As filed with the Securities and Exchange Commission on December 6, 2004

Registration No. 333-114376

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

AMENDMENT NO. 3 TO
FORM S-1
REGISTRATION STATEMENT
Under
The Securities Act of 1933

THRESHOLD PHARMACEUTICALS, INC.
(Exact Name of Corporation as Specified in Its Charter)

951 Gateway Boulevard
South San Francisco, CA 94080-7024
(650) 553-8900
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Delaware	**2834**	**94-3409596**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Prices	Amount of Registration Fee(1)
Shares of Common Stock, par value $0.001 per share	$86,250,000	$10,927.88

(1) Amount previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED DECEMBER 6, 2004

THRESHOLD PHARMACEUTICALS, INC.

COMMON STOCK

Threshold Pharmaceuticals, Inc. is offering shares of common stock in a firmly underwritten offering. This is our initial public offering, and no public market currently exists for our shares. We anticipate that the initial public offering price will be between $ and $ per share. After the offering, the market price for our shares may be outside this range.

We have applied to list our common stock on the NASDAQ National Market under the symbol "THLD."

Investing in our common stock involves a high degree of risk. See " Risk Factors" beginning on page 7.

	Per Share	Total
Offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to Threshold Pharmaceuticals, Inc., before offering costs	$	$

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters an option to purchase up to additional shares of our common stock to cover over-allotments, if any, within 30 days from the date of this prospectus. The underwriters expect to deliver the shares of common stock to our investors on or about , 2004.

Banc of America Securities LLC **CIBC World Markets**

Lazard **William Blair & Company**

, 2004

TABLE OF CONTENTS

	Page
PROSPECTUS SUMMARY	1
RISK FACTORS	7
FORWARD-LOOKING STATEMENTS	25
USE OF PROCEEDS	26
DIVIDEND POLICY	26
CAPITALIZATION	27
DILUTION	28
SELECTED FINANCIAL DATA	30
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	31
BUSINESS	41
MANAGEMENT	61
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	71
PRINCIPAL STOCKHOLDERS	73
DESCRIPTION OF CAPITAL STOCK	76
SHARES ELIGIBLE FOR FUTURE SALE	81
MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS OF OUR COMMON STOCK	83
UNDERWRITING	86
LEGAL MATTERS	88
EXPERTS	88
WHERE YOU CAN FIND MORE INFORMATION	88
INDEX TO FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate as of the date on the front of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus that we believe is most important to understanding how our business is currently being conducted. You should read the entire prospectus before making an investment decision.

Overview

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

Our initial clinical focus is the treatment of cancer and benign prostatic hyperplasia, or BPH, a disease characterized by overgrowth of the prostate. We have three product candidates. Glufosfamide, our lead product candidate for cancer, has completed Phase 1 and Phase 2 clinical trials in patients with various solid tumors. In September 2004, we initiated a pivotal Phase 3 clinical trial of glufosfamide for the second-line treatment of pancreatic cancer. We have received a special protocol assessment from the United States Food and Drug Administration, or FDA, for this trial. In addition, glufosfamide for the treatment of refractory pancreatic cancer has received FDA fast track designation. TH-070, our lead product candidate for the treatment of BPH, has completed enrollment in a Phase 2 clinical trial, and we are evaluating interim data. We plan to initiate a registrational program for TH-070 to treat BPH in the first half of 2005. Our third product candidate, 2-deoxyglucose, or 2DG, for the treatment of solid tumors, is being evaluated in a Phase 1 clinical trial as a combination therapy, which means that it is administered in conjunction with other chemotherapy treatments. We are also working to discover drug candidates that are activated under the metabolic conditions typical of cancer cells, and we have identified lead compounds with promising *in vitro* data. In addition, we are investigating additional compounds for activity against BPH.

Metabolic Targeting

Metabolic Targeting is a therapeutic approach that targets fundamental differences in energy metabolism between normal and certain diseased cells. To survive, these diseased cells rely predominantly on glycolysis, also called glucose metabolism, which is the process by which glucose is converted to energy. As a consequence, these cells consume more glucose than do normal cells. In cancer, this increased consumption of glucose has two causes: the process of a normal cell becoming a rapidly dividing cancer cell; and the exposure of a cell to the low oxygen conditions, also called hypoxia, within those regions of most solid tumors where cells are dividing slowly. When these cells shift energy production to glycolysis, they must increase the levels of the proteins needed to transport and metabolize glucose. Similarly, cells in BPH rely predominantly on glycolysis for energy production. Metabolic Targeting takes advantage of these metabolic differences to selectively target these diseased cells.

For the treatment of cancer, we believe that our product candidates based on Metabolic Targeting can be broadly applied to the treatment of most solid tumors and have the potential to significantly increase the effectiveness of existing therapies. Metabolic Targeting provides the opportunity to treat not only rapidly dividing tumor cells, which are targeted by chemotherapy and radiation, but also slowly dividing tumor cells that generally evade these traditional therapies and ultimately contribute to relapse. For the treatment of BPH, we believe that Metabolic Targeting will enable us to develop a new class of drugs to treat the disease more rapidly and effectively, with fewer side effects than current therapies. We believe that our focus on Metabolic Targeting, combined with our expertise in medicinal chemistry and drug development, provides us with the capability to identify, discover and develop novel therapies.

Glufosfamide

Glufosfamide, our lead product candidate for cancer, is a small molecule in clinical development for the treatment of pancreatic cancer. We are developing glufosfamide as an intravenous single agent for the second-line treatment of metastatic pancreatic cancer, and in combination with Gemzar® (gemcitabine) for the first-line treatment of inoperable locally advanced or metastatic pancreatic cancer. Gemzar, a patented drug marketed by Lilly, is currently the standard of care for treatment of pancreatic cancer. First-line treatment means the patient has not been previously treated with chemotherapy. Second-line treatment means the patient has been previously treated with one regimen of chemotherapy.

In September 2004, we initiated a pivotal Phase 3 trial of glufosfamide for the treatment of patients with metastatic pancreatic cancer who have failed treatment with Gemzar. This trial will compare the survival of patients treated with glufosfamide to patients who receive only best supportive care. The FDA has completed a special protocol assessment for this trial and concluded that the trial design and analysis would support a new drug application submission if the study is performed according to the special protocol assessment and the trial meets its primary endpoint. In addition, glufosfamide for the treatment of refractory pancreatic cancer has been granted fast track designation by the FDA. The fast track drug development program provides for expedited regulatory review for new drugs demonstrating the potential to address unmet medical needs for the treatment of serious or life-threatening conditions. As part of our registration and approval strategy we also plan to initiate a Phase 1/2 trial in the first quarter of 2005 to evaluate various doses of glufosfamide in combination with Gemzar for the first-line treatment of advanced pancreatic cancer patients. We are developing glufosfamide for pancreatic cancer based on activity seen in previous clinical trials, a known increase in glucose uptake in pancreatic cancer cells and the extreme hypoxia in tumors of this type.

Glufosfamide has been evaluated in two Phase 1 and five Phase 2 clinical trials that together enrolled over 200 patients with a variety of advanced-stage cancers. In the Phase 2 trials, glufosfamide showed activity against breast, colon, non-small cell lung and pancreatic cancers, but not a type of brain cancer called glioblastoma. In a 34-patient Phase 2 trial of patients with advanced pancreatic cancer, overall median survival with glufosfamide was estimated at 5.6 months, and two-year survival was estimated at 9%. In the Phase 1 and Phase 2 trials, glufosfamide was generally well tolerated, with few drug-related serious adverse events. The safety and efficacy of glufosfamide to treat pancreatic cancer will need to be demonstrated in our pivotal Phase 3 program before we can receive marketing approval from the FDA or foreign regulatory agencies.

TH-070

TH-070, our lead product candidate for the treatment of BPH, is in a Phase 2 trial in Italy. The primary objective of this trial is to determine the safety and tolerability of TH-070 in patients with BPH. In addition, patients are being evaluated for efficacy as measured by changes in specific variables that have been used in clinical trials of currently marketed BPH drugs to support their FDA approval. We have completed enrollment and are evaluating 14-day and 28-day interim data. We observed statistically significant improvements in BPH symptoms and measurements of treatment response after 28 days of therapy, which was the primary efficacy endpoint for the trial. TH-070 was well tolerated with no therapy-related side effects. Based on these interim results, we plan to initiate a registrational program for TH-070 to treat BPH in the first half of 2005.

TH-070 is an orally administered small molecule that has been reported to inhibit the enzyme that catalyzes the first step in glycolysis. We initially selected TH-070 to treat BPH based on our understanding that prostate cells rely predominantly on glycolysis for energy production as well as published animal data and human clinical data demonstrating tolerability.

