies, universities, public and private research institutions and other organizations. We may not be able to attract and retain qualified personnel on acceptable terms given the competition for such personnel. If we are unsuccessful in our retention, motivation and recruitment efforts, we may be unable to execute our business strategy.

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

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

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

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

Risks Related to Our Dependence on Third Parties

We rely on third parties to manufacture glufosfamide, 2DG and TH-302. If these parties do not manufacture the active pharmaceutical ingredients or finished products of satisfactory quality, in a timely manner, in sufficient quantities or at an acceptable cost, clinical development and commercialization of our product candidates could be delayed.

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

Our initial supplies of glufosfamide were prepared by a subsidiary of Baxter International, Inc. and were used to initiate our current clinical trials. We are currently using glufosfamide API and drug product supplied by our primary contract manufacturer and we believe we will have sufficient clinical trial material to complete our current ongoing Phase 2 trials. If we experience unexpected delays, or if the API or drug product does not meet specifications, we may experience a significant delay in completion of existing trials and the initiation of additional trials.

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Our existing supply of 2DG clinical trial material may not be sufficient for our ongoing clinical trials through 2007. We are currently in the process of manufacturing additional 2DG API and drug product, but if we are not successful we may experience a significant delay in our 2DG clinical program.

Our contract manufacturers have produced sufficient TH-302 API and drug product for the initial stage of our Phase 1 trial, which commenced in July 2007. Additional clinical trial material will be manufactured as required. If we are not successful in manufacturing sufficient TH-302 clinical trial material, we may experience a significant delay in our TH-302 clinical program.

We will need to enter into additional agreements for additional supplies of each of our product candidates to complete clinical development and/or commercialize them. We cannot be certain that we can do so on favorable terms, if at all. The products will need to satisfy all cGMP manufacturing requirements, including passing specifications. Our inability to satisfy these requirements could delay our clinical programs.

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

In addition, if the facility or the equipment in the facility that produces our product candidates is significantly damaged or destroyed, or if the facility is located in another country and trade or commerce with such country is interrupted, we may be unable to replace the manufacturing capacity quickly or inexpensively. The inability to obtain manufacturing agreements, the damage or destruction of a facility on which we rely for manufacturing or any other delays in obtaining supply would delay or prevent us from completing our clinical trials and commercializing our current product candidates.

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

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

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

We are using clinical research organizations to oversee some of our ongoing glufosfamide clinical trials and may use the same or similar organizations for our future clinical trials. There are numerous alternative sources to provide these services. However, we may face delays outside of our control if these parties do not perform their obligations in a timely or competent fashion or if we are forced to change service providers. This risk is heightened for our clinical trials conducted outside of the United States, where it may be more difficult to ensure that studies 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.

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We may rely on strategic collaborators to market and sell our products.

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

- we may not be able to control the amount or timing of resources that our collaborators may devote to the product candidates;
- we may be required to relinquish important rights, including intellectual property, marketing and distribution rights;
- we may have lower revenues than if we were to market and distribute such products ourselves;
- should a collaborator fail to commercialize one of our product candidates successfully, we may not receive future milestone payments or royalties;
- a collaborator could separately move forward with a competing product candidate developed either independently or in collaboration with others, including our competitors;
- our collaborators may experience financial difficulties;
- business combinations or significant changes in a collaborator's business strategy may also adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement; and
- our collaborators may operate in countries where their operations could be adversely affected by changes in the local regulatory environment or by political unrest.

Risks Related to Our Intellectual Property

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

2DG is a known compound that is no longer eligible for patent protection on the composition of the molecule. A patent of this nature, known as a compound per se patent, excludes others from making, using or selling the patented compound, regardless of how or for what purpose the compound is formulated or intended to be used. Consequently, this compound and certain of its uses are in the public domain.

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

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

We have not issued patents or patent applications that would prevent others from taking advantage of targeting the increased uptake of glucose and the increased reliance of glycolysis as an energy source in solid tumors to discover and develop new therapies for cancer or other diseases. Consequently, our competitors may seek to discover and develop potential therapeutics that operate by mechanisms of action that are the same or similar to the mechanisms of action of our product candidates.