TH-070 offers the potential to treat BPH via a novel mechanism, by reducing the prostate size through Metabolic Targeting. By directly inhibiting glycolysis in prostate cells, we expect TH-070 to reduce the size of the prostate more rapidly than current medical treatments, without the attendant side effects, which include decreased libido, impotence and cardiovascular effects.

2-Deoxyglucose (2DG)

2DG, our product candidate for the treatment of solid tumors, is in a Phase 1 trial. 2DG is an orally administered small molecule that employs Metabolic Targeting to treat solid tumors by directly inhibiting glycolysis, the major source of energy production in these tissues. Because tumor cells in general, and those in hypoxic zones in particular, are dependent on glycolysis for survival, tumor cells are particularly sensitive to the effect of 2DG. We are conducting a Phase 1 trial of daily 2DG as a single agent and in combination with Taxotere® (docetaxel) to evaluate the safety, blood levels and maximum tolerated dose of 2DG in patients with solid tumors. Taxotere, a patented drug marketed by the sanofi-aventis Group, is used to treat different types of cancer, including lung and breast cancers. We plan to conduct a Phase 1 trial of a single dose of 2DG to evaluate its effect on prostate metabolism. We are developing 2DG based on its specificity for targeting tumor cells and extensive human safety data, as well as recently demonstrated animal efficacy that we and our collaborators published in *Cancer Research* in January 2004.

Our Strategy

Our goal is to create a leading biotechnology company that develops and commercializes drugs based on Metabolic Targeting, with an initial focus on cancer and BPH. Key elements of our strategy are to:

- Develop glufosfamide, TH-070 and 2DG successfully;
- Continue to broaden our pipeline by identifying, discovering and developing new compounds;
- Build on our expertise in Metabolic Targeting through continued research in cellular metabolism; and
- Develop sales and marketing capabilities in select markets.

In executing our business strategy, we face significant risks and uncertainties, which are highlighted in the section entitled “Risk Factors.” We are a development stage company and have a limited operating history. We have experienced operating losses since our inception, and we expect to incur significantly greater operating losses for the next several years as we advance our clinical development programs. None of our product candidates has been approved for sale by the FDA, and we have not generated any revenue since our inception. If we are unable to develop, receive regulatory approval for and successfully commercialize any of our product candidates, we will be unable to generate significant revenues, and we may never become profitable.

Our Corporate Information

We were incorporated in Delaware on October 17, 2001. Our principal executive offices are located at 951 Gateway Boulevard, South San Francisco, California, 94080-7024. Our telephone number is (650) 553-8900. Our website is located at *www.thresholdpharm.com*. Information contained on, or that can be accessed through, our website is not part of this prospectus.

Unless the context requires otherwise, in this prospectus the terms “Threshold Pharmaceuticals,” “we,” “us” and “our” refer to Threshold Pharmaceuticals, Inc. Threshold Pharmaceuticals, Inc., our logo and Metabolic Targeting are our trademarks. Other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered	shares
Common stock to be outstanding after the offering	shares
Use of proceeds	We intend to use the net proceeds from this offering for clinical development of our glufosfamide, TH-070 and 2DG product candidates, research and development activities, initial development of sales and marketing infrastructure and working capital and other general corporate purposes. See "Use of Proceeds" for additional information.
Risk Factors	See "Risk Factors" and the other information in this prospectus for important information that you should consider before deciding whether to invest in shares of our common stock.
Proposed NASDAQ National Market symbol	THLD

The number of shares of our common stock to be outstanding after the closing of this offering is based on 5,548,047 shares of our common stock outstanding as of September 30, 2004 and has been adjusted to reflect, and unless otherwise indicated, the conversion of all of our outstanding preferred stock into 33,848,484 shares of our common stock, which will occur automatically upon the closing of this offering.

The number of shares of our common stock outstanding after the offering excludes:

- 437,000 shares of our common stock that are presently outstanding but subject to repurchase on or before January 31, 2005;
- 423,231 shares of common stock issuable upon exercise of stock options outstanding as of September 30, 2004 at a weighted average exercise price of $0.24 per share;
- 38,000 shares of common stock issuable upon exercise of a warrant outstanding as of September 30, 2004 with an exercise price of $1.00 per share, which does not expire upon the closing of this offering;
- 879,222 shares of common stock available for future grants under our 2001 Stock Option Plan as of September 30, 2004;
- 4,000,000 shares of common stock reserved for issuance under our 2004 Equity Incentive Plan; and
- shares of common stock reserved for issuance under our 2004 Employee Stock Purchase Plan.

Unless otherwise indicated, all information in this prospectus assumes that the underwriters do not exercise their option to purchase up to shares of our common stock to cover over-allotments, if any, and 33,848,484 shares of our common stock resulting from the conversion of all outstanding shares of our preferred stock into common stock upon completion of this offering.

SUMMARY FINANCIAL DATA

The summary financial data set forth below should be read in conjunction with our financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. See Note 2 to our financial statements for information regarding computation of net loss per share attributable to common stockholders and Note 13 to our financial statements for information regarding computation of pro forma net loss per share attributable to common stockholders.

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31, 2002	Years Ended December 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Cumulative Period from October 17, 2001 (date of inception) to September 30, 2004
	(In thousands, except per share data)					
Operating expenses:						
Research and development	$ 35	$ 2,179	$ 6,252	$ 4,868	$ 10,852	$ 19,318
General and administrative	201	306	2,057	1,591	5,137	7,701
Total operating expenses	236	2,485	8,309	6,459	15,989	27,019
Loss from operations	(236)	(2,485)	(8,309)	(6,459)	(15,989)	(27,019)
Interest income	—	27	65	17	313	405
Interest expense	—	—	(59)	(24)	(27)	(86)
Net loss	(236)	(2,458)	(8,303)	(6,466)	(15,703)	(26,700)
Dividend related to beneficial conversion feature of convertible preferred stock	—	—	(40,862)	—	—	(40,862)
Net loss attributable to common stockholders	$ (236)	$ (2,458)	$ (49,165)	$ (6,466)	$ (15,703)	$ (67,562)
Net loss per common share:						
Basic and diluted	$ (1.29)	$ (21.19)	$ (305.37)	$ (40.92)	$ (16.14)	
Weighted average number of shares used in per common share calculations:						
Basic and diluted	183	116	161	158	973	
Pro forma net loss per common share (unaudited):						
Basic and diluted[(1)]			$ (4.04)		$ (0.45)	
Weighted average number of shares used in pro forma per common share calculations (unaudited):						
Basic and diluted			12,156		34,821	

(1) Pro forma basic and diluted net loss per common share have been computed to give effect to the automatic conversion of all of our outstanding preferred stock into 33,848,484 shares of common stock upon the closing of this offering (using the as-converted method) for the year ended December 31, 2003 and for the nine months ended September 30, 2004.

The following table presents a summary of our balance sheet as of September 30, 2004:

- on an actual basis;
- on a pro forma basis to give effect to the automatic conversion of all of our outstanding preferred stock into 33,848,484 shares of our common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to give further effect to the sale of shares of common stock by us in this offering at an assumed initial public offering price of $ per share (the midpoint of the estimated price range shown on the cover page of this prospectus), after deducting underwriting discounts and commissions and estimated offering costs to be paid by us.

	As of September 30, 2004		
	Actual	Pro Forma	Pro Forma As Adjusted
		(In thousands)	
Balance Sheet Data:			
Cash and cash equivalents	$ 16,237	$ 16,237	$
Working capital	28,587	28,587	
Total assets	31,375	31,375	
Notes payable, less current portion	185	185	
Redeemable convertible preferred stock	49,839	—	
Total stockholders' equity (deficit)	(20,940)	28,899	

RISK FACTORS

Any investment in our stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below and all information contained in this prospectus, before you decide whether to purchase our common stock. The trading price of our common stock could decline due to any of these risks or uncertainties, and you may lose part or all of your investment.