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

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

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

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

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

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

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

Moreover, an issued patent does not guarantee us the right to practice the patented technology or commercialize the patented product. Third parties may have blocking patents that could be used to prevent us from commercializing our patented products and practicing our patented technology. Our issued patents and those that may be issued in the future may

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

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

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

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

Our ability to commercialize our product candidates depends on our ability to develop, manufacture, market and sell our product candidates without infringing the proprietary rights of third parties. Numerous United States and foreign issued patents and pending patent applications, which are owned by third parties, exist in the general field of cancer therapies or in fields that otherwise may relate to our product candidates. We are also aware of a patent that claims certain agents, including 2DG, to inhibit the import of glucose-6-phosphate into the endoplasmic reticulum of a cell. We do not know whether administration of 2DG for our intended uses inhibits such import. If it does, we would be required to license the patent or risk that a claim of infringement could be made. If we are shown to infringe, we could be enjoined from use or sale of the claimed invention if we are unable to prove that the patent is invalid. In addition, because patent applications can take many years to issue, there may be currently pending applications, unknown to us, which may later result in issued patents that our product candidates or any other compound that we may develop, may infringe, or which may trigger an interference proceeding regarding one of our owned or licensed patents or applications. There could also be existing patents of which we are not aware that our product candidates may inadvertently infringe or which may become involved in an interference proceeding.

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

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

RISKS RELATED TO OUR INDUSTRY

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

Competition in the biotechnology and pharmaceutical industries is intense and continues to increase, particularly in the area of cancer treatment. Most major pharmaceutical companies and many biotechnology companies are aggressively pursuing oncology development programs, including traditional therapies and therapies with novel mechanisms of action. Our cancer product candidates face competition from established biotechnology and pharmaceutical companies, including sanofi-aventis Group, Astrazeneca PLC, Genentech, Eli Lilly and Company and Pfizer and from generic pharmaceutical manufacturers. In particular, our glufosfamide product candidate for pancreatic cancer will compete with Gemzar, marketed by Eli Lilly and Company, doxorubicin, cisplatin, paclitaxel, ifosfamide, and 5-fluorouracil, 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, Erbitux[®], marketed by Imclone Systems Incorporated and Bristol-Myers Squibb Company, Taxotere[®], marketed by the sanofi-aventis Group, Xeloda[®], marketed by Roche, Avastin[®], marketed by Genentech, Nexavar[®], marketed by Onyx and Bayer, and Alimta[®], marketed by Eli Lilly and Company, are under investigation as possible combination therapies or monotherapy for pancreatic, ovarian, small cell lung cancers and soft tissue sarcomas. Additionally OSI Pharmaceuticals and Genentech market Tarceva[®] as a combination therapy with gemcitabine for the first-line treatment of pancreatic cancer. In addition, a number of companies, including Novacea and Proacta, have compounds in clinical trials that target the hypoxic zones of tumors, as our TH-302 clinical product candidate is intended to do, and Sanofi-Aventis recently completed a Phase III trial on Tirapazamine, a hypoxically activated prodrug, and while sanofi-aventis has released rights to the compound to the innovator SRI, another company may pursue further clinical development of the compound.

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

Our competitors may succeed in developing products that are more effective, have fewer side effects and are safer or more affordable than our product candidates, which would render our product candidates less competitive or noncompetitive. These competitors also compete with us to recruit and retain qualified scientific and management personnel, establish clinical trial sites and patient registration for clinical trials, as well as to acquire technologies and technology licenses complementary to our programs or advantageous to our business. Moreover, competitors that are able to achieve patent protection obtain regulatory approvals and commence commercial sales of their products before we do, and competitors that have already done so, may enjoy a significant competitive advantage.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Although we believe our safety procedures for handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot entirely eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of hazardous materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could significantly exceed our insurance coverage.

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

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

RISKS RELATED TO OUR COMMON STOCK

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

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

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

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

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

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

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

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

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- sales of our common stock by our executive officers, directors and five percent stockholders or sales of substantial amounts of common stock;
- changes in accounting principles; and
- loss of any of our key scientific or management personnel.