RISKS RELATED TO OUR BUSINESS

Risks Related to Drug Discovery, Development and Commercialization

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

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

For example, estimates of survival time or percentages obtained from small scale Phase 2 clinical trials are not necessarily indicative of the results in larger clinical trials. Phase 1 and Phase 2 safety trials of glufosfamide were conducted on small numbers of patients and were designed to evaluate the activity of glufosfamide on a preliminary basis. However, these trials were not designed to demonstrate the efficacy of glufosfamide as a therapeutic agent. Although we believe the Phase 1 and Phase 2 trials of glufosfamide have generated promising early data, there can be no assurance that similar results will be observed in subsequent trials, or that such results will prove to be statistically significant or demonstrate safety and efficacy to the satisfaction of the FDA or other regulatory agencies. In Phase 2 studies, glufosfamide has not shown clinical activity for the treatment of glioblastoma and has only demonstrated marginal activity for the treatment of non-small cell lung cancer. We believe that the clinical trial we commenced in September 2004 for the second-line treatment of pancreatic cancer will serve as a pivotal Phase 3 trial. If the results from this trial are not persuasive as determined by the FDA, then this trial will not serve as the basis for FDA approval. Even though we have a special protocol assessment for this trial, we may decide to conduct additional clinical trials or other studies, or the FDA may require us to conduct additional clinical trials or other studies prior to accepting our NDA or granting marketing approval.

While we believe that interim results of our Phase 2 trial for TH-070 suggest it may effectively treat BPH, there can be no assurance that our registrational program will confirm our interim results, will show that beneficial results of TH-070 will be sustained beyond 28 days, or will lead to regulatory approval. Moreover, regulatory agencies may require additional preclinical or clinical studies to support approval of TH-070 for the treatment of BPH. The clinical trials we plan to commence in 2005 for TH-070 may not be pivotal trials.

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

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

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

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

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

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

We may experience difficulties in enrolling patients in our clinical trials, which could increase the costs or affect the timing or outcome of these trials. This is particularly true with respect to diseases with relatively small patient populations, such as pancreatic cancer, which is an indication 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 assure you 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 the regulatory approval policy during the development period of any of our product candidates, changes in, or the enactment of, additional regulations or statutes, or changes in regulatory review practices for a submitted product application may cause a delay in obtaining approval or result in the rejection of an application for regulatory approval.

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

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

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

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

All of our product candidates are based on Metabolic Targeting, a therapeutic approach that targets fundamental differences in energy metabolism between normal and certain diseased cells. We have not, nor to our knowledge has any other company, received regulatory approval for a drug based on this approach. There can be no assurance that our approach will lead to the development of approvable or marketable drugs.

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

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

Glufosfamide is known to cause reversible toxicity to the bone marrow and kidneys, as well as nausea and vomiting. TH-070, which we are developing to treat patients with BPH, has been investigated in clinical studies as a male contraceptive and is known to cause reversible testicular pain in some patients. These side effects or others that could be 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 and prevent regulatory approval or limit their market acceptance if they are approved.

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

Significant delays in clinical testing could materially impact our product development costs and delay regulatory approval of our product candidates. We do not know whether planned clinical trials will begin on

time, 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 delays in:

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

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

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

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

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

Risks Related to Our Financial Performance and Operations

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

We are a development stage company with a limited operating history and no current source of revenue from 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. We have financed our operations primarily through private placements of our equity securities. For the year ended December 31, 2003, we had a net loss of $8.3 million and for the nine months ended September 30, 2004, we had a net loss of $15.7 million. As of September 30, 2004, we had an accumulated deficit of $26.7 million. We do not expect to generate any revenue from our product candidates over the next several years. Clinical trials are costly, and as we continue to advance our product candidates through development, we expect our research and development expenses to increase significantly, especially as we continue our pivotal Phase 3 clinical trial for glufosfamide and begin our registrational program for TH-070 for the treatment of BPH. In addition, we plan to significantly expand our operations, and will need to expand our infrastructure and facilities and hire additional personnel. As a result, we expect that our annual operating losses will increase significantly over the next several years.

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

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

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

- the progress and cost of our clinical trials and other research and development activities;
- the costs and timing of obtaining regulatory approval;

- 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;
- the costs of establishing sales, marketing and distribution capabilities; and
- the terms and timing of any collaborative, licensing and other arrangements that we may establish.

We believe that the net proceeds from this offering, together with our cash on hand, will be sufficient to fund our projected operating requirements for at least the next two years, including clinical trials of glufosfamide, TH-070 and 2DG, the initial development of a sales and marketing effort, general corporate purposes and for the research and development of additional product candidates. However, we may need to raise additional capital or incur indebtedness to continue to fund our operations in the future. Our ability to raise additional funds will depend on financial, economic and market conditions and other factors, many of which are beyond our control. There can be no assurance that sufficient funds will be available to us when required or on satisfactory terms. If necessary funds are not available, we may have to delay, reduce the scope or eliminate some of our development programs, which could delay the time to market for any of our product candidates. We may also need 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.

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 further dilution. Debt financing, if available, may subject us to restrictive covenants that could limit our flexibility in conducting future business activities. To the extent that we raise additional funds through collaboration and licensing arrangements, it will be necessary to relinquish some rights to our clinical product candidates.

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

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

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

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

Our success depends on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading

academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff, particularly our Chief Executive Officer, Dr. Harold E. Selick, and our founder and President, Dr. George F. Tidmarsh. We do not have employment contracts with either Dr. Selick or Dr. Tidmarsh. We are named as the beneficiary on term life insurance policies covering Dr. Selick and Dr. Tidmarsh in the amount of $2 million each. The loss of the services of Dr. Selick, Dr. Tidmarsh or one or more of our other key employees could delay or prevent the successful completion of our clinical trials or the commercialization of our product candidates.

As of November 30, 2004, we had 42 employees. Over the next three to six months, we expect to add a significant number of new employees at an annual cost between $2 and $4 million. Our success will depend on our ability to hire additional qualified personnel. Competition for qualified personnel in the biotechnology field is intense. We face competition for personnel from other biotechnology and pharmaceutical companies, universities, public and private research institutions and other organizations. We may not be able to attract and retain qualified personnel on acceptable terms given the competition for such personnel. If we are unsuccessful in our recruitment efforts, we may be unable to execute our strategy.

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

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

Because we have operated as a private company, we have no experience complying with public company obligations, including recently enacted changes in securities laws and regulations. Compliance with these requirements will increase our costs and require additional management resources, and we still may fail to comply.

We are a small company with limited resources. We have operated as a private company, not subject to many of the requirements applicable to public companies. While we plan to expand our staff if we become public, we may encounter substantial difficulty attracting qualified staff with requisite experience due to the high level of competition for experienced financial professionals.

As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports on Form 10-K. In addition, the independent registered public accounting firm auditing the company's financial statements must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. This requirement will first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2005. Substantial uncertainty exists regarding our ability to comply with these requirements by applicable deadlines. If we are unable to complete the required assessment as to the adequacy of our internal control reporting or if our independent registered public accounting firm is unable to provide us with an unqualified report as to the effectiveness of our internal controls over financial reporting as of December 31, 2005 and future year ends, investors could lose confidence in the reliability of our internal controls over financial reporting.

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

Important documents and records, such as hard copies of our laboratory books and records for our product candidates, are located in our corporate headquarters at a single location which will be in Redwood City,

California starting in January 2005, 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, TH-070 and 2DG. If these parties do not manufacture the active pharmaceutical ingredients or finished products of satisfactory quality, in a timely manner, in sufficient quantities or at an acceptable cost, clinical development and commercialization of our product candidates could be delayed.

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

Our current supplies of glufosfamide have been prepared by a subsidiary of Baxter International, Inc. and we are depending on those materials in order to conduct and complete our planned clinical trials. Should those materials not remain stable, we may experience a significant delay in the completion of our pivotal Phase 3 trial. Although we are in the process of qualifying back-up vendors to manufacture glufosfamide active pharmaceutical ingredient, or API, and drug product, we have not yet done so, and we may not be able to do so at an acceptable cost or terms, if at all.

We believe that we have sufficient supplies of TH-070 API to conduct and complete our currently planned BPH clinical trials. We have ordered additional TH-070 API from Jiangsu Hengrui Medicine Company, Ltd. We have recently entered into an agreement with Pharmaceutics International, Incorporated for the manufacture of TH-070 drug product. We have not yet received any API or drug product from these manufacturers. The failure of Pharmaceutics International to meet quality requirements or otherwise perform its obligations could significantly delay our TH-070 clinical program. In addition, failure of Jiangsu Hengrui Medicine Company to provide acceptable API could delay commercialization of TH-070, if approved.

We believe that we have a sufficient supply of 2DG for our anticipated clinical trials over the next two years, although there can be no assurance that these supplies will remain stable and usable during this period. If these materials are not stable, we may experience a significant delay in our 2DG clinical program.

We will need to enter into additional agreements for additional supplies of each of our product candidates to complete clinical development and/or commercialize them. There can be no assurance that we can do so on favorable terms, if at all. For regulatory purposes, we will have to demonstrate comparability of the same drug substance from different manufacturers. Our inability to do so could delay our clinical programs.