In the past, following periods of volatility in the market price of a particular company's securities, litigation has often been brought against that company. On July 5 and July 18, 2007, purported shareholder class action complaints, alleging violations of the federal securities laws, were filed against the Company, its Chief Executive Officer Harold E. Selick and its former Chief Financial Officer Janet I. Swearson in the United States District Court for the Southern District of New York. On September 14, 2007, these lawsuits were ordered transferred to the United States District Court for the Northern District of California. The securities lawsuits, which have been consolidated into a single proceeding, allege claims arising under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of an alleged class of purchasers of our common stock from the date of the our initial public offering of securities on February 4, 2005 through July 14, 2006. Plaintiffs allege generally that the defendants violated the federal securities laws by, among other things, making material misstatements or omissions concerning our Phase II and Phase III clinical trials of Lonidamine (TH-070). Management believes that the allegations of the complaints are without merit and intends to defend against the actions vigorously. Due to the early stage of these actions, we are unable to reasonably predict the outcome of this matter at this time. Although we believe our directors and officer's insurance coverage is adequate, if our defense of the suit is unsuccessful, there can be no assurances that the insurance will substantially cover any resulting claim or that the premiums for directors and officers insurance will not be substantially higher in the future.

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

As of September 30, 2007, our officers, directors and holders of 5% or more of our outstanding common stock beneficially own approximately 40.9% of our common stock. As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders.

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

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

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

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

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

(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
07/01/2007 to 07/31/2007	1,215	\$ 0.53	—	—
08/01/2007 to 08/31/2007	—	\$ —	—	—
09/01/2007 to 09/30/2007	—	\$ —	—	—

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

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

Exhibit Number	Description
10.37	Agreement and Release by and between the Registrant and Cathleen P. Davis dated November 2, 2007.
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) of Harold E. Selick.
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) of Joel A. Fernandes.
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Harold E. Selick.
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Joel A. Fernandes

SIGNATURES

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

Threshold Pharmaceuticals, Inc.

Date: November 7, 2007

/s/ Harold E. Selick

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

Date: November 7, 2007

/s/ Joel A. Fernandes

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

EXHIBIT INDEX

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32.2	Certification pursuant to 18 U.S.C. Section 1350 of Joel A. Fernandes.

AGREEMENT AND GENERAL RELEASE

For good and valuable consideration, rendered to resolve and settle finally, fully and completely all matters that now or may exist between them, the parties below enter this Agreement and General Release.

1. Parties. The parties to this Agreement are Cathy Davis, her heirs, representatives, successors and assigns (hereinafter referred to collectively as "Ms. Davis") and Threshold Pharmaceuticals, Inc. and/or any of its successors, subsidiaries, affiliates, parents, and related companies (hereinafter referred to collectively as "Threshold").

2. Termination of Employment. Ms. Davis acknowledges and agrees that her employment relationship with Threshold will end, effective November 2, 2007 (the "Termination Date"). Ms. Davis shall continue to receive her current salary and benefits up to and including the Termination Date.

3. Severance Benefits. As consideration for the promises and covenants of Ms. Davis set forth in this Agreement, Threshold shall provide Ms. Davis with the following benefits (the "Severance Benefits"):

a. **Severance Payment.** In light of the Change of Control Severance Agreement Ms. Davis executed on 4/2/07 (the "Severance Agreement"), Threshold shall provide Ms. Davis with a severance payment in the amount of \$ 250,000.08, which is equivalent to twelve (12) months of Ms. Davis' regular pay, less applicable withholding taxes, in a lump sum (the "Severance Payment"). Said Severance Payment shall be delivered to Ms. Davis within fourteen (14) calendar days following Threshold's receipt of the signed and dated Agreement.

b. **Continued Medical Insurance.** In addition to the Separation Payment, Threshold will pay the applicable premiums for Ms. Davis and her eligible dependents to provide coverage for the four month period following Ms. Davis termination month (December 1, 2007-March 31, 2008) if Ms. Davis makes a timely and accurate election and is and remains eligible to continue her current group medical insurance coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, ("COBRA").