To date, our product candidates have been manufactured in quantities sufficient for preclinical studies or initial 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 successfully increase the manufacturing capacity for any of our product candidates in a timely or economic manner 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 and similar foreign standards. We do not have control over our contract manufacturers' compliance with these regulations and standards. Any failure by our third-party manufacturers or suppliers to comply with applicable regulations could result in sanctions being imposed on them (including fines, injunctions and civil penalties), failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecution.

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

We rely almost exclusively on third-party clinical investigators to conduct our clinical trials and other third-party organizations to oversee the operations of such clinical trials and to perform data collection and analysis. We are currently using several third-party clinical investigators. We are also using clinical research organizations to oversee our ongoing glufosfamide and TH-070 clinical trials and expect to use the same or similar organizations for our anticipated 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. We will rely significantly upon the accrual of patients at clinical sites outside the United States. Any third-party that we hire to conduct clinical trials may also provide services to our competitors, which could compromise the performance of their obligations to us. If we experience significant delays in the progress of our clinical trials and in our plans to file NDAs, the commercial prospects for product candidates could be harmed and our ability to generate product revenue would be delayed or prevented.

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

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

- we may not be able to control the amount or timing of resources that our collaborators may devote to the product candidates;

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

Risks Related to Our Intellectual Property

TH-070 and 2DG are known compounds that are not protected by patents as compounds per se.

TH-070 and 2DG are known compounds that are no longer eligible for patent protection as compounds per se. Consequently, these compounds and certain of their uses are in the public domain. Acraf, S.p.a. has rights to market TH-070 in certain European countries for the treatment of certain cancer indications, and we cannot prevent its sale for these indications or for indications where we have not received patent protection. Even if we obtain patents for TH-070 to treat BPH, there may be off-label use of competitive products for our patented indications.

We have in-licensed one issued patent that covers the treatment of breast cancer with 2DG in combination with paclitaxel or docetaxel and related applications that cover other combination therapies, but there can be no assurance that any other patent application under this license will be issued. As a result, others may develop and market 2DG for the treatment of other cancers, or for the treatment of breast cancer in combination with chemotherapy agents where we do not obtain patents claiming such use.

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

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

We are dependent on patents and proprietary technology, both our own and those licensed from others. If we or our licensors fail to adequately protect this intellectual property or if we 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 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. Accordingly, 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 patents or in the patents 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 which fall outside the scope of our or our licensors' patents;
- we may not develop or in-license additional patentable proprietary technologies related to our product candidates; or
- the patents of others may prevent us from marketing one or more of our product candidates for one or more indications that may be valuable to our business strategy.

Moreover, an issued patent does not guarantee us the right to practice the patented technology or commercialize the patented product. Third parties may have blocking patents that could be used to prevent us from commercializing our patented products and practicing our patented technology. Our issued patents and those that may be issued in the future may be challenged, invalidated or circumvented, which could limit our ability to prevent competitors from marketing related product candidates or could limit the length of the term of patent protection of our product candidates. In addition, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies. For these reasons, we may have competition for our product candidates. 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.

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

We rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect, especially in the pharmaceutical industry, where much of the information about a product must be made public during the regulatory approval

process. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to or may not protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

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

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

The biotechnology and biopharmaceutical industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. For so long as our product candidates are in clinical trials, we believe our clinical activities fall within the scope of the exemptions provided by 35 U.S.C. Section 271(e) in the United States, which exempts from patent infringement liability activities reasonably related to the development and submission of information to the FDA. As our clinical investigational drugs progress toward commercialization, the possibility of a patent infringement claim against us increases. While we attempt to ensure that our active clinical investigational drugs and the methods we employ to manufacture them, as well as the methods for their use we intend to promote, do not infringe other parties' patents and other proprietary rights. However, there can be no assurance 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 Aventis, Lilly, Pfizer and SuperGen and from generic pharmaceutical manufacturers. In particular, our glufosfamide product candidate for pancreatic cancer will compete with Gemzar, marketed by Lilly, and 5-flurouracil, or 5-FU, a generic product which is sold by many manufacturers. In addition, Camptosar®, marketed by Pfizer, and Taxotere, marketed by Aventis, are under investigation as possible combination therapies for first-line treatment of pancreatic cancer, and Tarceva is being evaluated as a single-agent therapy for the first-line treatment of pancreatic cancer by OSI Pharmaceuticals, Genentech and Roche. Orathecin™ from SuperGen is under NDA review by the FDA for second-line treatment of pancreatic cancer as an oral agent, which may provide advantages to patients compared to glufosfamide, which is delivered intravenously. PANVAC™-VF, a vaccine under development by Therion Biologics, is also entering Phase 3 trials as a second-line treatment for pancreatic cancer.

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

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

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

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

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

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

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

We have product liability insurance that covers our clinical trials up to a $3 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 our products to compete effectively with products that are reimbursed at a higher level. If the price we are able to charge for any products we develop is inadequate in light of our development costs, our profitability could be adversely affected.

Reimbursement by a governmental and other third-party payor may depend upon a number of factors, including the governmental and 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 government payor is a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to each payor. We may not be able to provide data sufficient to obtain reimbursement.

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

The health care industry is experiencing a trend toward containing or reducing costs through various means, including lowering reimbursement rates, limiting therapeutic class coverage and negotiating reduced payment schedules with service providers for drug products. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (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 EPA may adopt regulations that may affect

our research and development programs. We are unable to predict whether any agency will adopt any regulations that could have a material adverse effect on our operations. We have incurred, and will continue to incur, capital and operating expenditures and other costs in the ordinary course of our business in complying with these laws and regulations.

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

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

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

RISKS RELATED TO OUR COMMON STOCK

The price of our common stock may be volatile and you may not be able to sell your shares at or above the initial offering price.

Prior to this offering, there has been no public market for our common stock. An active and liquid trading market for our common stock may not develop or be sustained following this offering. The market price for our common stock may decline below the initial public offering price and our stock price is likely to be volatile. You may not be able to sell your shares at or above the initial public offering price. The stock markets in general, and the markets for biotechnology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

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

- adverse results or delays in our clinical trials of glufosfamide, TH-070 or 2DG;
- announcements of FDA non-approval of our product candidates, or delays in the FDA or other foreign regulatory agency review process;
- adverse actions taken by regulatory agencies with respect to our product candidates, clinical trials, manufacturing processes or sales and marketing activities;
- announcements of technological innovations 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 our strategic alliances or acquisitions;
- actual or anticipated variations in our operating results;

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

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

We will have broad discretion in how we use the net proceeds from this offering, and we may not use them effectively.

Our management will have considerable discretion in the application of the net proceeds of the offering. We currently intend to use the net proceeds from this offering to fund expenses related to clinical trials, other research and development, sales and marketing and for general corporate purposes and for working capital. However, our plans may change and we could spend the net proceeds in ways that do not necessarily enhance the value of our common stock.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

If you purchase shares in this offering, the value of your shares based on our actual book value will immediately be less than the offering price you paid. This reduction in the value of your equity is known as dilution. This dilution occurs in large part because our earlier investors paid substantially less than the initial public offering price when they purchased their shares. Investors purchasing common stock in this offering will, therefore, incur immediate dilution of $ in net tangible book value per share of common stock, based on an assumed initial public offering price of $ per share (the midpoint of the estimated range on the cover of this prospectus). Investors will incur additional dilution upon the exercise of outstanding stock options and an outstanding warrant. In addition, if we raise funds by issuing additional securities, the newly issued shares will further dilute your percentage ownership of our company.

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.

After this offering, our officers, directors and holders of 5% or more of our outstanding common stock will beneficially own approximately % of our common stock (after giving effect to the conversion of all outstanding shares of our preferred stock, but assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants). As a result, these stockholders, acting together, will be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other business combination transactions. The interests of this group of stockholders may not always coincide with the interests of other stockholders, and they may act in a manner that advances their best interests and not necessarily those of other stockholders.

A significant portion of our total outstanding shares are restricted from immediate resale but may be sold into the market in the near future. If there are substantial sales of our common stock, the price of our common stock could decline.

Sales of substantial amounts of our common stock in the public market after the offering could adversely affect the price of our common stock. After consummation of this offering, our current stockholders will be

subject to a 180-day lock-up on the sale of their shares. After the lock-up expires, at least shares of our common stock will become freely tradeable, shares of common stock will be tradeable subject to Rule 144 and holders of shares of our common stock will have rights to cause us to file a registration statement on their behalf and to include their shares in registration statements that we may file on behalf of other stockholders. By exercising their registration rights, and selling a large number of shares, these holders could cause the price of our common stock to decline.