4. Consultant Services. As consideration for the promises and covenants set forth in this Agreement, Ms. Davis agrees to assist Threshold as a consultant for the twelve month period following the Termination Date (the "Consulting Period") at an hourly rate of two hundred (200) dollars. During the Consulting Period, Ms. Davis agrees to provide assistance to Threshold as an independent contractor and not as an agent or an employee of Threshold. To the extent allowable under the applicable stock option plan, the parties intend that Ms. Davis' unvested stock options will continue to vest and the right of repurchase by the Company with respect to certain shares of the Company's common stock held by Ms. Davis will continue to lapse, in accordance with their respective terms during the Consulting Period. The consulting period can be terminated by either party at any time during the Consulting Period.

5. No Other Payments Due. Ms. Davis acknowledges and agrees that she has received all salary, accrued vacation, bonuses, or other such sums due to her other than the Severance Benefits to be provided by Paragraph 3 of this Agreement.

6. Release of Claims by Ms. Davis. In exchange for the promises contained in this Agreement, Ms. Davis hereby waives, releases and forever discharges, and agrees that she will not in any manner institute, prosecute or pursue, any and all complaints, claims, charges, or causes of action, whether in law or in equity, which she asserts or could assert, at common law or under any statute, rule, regulation, order or law, whether federal, state, or local, or on any grounds whatsoever, including but not limited to, any claims under Title VII of the 1964 Civil Rights Act, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, Government Code §12900 et seq., the California Labor Code, the Americans with Disabilities Act, the California Family Leave Act, and the Employment Retirement Income Security Act of 1974, against Threshold and any of its or their current or former, owners, shareholders, agents, employee benefit plans, representatives, servants, employees, attorneys, successors, predecessors, and assigns (collectively referred to as "Released Parties") with respect to any event, matter, claim, damage or injury arising out of Ms. Davis' employment relationship with Threshold, and the termination of such employment relationship, under or relating to any other agreement, express or implied, and with respect to any other claim, matter, or event arising prior to execution of this Agreement by Ms. Davis. This Agreement does not release claims that cannot be released as a matter of law, including, but not limited to, claims under Division 3, Article 2 of the California Labor Code (which includes indemnification rights), nor does it release any rights to defense or indemnification Ms. Davis may have under any Threshold documents or policies, or pursuant to law.

7. Civil Code § 1542 Waiver. As a further consideration and inducement for this Agreement, Ms. Davis hereby waives any and all rights under Section 1542 of the California Civil Code or any other similar state, local, or federal law, statute, rule, order or regulation she may have with respect to Threshold and any of the Released Parties.

Section 1542 provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Ms. Davis expressly agrees that this Agreement shall extend and apply to all unknown, unsuspected and unanticipated injuries and damages as well as those that are now disclosed.

8. Outstanding Claims. As further consideration and inducement for this Agreement, Ms. Davis represents that she has not filed or otherwise pursued any charges, complaints or claims of any nature which are in any way pending against Threshold or any of the Released Parties, with any local, state or federal government agency or court with respect to any matter covered by this Agreement and, to the extent permitted by law, she will do so in the future. If any government agency or court assumes jurisdiction of any charge, complaint, cause of action or claim covered by this Agreement against Threshold or any of the Released Parties, on behalf of or related to Ms. Davis, Ms. Davis will withdraw from and/or dismiss the matter with prejudice, as to any claims she might have. Ms. Davis agrees that she will not participate or cooperate in such matter(s) except as required by law.

9. Proprietary Information Obligations. Both during and after Ms. Davis' employment, Ms. Davis acknowledges and will abide by all of Ms. Davis continuing obligations under the Company's Proprietary Information and Inventions Agreement. A copy of the Company's Proprietary Information and Inventions Agreement is attached hereto as Exhibit A.

10. ADEA Information. Provided Ms. Davis is covered under the ADEA (i.e., age 40 or older), Ms. Davis also acknowledges that the Company has provided her with the Notice attached hereto as Exhibit B, as may be required by the Older Workers Benefit Protection Act of 1990.