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, 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.

FORWARD-LOOKING STATEMENTS

This prospectus, including the sections entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," contains forward-looking statements. We may, in some cases, use words such as "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "potentially," "will," or "may," or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements in this prospectus may include statements about:

- our ability to commence, and the timing of, clinical trials for our glufosfamide, TH-070 and 2DG development programs;
- the completion and success of any clinical trials that we commence;
- our receipt of regulatory approvals;
- our ability to maintain and establish intellectual property rights in our product candidates;
- whether any product candidates we commercialize are safer or more effective than other marketed products, treatments or therapies;
- our research and development activities, including development of our new product candidates, and projected expenditures;
- our ability to successfully complete preclinical and clinical testing for new product candidates we develop or license;
- our ability to have manufactured sufficient supplies of API and drug product for clinical testing and commercialization;
- our ability to obtain licenses to any necessary third party intellectual property;
- our ability to retain and hire necessary employees and appropriately staff our development programs;
- our use of the proceeds from this offering;
- our cash needs; and
- our financial performance.

There are a number of important factors that could cause actual results to differ materially from the results anticipated by these forward-looking statements. These important factors include those that we discuss in this prospectus under the caption "Risk Factors." You should read these factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. The forward-looking statements contained in this prospectus are excluded from the safe-harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of shares of common stock in this offering will be approximately $ million, assuming an initial public offering price of $ per share, the mid-point of the estimated price range shown on the cover of this prospectus, and after deducting the estimated underwriting discounts and commissions and estimated offering costs payable by us. If the underwriters exercise their over-allotment option, we estimate that we will receive additional net proceeds of approximately $ million. We expect to use the net proceeds to fund:

- approximately $45.0 million for the clinical development of glufosfamide, TH-070 and 2DG, including trials for additional indications;
- approximately $8.0 million for research and development of additional product candidates;
- approximately $3.0–10.0 million for initial development of sales and marketing infrastructure, depending on our commercialization strategy for TH-070; and
- the remainder for working capital, capital expenditures and other general corporate purposes, including potential strategic acquisitions.

Our cash on hand may also be used to fund the above programs. We expect our net proceeds from this offering, together with our cash on hand, will be sufficient to advance our clinical development programs to complete our Phase 3 clinical trial of glufosfamide for second-line treatment of pancreatic cancer, and to advance our TH-070 and 2DG clinical programs and our clinical program for glufosfamide for the first-line treatment of pancreatic cancer into Phase 3 trials.

The amounts and timing of our actual expenditures will depend upon numerous factors, including the timing and success of preclinical testing, the timing and success of our ongoing clinical trials and any clinical trials we may commence in the future, the timing of regulatory submissions, our commercialization strategy for TH-070, status of our research and development programs, the amount of proceeds actually raised in this offering and the amount of cash generated by our operations, if any. We may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement our business. However, we have no present understandings, commitments or agreements to enter into any potential acquisitions or investments. Our management will have broad discretion to allocate the net proceeds from this offering.

Pending use of the net proceeds as described above, we intend to invest the net proceeds of the offering in United States government and short-term investment grade securities.

DIVIDEND POLICY

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

CAPITALIZATION

The following table describes our cash, cash equivalents and short-term investments and our capitalization as of September 30, 2004:

- on an actual basis;
- on a pro forma basis to give effect to the automatic conversion of all of our outstanding preferred stock into 33,848,484 shares of our common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to give further effect to the sale of shares of common stock by us in this offering at an assumed initial public offering price of $ per share (the midpoint of the estimated price range shown on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering costs to be paid by us.

	Actual	Pro Forma	Pro Forma As Adjusted
	(In thousands, except share and per share data)		
Cash and cash equivalents	$ 16,237	$ 16,237	$
Notes payable, less current portion	$ 185	$ 185	$
Redeemable convertible preferred stock, $0.001 par value per share; 33,886,484 shares authorized; and 33,848,484 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	49,839	—	
Stockholders' equity (deficit):			
Preferred stock, $ par value per share; no shares authorized, actual and pro forma, and shares authorized, pro forma as adjusted; and no shares outstanding, actual, pro forma or pro forma as adjusted			
Common stock, $0.001 par value per share; 50,000,000 shares authorized, actual, pro forma, and pro forma as adjusted; and 5,548,047 shares issued and outstanding, actual; 39,396,531 shares issued and outstanding, pro forma; and shares issued and outstanding pro forma as adjusted	6	39	
Additional paid-in capital	21,900	71,706	
Deferred stock-based compensation	(16,244)	(16,244)	
Accumulated other comprehensive income	98	98	
Deficit accumulated during the development stage	(26,700)	(26,700)	
Total stockholders' equity (deficit)	(20,940)	28,899	
Total capitalization	$ 29,084	$ 29,084	$

The table above excludes:

- 437,000 shares of our common stock that are presently outstanding but subject to repurchase on or before January 31, 2005;
- 423,231 shares of common stock issuable upon exercise of stock options outstanding as of September 30, 2004 at a weighted average exercise price of $0.24 per share;
- 38,000 shares of common stock issuable upon exercise of a warrant outstanding as of September 30, 2004 with an exercise price of $1.00 per share, which does not expire upon the closing of this offering;
- 879,222 shares of common stock available for future grants under our 2001 Stock Option Plan as of September 30, 2004;
- 4,000,000 shares of common stock reserved for issuance under our 2004 Equity Incentive Plan; and
- shares of common stock reserved for issuance under our 2004 Employee Stock Purchase Plan.

DILUTION

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering.

Our historical net tangible book value as of September 30, 2004 was approximately $(20.9) million or $(3.77) per share of common stock. Pro forma net tangible book value as of September 30, 2004 was approximately $28.9 million or $0.73 per share of common stock. Pro forma net tangible book value gives effect to the conversion of all of our outstanding redeemable convertible preferred stock into 33,848,484 shares of our common stock, which will occur automatically upon the closing of this offering.

After giving effect to the issuance and sale by us of the shares of common stock offered by this prospectus, assuming an initial public offering price of $ per share (the midpoint of the estimated price range shown on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering costs payable by us, our pro forma as adjusted net tangible book value as of , 2004 would have been approximately $ million, or $ per share. This represents an immediate increase in the pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors. This dilution is illustrated by the following table:

Assumed initial public offering price per share		$
Historical net tangible book value per share as of September 30, 2004	(3.77)	
Increase per share due to assumed conversion of all shares of convertible preferred stock	3.49	
Pro forma net tangible book value per share before this offering	$ 0.73	
Increase per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after the offering		
Dilution per share to new investors		$

The following table summarizes, as of September 30, 2004, the number of shares of common stock purchased from us, on a pro forma as adjusted basis to give effect to the conversion of all of our outstanding preferred stock into shares of common stock, which will occur automatically upon the closing of this offering, and the total consideration and the average price per share paid by existing stockholders and new investors at an assumed initial public offering price of $ per share before deducting underwriting discounts and commissions and estimated offering costs payable by us:

	Total Shares		Total Consideration		
	Number	%	Amount	%	Average Price Per Share
Existing stockholders	39,396,531		$ 50,712,000		$ 1.29
New investors					
Totals					

The foregoing discussion and tables exclude:

- 437,000 shares of our common stock that are presently outstanding but subject to repurchase on or before January 31, 2005;
- 423,231 shares of common stock issuable upon exercise of stock options outstanding as of September 30, 2004 at a weighted average exercise price of $0.24 per share;
- 38,000 shares of common stock issuable upon exercise of a warrant outstanding as of September 30, 2004 with an exercise price of $1.00 per share, which does not expire upon the closing of this offering;

- 879,222 shares of common stock available for future grants under our 2001 Stock Option Plan as of September 30, 2004;
- 4,000,000 shares of common stock reserved for issuance under our 2004 Equity Incentive Plan; and
- shares of common stock reserved for issuance under our 2004 Employee Stock Purchase Plan.

In addition, we may grant more options or warrants in the future.

If the underwriters exercise their over-allotment option in full, the following will occur:

- the pro forma as adjusted percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of pro forma as adjusted shares of our common stock outstanding after this offering; and
- the pro forma as-adjusted number of shares of our common stock held by new public investors will increase to , or approximately % of the total pro forma as-adjusted number of shares of our common stock outstanding after this offering.