11. Confidentiality of Agreement. Ms. Davis agrees to maintain in confidence the terms of this Agreement and to discuss them only with her attorneys, tax advisors, and family members who have a reasonable need to know of such terms.

12. Non-Disparagement. Ms. Davis agrees to refrain from making any disparaging comments about Threshold or any of the Released Parties. For purposes of this Agreement, a disparaging comment is one that would likely cause material damage or harm to the interests or reputation of Threshold or any of the Released Parties.

13. No Admission of Liability. By entering into this Agreement, Threshold and all Released Parties do not admit any liability whatsoever to Ms. Davis or to any other person arising out of any claims heretofore or hereafter asserted by Ms. Davis, and Threshold, for itself and all Released Parties, expressly denies any and all such liability.

14. Joint Participation in Preparation of Agreement. The parties hereto participated jointly in the negotiation and preparation of this Agreement, and each party has had the opportunity to obtain the advice of legal counsel and to review, comment upon, and redraft this Agreement. Accordingly, it is agreed that no rule of construction shall apply against any party or in favor of any party. This Agreement shall be construed as if the parties jointly prepared this Agreement, and any uncertainty or ambiguity shall not be interpreted against any one party and in favor of the other.

15. Section Headings. Section headings in this Agreement are included for convenience of reference only and shall not be considered a part of this Agreement for any other purpose.

16. Scope of Agreement. Ms. Davis hereby affirms and acknowledges that she has read the foregoing Agreement, that she has had sufficient time and opportunity to review or discuss it with the counsel of his choice, and that she fully understands and appreciates the meaning of each of its terms, and that it is a voluntary, full and final compromise, release and settlement of all claims, known or unknown, with respect to the claims identified and referred to herein. The parties to this Agreement represent that this Agreement may be used as evidence in any subsequent proceeding in which any of the parties alleges a breach of this Agreement or seeks to enforce its terms, provisions or obligations.

17. Review and Revocation. Ms. Davis expressly states that she has been given a period of at least 45 days within which to consider this Agreement. Ms. Davis is advised to consult with an attorney prior to signing this Agreement. This Agreement does not become effective until 7 days have passed after its execution by Ms. Davis. Ms. Davis understands that she may revoke this Agreement at any time during the 7 days following its execution by her. It is agreed that any such revocation must be in writing and received by Threshold within said 7 day period in order to be effective.

18. Entire Agreement. This Agreement constitutes the complete understanding between Ms. Davis and Threshold and supersedes any and all prior agreements, promises, representations, or inducements, no matter its or their form, concerning its subject matter, with the exception of any confidentiality, proprietary information or trade secret agreement signed by Ms. Davis, which remains in full force and effect to the extent not inconsistent with this Agreement. No promises or agreements made subsequent to the execution of this Agreement by these parties shall be binding unless reduced to writing and signed by authorized representatives of these parties. Should any of the provisions of this Agreement be rendered invalid by a court or government agency of competent jurisdiction, the remainder of this Agreement shall, to the fullest extent permitted by applicable law, remain in full force and effect.

Date: 11/02/2007

/s/ Cathleen P. Davis

Cathleen P. Davis

Threshold Pharmaceuticals

Date: 11/02/2007

By: /s/ Harold E. Selick

Harold E. Selick
CEO

CERTIFICATION

I, Harold E. Selick, certify that:

1. I have reviewed this Form 10-Q 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: November 7, 2007

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

CERTIFICATION

I, Joel A. Fernandes, certify that:

1. I have reviewed this Form 10-Q 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: November 7, 2007

/s/ Joel A. Fernandes

Joel A. Fernandes

Senior Director, Finance and Controller

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

In connection with the Quarterly Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-Q for the quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harold E. Selick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2007

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

THRESHOLD PHARMACEUTICALS, INC.

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

In connection with the Quarterly Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-Q for the quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel A. Fernandes, Senior Director, Finance and Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2007

/s/ Joel A. Fernandes

Joel A. Fernandes
Senior Director, Finance and Controller