SELECTED FINANCIAL DATA

We are a development stage company. The following selected statement of operations data for the period from October 17, 2001 (inception) to December 31, 2001 and the years ended December 31, 2002 and 2003, and balance sheet data as of December 31, 2002 and 2003, have been derived from our audited financial statements included elsewhere in this prospectus. The statements of operations data for the nine months ended September 30, 2003 and 2004 and the balance sheet data as of September 30, 2004, are derived from our unaudited financial statements appearing elsewhere in this prospectus, and in the opinion of management, include all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of the results for the unaudited interim period. The balance sheet data as of December 31, 2001, is derived from our financial data that are not included in this prospectus. The selected financial data set forth below should be read together with the financial statements and the related notes to those financial statements, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," appearing elsewhere in this prospectus.

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31, 2002	Years Ended December 31, 2003	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Cumulative Period from October 17, 2001 (date of inception) to September 30, 2004
	(In thousands, except per share data)					
Operating expenses:						
Research and development	$ 35	$ 2,179	$ 6,252	$ 4,868	$ 10,852	$ 19,318
General and administrative	201	306	2,057	1,591	5,137	7,701
Total operating expenses	236	2,485	8,309	6,459	15,989	27,019
Loss from operations	(236)	(2,485)	(8,309)	(6,459)	(15,989)	(27,019)
Interest income	—	27	65	17	313	405
Interest expense	—	—	(59)	(24)	(27)	(86)
Net loss	(236)	(2,458)	(8,303)	(6,466)	(15,703)	(26,700)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	(40,862)	—	—	(40,862)
Net loss attributable to common stockholders	$ (236)	$(2,458)	$(49,165)	$(6,466)	$(15,703)	$ (67,562)
Net loss per common share:						
Basic and diluted	$ (1.29)	$(21.19)	$(305.37)	$(40.92)	$ (16.14)	
Weighted average number of shares used in per common share calculations:						
Basic and diluted	183	116	161	158	973	
Pro forma net loss per common share (unaudited) (see Note 13):						
Basic and diluted			$ (4.04)		$ (0.45)	
Weighted average number of shares used in pro forma per common share calculations (unaudited) (see Note 13):						
Basic and diluted			12,156		34,821	

	As of December 31, 2001	As of December 31, 2002	As of December 31, 2003	As of September 30, 2004
	(In thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$ 187	$ 6,215	$40,609	$ 16,237
Working capital	2	6,154	40,177	28,587
Total assets	195	6,726	41,270	31,375
Notes payable, less current portion	—	—	242	185
Redeemable convertible preferred stock	236	8,977	49,839	49,839
Total stockholders' deficit	(107)	(2,667)	(9,695)	(20,940)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

Our initial clinical focus is the treatment of cancer and BPH. We have three product candidates. Glufosfamide, our lead product candidate for cancer, has completed two Phase 1 and five Phase 2 clinical trials in patients with various solid tumors. In September 2004, we initiated a pivotal Phase 3 clinical trial of glufosfamide for the second-line treatment of pancreatic cancer. We have received a special protocol assessment from the FDA for this trial. In addition, glufosfamide for the treatment of pancreatic cancer has received FDA fast track designation. TH-070, our lead product candidate for the treatment of BPH, has completed enrollment in a Phase 2 clinical trial, which was commenced in the first quarter of 2004, and we are evaluating interim data. We plan to initiate a registrational program for TH-070 to treat BPH in the first half of 2005. Our third product candidate, 2-deoxyglucose, or 2DG, our product candidate for the treatment of solid tumors, is being evaluated in a Phase 1 clinical trial as a combination therapy, which means that it is administered in conjunction with other chemotherapy treatments. This trial began in the first quarter of 2004. We are also working to discover novel drug candidates that are activated under the metabolic conditions typical of cancer cells, and we have identified lead compounds with promising *in vitro* data. In addition, we are investigating additional compounds for activity against BPH.

We are a development stage company and were incorporated in October 2001. We have devoted substantially all of our resources to research and development of our product candidates. We have not achieved any revenue from operations, and we have funded our operations through the private placement of equity securities. We have incurred a net loss from operations for the year ended December 31, 2003 of $8.3 million and cumulative losses since our inception through September 30, 2004 of $26.7 million. We expect our net losses to increase primarily due to our anticipated clinical trial activities. Clinical trials are costly, and as we continue to advance our product candidates through development, we expect our research and development expenses to increase significantly, especially as we continue our pivotal Phase 3 clinical trial of glufosfamide and begin a registrational program for TH-070 for the treatment of BPH in the first half of 2005. Compared to Phase 1 and Phase 2 clinical trials, Phase 3 clinical trials typically involve a greater number of patients, may be conducted at multiple sites and in several countries, are conducted over a longer period of time and require greater quantities of drug product. Additionally we plan to significantly expand our infrastructure and facilities and hire additional personnel, including clinical development, research, administrative, sales and marketing personnel. We are unable to predict when, if ever, we will be able to commence sales of any product.

Revenues

We have not generated any revenues since our inception and do not expect to generate any revenues from the sale of our product candidates for many years.

Research and Development Expenses

Research and development expenses consist primarily of costs of conducting clinical trials, salaries and related costs for personnel, costs for research projects and preclinical studies, costs related to regulatory filings, costs of clinical materials and facility costs. Consulting expenses are a significant component of our research and development expenses as we rely on expert consultants in many of the areas mentioned above. We recognize expenses as they are incurred. Our accruals for expenses associated with preclinical and clinical studies are based upon the terms of the service contracts, the amount of services provided and the status of the activities. We expect that research and development expenses will increase significantly in the future as we progress our product candidates through the more expensive later stage clinical trials, start additional clinical trials, progress our discovery research projects into the preclinical stage, file for regulatory approvals and hire more employees. From inception through September 30, 2004, we spent an aggregate of $19.3 million on research and development expenses.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for our personnel in the executive, finance, patent, accounting and other administrative functions, as well as consulting costs for functions for which we either do not staff or only partially staff, including public relations, market research, business development, technical writing and accounting. Other costs include professional fees for legal and accounting services, insurance and facility costs. We anticipate that general and administrative expenses will increase significantly in the future as we continue to expand our operating activities and as a result of costs associated with being a public company. From inception through September 30, 2004, we spent an aggregate of $7.7 million on general and administrative expenses.

Stock-Based Compensation

We use the intrinsic method of Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB No. 25"), in accounting for employee stock options, and present disclosure of pro forma information required under SFAS No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123"), as amended by SFAS No. 148, *"Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123"* ("SFAS No. 148"). For stock options granted to employees no compensation expense is recognized unless the exercise price is less than fair market value at the date of grant. In anticipation of this offering, we have determined that, for accounting purposes, the estimated fair market value of our common stock was greater than the exercise price for certain options. As a result we have recorded deferred stock-based compensation for these options of $18.1 million for the nine months ended September 30, 2004, $2.3 million for the year ended December 31, 2003 and $25,000 for the year ended December 31, 2002. This expense, which is a non-cash charge, will be amortized over the period in which the options vest, which is generally four years. The amortization of this expense recognized for the year ended December 31, 2003 was $0.8 million, $1,000 for the year ended December 31, 2002 and $3.4 million for the nine months ended September 30, 2004. We expect the remaining $16.2 million to be amortized as follows: $1.8 million for the remaining three months of the year ending December 31, 2004, $5.9 million for the year ending December 31, 2005, $4.3 million for the year ending December 31, 2006, $3.4 million for the year ending December 31, 2007, and $0.8 million for the year ending December 31, 2008. During May 2004, the Company granted options to purchase 637,000 shares of common stock to employees, which require variable accounting. The measurement of stock-based compensation for these options is subject to periodic adjustment resulting from changes in the fair value of our common stock.

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

charge to operations for non-employee options with vesting criteria is affected each reporting period by changes in the fair value of our common stock. For options granted to non-employees, we recorded $0.3 million and $21,000 of stock-based compensation expense during the years ended December 31, 2003 and 2002, respectively. We recorded $0.4 million of stock-based compensation expense for the nine months ended September 30, 2004.

Results of Operations for the Nine Months Ended September 30, 2003 and 2004

Research and development expenses for the nine months ended September 30, 2004 were $10.9 million compared to $4.9 million for the nine months ended September 30, 2003. The $6.0 million increase in research and development expenses was due primarily to a $1.9 million increase in clinical trial costs, $1.5 million increase in staffing and the associated expenses of salaries, benefits and other employee related costs, $1.0 million increase in consulting and licensing costs and a $1.4 million increase in stock-based compensation.

Research and development expenses associated with glufosfamide were $4.7 million for the nine months ended September 30, 2004 and were $8,000 for the nine months ended September 30, 2003. This increase was due to the activities leading up to and initiation of a Phase 3 clinical trial for the second time treatment of pancreatic cancer in 2004. Research and development expenses associated with TH-070 were $2.2 million for the nine months ended September 30, 2004 and were $0.2 million for the nine months ended September 30, 2003 because we did not commence this program until the second quarter of 2003. Research and development expenses associated with 2DG were $2.0 million for the nine months ended September 30, 2004 and were $4.2 million for the nine months ended September 30, 2003. This decrease resulted from the completion of a major portion of preclinical studies during 2003. Discovery research expenses were approximately $2.0 million for the nine months ended September 30, 2004 and were $0.5 million for the nine months ended September 30, 2003. We cannot predict when any net cash inflows from any of our product candidates will commence.

General and administrative expenses for the nine months ended September 30, 2004 were $5.1 million versus $1.6 million for the nine months ended September 30, 2003. The $3.5 million increase in general and administrative expenses was due primarily to $1.0 million attributable to increased staffing, $1.3 million from stock-based compensation, $0.6 million from increased spending on patent, legal, and audit services, and $0.4 from other services, primarily public relations.

Interest income for the nine months ended September 30, 2004 was $312,794 compared to $17,488 for the nine months ended September 30, 2003. The increase in interest income was the result of interest earned on the $40.9 million of net proceeds from the sale of Series B convertible preferred stock in November 2003.

Interest expense for the nine months ended September 30, 2004 was $27,057 compared to $24,429 for the nine months ended September 30, 2003. The increase in interest expense was the result of interest incurred under the Company's 2003 line of credit and amortization of debt issuance costs associated with warrants issued in connection with the line of credit.

Results of Operations

Years ended December 31, 2003 and 2002 and the period from October 17, 2001 (date of inception) to December 31, 2001

We have a limited operating history. Presented below is a comparison of our results of operations for the year ended December 31, 2003 compared to the year ended December 31, 2002 and the period from October 17, 2001 (date of inception) to December 31, 2001. Our first full year of operations was 2002.

Research and Development

Research and development expenses for the year ended December 31, 2003 were $6.3 million compared to $2.2 million for the year ended December 31, 2002. The increase in research and development expenses was primarily due to increases of $1.3 million associated with increased staffing levels, $0.9 million for preclinical

studies, $0.7 million for supplies and facilities, $0.4 million for manufacturing and testing of clinical material drug supply and $0.3 million for consulting and scientific advisory costs. Non-cash stock-based compensation expenses associated with option issuances to our research and development staff and consultants were $0.3 million in 2003 and $21,000 in 2002.

Research and development expenses for the year ended December 31, 2002 were $2.2 million compared to $35,000 for the period from October 17, 2001 (date of inception) to December 31, 2001. This increase was primarily due to increases of $1.4 million associated with increased staffing and consulting costs, $0.3 million for facilities costs, $0.2 million for preclinical studies and as a result of conducting operations for a full year. Research and development expenses for the period from October 17, 2001 (date of inception) to December 31, 2001 were primarily comprised of supplies and facilities costs.

Research and development expenses associated with glufosfamide for 2003 were not significant because this product candidate was in-licensed in the third quarter of 2003. Research and development expenses associated with TH-070 in 2003 were $0.4 million. Research and development expenses associated with 2DG for 2003 were $4.2 million and discovery research expenses were approximately $1.7 million in 2003. We did not track research and development cost information by program prior to 2003.

General and Administrative

General and administrative expenses were $2.1 million for the year ended December 31, 2003 compared to $0.3 million for the year ended December 31, 2002. The increase in general and administration expenses was primarily due to costs of $0.5 million associated with increases in staffing levels including adding a Chief Executive Officer, a Chief Financial Officer and a Vice President of Intellectual Property. Consulting costs increased by $0.2 million for market research, financial and business development support. Non-cash stock-based compensation expenses associated with option issuances to our administrative personnel were $0.8 million in 2003 and $1,000 in 2002.

General and administrative expenses for the year ended December 31, 2002 were $0.3 million compared to $0.2 million for the period ended December 31, 2001. This increase was primarily due to increased legal expenses.

General and administrative expenses for the period from October 17, 2001 (date of inception) to December 31, 2001 were $0.2 million, which consisted primarily of salary and expenses for the company's sole employee and founder and costs associated with establishing operations.

Interest Income (Expense)

Interest income for the year ended December 31, 2003 was $65,000 compared to $27,000 for the year ended December 31, 2002. The increase in interest income was principally attributable to the interest earned on the $40.9 million of net proceeds from the sale of our Series B convertible preferred stock in November 2003. There was no interest income for the period from October 17, 2001 (date of inception) to December 31, 2001.

Interest expense was $59,000 for the year ended December 31, 2003 which consists of interest incurred under our March 2003 line of credit and amortization of debt issuance costs associated with warrants issued in connection with the line of credit. There was no interest expense for the year ended December 31, 2002 or for the period from October 17, 2001 (date of inception) to December 31, 2001.

We incurred net operating losses for the years ended December 31, 2002 and 2003 and the period ended December 31, 2001 and, accordingly, we did not pay any federal or state income taxes. As of December 31, 2003, we had accumulated approximately $8.6 million and $8.3 million in federal and state net operating loss carryforwards, respectively, to reduce future taxable income. If not utilized, our federal and state net operating loss carryforwards will begin to expire in various amounts in 2021 and 2011, respectively. Our net operating loss

carryforwards are subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws.

Income Taxes

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

At December 31, 2003, we had research credit carryforwards of approximately $0.2 million and $0.2 million for federal and California state income tax purposes, respectively. If not utilized, the federal carryforwards will expire in various amounts beginning in 2011. The California state research credit can be carried forward indefinitely.

Beneficial Conversion Feature

In November 2003, we sold 24,848,484 shares of Series B redeemable convertible preferred stock for aggregate net proceeds of approximately $40.9 million. The issuance of the Series B redeemable convertible preferred stock resulted in a beneficial conversion feature, calculated in accordance with EITF 00-27, "Application of Issue No. 98-5, "*Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios" to Certain Convertible Instruments*," based upon the conversion price of the preferred stock into shares of common stock, and the fair market value of the common stock at the date of issue. Accordingly, for the year ended December 31, 2003, we recognized approximately $40.9 million as a charge to additional paid-in-capital to account for the deemed dividend on the redeemable convertible preferred stock as of the issuance date. In accordance with the provisions of EITF 00-27, the amount of the deemed dividend related to the beneficial conversion feature is limited to the net proceeds received for the sale of the securities.

Liquidity and Capital Resources

We have incurred net losses since inception through September 30, 2004, of $26.7 million. We have not generated any revenues and do not expect to generate revenue from product candidates for several years. Since inception, we have funded our operations primarily through the private placement of our preferred stock. We raised $9.0 million through the sale of our Series A convertible preferred stock in 2001 and 2002 and $40.9 million through the sale of our Series B convertible preferred stock in November 2003.

At September 30, 2004, we had cash and cash equivalents of $16.2 million compared to $40.6 million at December 31, 2003. Net cash used in operating activities for the nine months ended September 30, 2004 and 2003 was $12.0 million and $5.1 million, respectively. For the nine months ended September 30, 2004 cash used in operations was attributable primarily to our net loss after adjustments for non-cash charges related to the amortization of deferred stock-based compensation and an increase in accounts payable resulting primarily from increased research and development activities and an increase in prepaid expenses related to our proposed initial public offering. For the nine months ended September 30, 2003 cash used in operations was attributable primarily to our net loss and a decrease in accounts payable partially offset by an increase in accrued liabilities and a decrease in prepaids and other current assets. Net cash used in investing activities was $13.2 million and $0.2 million for the nine months ended September 30, 2004 and 2003, respectively, primarily for marketable securities in 2004 and the acquisition of property and equipment in 2003. Net cash generated by financing activities was primarily generated by the exercise of employee stock options in 2004 and the issuance of an equipment financing note in 2003.

Net cash used in operating activities for the periods ended December 31, 2003, 2002 and 2001 was $6.7 million, $2.5 million and $0.1 million, respectively. For the year ended December 31, 2003, cash used in

operations was attributable primarily to our net losses after adjustments for non-cash charges related to amortization of deferred stock-based compensation, an increase in accrued liabilities resulting primarily from increased research and development activities and depreciation. For the year ended December 31, 2002, cash used in operations was attributable primarily to our net losses after adjustments for non-cash charges related to increase in accounts payable and depreciation. The use of cash in the period ended December 31, 2001 was attributable to our net loss partially offset by increases in accounts payable and accrued liabilities.

Net cash used in investing activities was $0.2 million for the year ended December 31, 2003 for the purchase of equipment. For the year ended December 31, 2002, net cash used in investing activities was $0.2 million for the purchase of two certificates of deposit that serve as collateral for our facility lease and for a line of credit agreement, and the purchase of equipment and marketable securities.

Net cash provided by financing activities for the years ended December 31, 2003 and 2002, and the period from October 17, 2001 (date of inception) to December 31, 2001 was $41.3 million, $8.7 million and $0.2 million, respectively. The net cash provided by financing activities was primarily attributable to the sale of redeemable convertible preferred stock. Cash provided for the year ended December 31, 2003 also included $0.4 million of net proceeds under the line of credit.

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

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

We expect to incur losses from operations in the future. We expect to incur increasing research and development expenses, including expenses related to clinical trials and additional personnel. We expect that our general and administrative expenses will increase in the future as we expand our staff, add infrastructure and incur additional expenses related to being a public company, including directors' and officers' insurance, investor relations and increased professional fees.

We believe that the net proceeds from this offering, together with our cash on hand, will be sufficient to fund our projected operating requirements for at least the next two years including our planned clinical trials of glufosfamide, TH-070 and 2DG, the research and development of additional product candidates, the initial development of a sales and marketing effort, working capital and general corporate purposes. However, we may need to raise additional capital or incur indebtedness to continue to fund our operations in the future. Our ability to raise additional funds will depend on financial, economic, market conditions and other factors, many of which are beyond our control. There can be no assurance that sufficient funds will be available to us when required or on satisfactory terms. If necessary funds are not available, we may have to delay, reduce the scope or eliminate some of our research and development, which could delay the time to market for any of our product candidates. We may also need 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.

Obligations and Commitments

In March 2003, we entered into a loan and security agreement with Silicon Valley Bank to borrow up to $1.0 million for working capital and equipment purchases. Through September 30, 2004, we have borrowed approximately $0.6 million under this facility, which will be repaid over a 36-month period from the date of borrowing. These borrowings bear interest at the rate of 5.7% per year at September 30, 2004. In addition we issued a warrant to Silicon Valley Bank to purchase up to 38,000 shares of Series A convertible preferred stock in connection with the loan agreement. We may borrow the remaining $0.4 million available under this facility, as amended, until March 31, 2005. At September 30, 2004 the amount due under this facility was $0.4 million. The financial covenant in this agreement requires us to maintain the lower of 85% of our total cash and cash equivalents or $10.0 million at Silicon Valley Bank. At September 30, 2004 we were in compliance with our covenant.

We have subleases for facilities that expire on December 31, 2004 and February 28, 2010.

As of September 30, 2004, future minimum payments under our subleases and financing line are as follows (in thousands):

	Within one year	One to three years	Four to five years	After five years	Total
Facilities subleases	$ 481	$ 1,302	$ 752	$ —	$2,535
Financing line	186	211	—	—	397
Total	$ 667	$ 1,513	$ 752	$ —	$2,932

In August 2003, we entered into an agreement with Baxter International, Inc. and Baxter Healthcare S.A. for the licensing and development of glufosfamide. Under this agreement, we paid Baxter an upfront license fee of $100,000 and a $100,000 development milestone in 2003. We also made a development milestone payment of $1.3 million in November 2004 and we are obligated to make certain additional development milestone payments, with the next payment due in connection with the filing of a new drug application with the FDA for glufosfamide. Future milestone payments in connection with the development of glufosfamide and United States and foreign regulatory submissions could total up to $8.0 million, and sales-based milestone payments could total up to $17.5 million. Following regulatory approval, we will be obligated to pay royalties to Baxter based on sales of glufosfamide products. We cannot be certain when, if ever, we will have to make development- or sales-based milestone or royalty payments to Baxter.

Under our license agreement with Dr. Theodore J. Lampidis and Dr. Waldemar Priebe for rights under a patent and certain patent applications that generally cover the treatment of cancer with 2DG in combination with certain other cancer drugs, we are obligated to make certain milestone payments, including milestone payments of up to $700,000 in connection with the filing and approval of an NDA for the first product covered by the licensed patents, as well as royalties based on sales of such products. We cannot be certain when, if ever, we will have to make these milestone or royalty payments.

In June 2004, we entered into an agreement with Acraf, S.p.a. for rights to use Acraf's regulatory documents and pre-clinical and clinical information pertaining to the active ingredient in TH-070 for our regulatory filings on TH-070-based products and for obtaining marketing authorizations world-wide for such products. In consideration for our licenses under this agreement, we paid Acraf a one-time payment of €300,000, or approximately $374,000, in 2004. We are also obligated to pay Acraf milestone payments, with the next such milestone payment due in connection with the marketing approval of our first TH-070-based product in certain specified territories. In addition, there is a sales-based milestone due should sales of a Threshold product containing TH-070 exceed €50 million in one year. Future aggregate milestone payments under this agreement could total €1.8 million.

Off-Balance Sheet Liabilities

As of December 31, 2001, 2002, 2003 and September 30, 2004, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosures. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in more detail in the notes to our financial statements included in this prospectus, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

Stock-Based Compensation

We account for stock-based employee compensation arrangements in accordance with the provisions of APB No. 25 and SFAS No. 123 and comply with the disclosure requirements of SFAS No. 148. Under APB No. 25, compensation expense is based on the difference, if any, on the date of grant, between the estimated fair value of our common stock and the exercise price. SFAS No. 123 defines a "fair value" based method of accounting for an employee stock option or similar equity investment.

The fair value of the common stock for options granted through September 30, 2004, was originally estimated by our board of directors, with input from management. We did not obtain contemporaneous valuations by an unrelated valuation specialist. Subsequently, we reassessed the valuations of common stock relating to grants of options during the years ended December 31, 2002 and 2003 and for the nine months ended September 30, 2004. As disclosed more fully in Note 9 of the notes of our financial statements, we granted stock options and restricted common stock with exercise prices ranging from $0.10 to $0.32 during the years ended December 31, 2002 and 2003 and for the nine months ended September 30, 2004. In addition, we determined that the fair value of our common stock increased from $0.10 to $9.95 per share during that period.

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

We account for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force ("EITF") Issue No. 96-18, *"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods, or Services."*

As a result, the non-cash charge to operations for non-employee options with vesting or other performance criteria is affected each reporting period by changes in the estimated fair value of our common stock. The two factors which most affect these changes are the fair value of the common stock underlying stock options for which stock-based compensation is recorded and the volatility of such fair value. If our estimates of the fair value of these equity instruments change, it would have the effect of changing compensation expenses.

Preclinical and Clinical Trial Accruals

We record accruals for estimated preclinical and clinical trial costs. These costs have been a significant component of research and development expenses. We accrue for the costs of preclinical and clinical trials based upon estimates of work completed under service agreements. These estimates include the assessment of information received from third-party organizations and the overall status of preclinical and clinical trial activities, however, our estimates may not match the timing of actual services performed by the organizations, which may result in adjustments to our research and development expenses in future periods. To date we have had no such adjustments.

Accounting for Income Taxes

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

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *"Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity"*("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equities. It requires that an issuer classify a financial instrument that is within its scope as a liability or an asset in some circumstances. Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. In November 2003, certain elements of SFAS No. 150 were deferred to fiscal periods beginning after December 15, 2004. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of the effective elements of SFAS No. 150 had no material effect on our financial position or results of operations. We do not expect the adoption of the deferred elements of SFAS No. 150 to have a material impact on our financial position or our results of our operations.

In December 2003, the FASB issued a revised FASB Interpretation No. 46 ("FIN No. 46R"),*"Consolidation of Variable Interest Entities, an interpretation of ARB No. 51."* The FASB published the revision to clarify and amend some of the original provisions of FIN No. 46, which was issued in January 2003, and to exempt certain entities from its requirements. A variable interest entity ("VIE") refers to an entity subject to consolidation according to the provisions of this Interpretation. FIN No. 46R applies to entities whose equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support provided by any parties, including equity holders, or where the equity investors (if any) do not have a controlling financial interest. FIN No. 46R provides that if an entity is the primary beneficiary of a VIE, the assets, liabilities, and results of operations of the VIE should be consolidated in the entity's financial statements. In addition, FIN No. 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide additional disclosures. The provisions of FIN No. 46R became

effective in the first quarter of fiscal 2004. The adoption of FIN No. 46R did not have a material impact on our financial position or our results of operations.

Quantitative and Qualitative Disclosure of Market Risks

Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of United States interest rates, particularly because the majority of our investments are in short-term debt securities.

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. Some of the securities in which we invest may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with an interest rate fixed at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, in accordance with our investment policy, we maintain our portfolio of cash equivalents, short-term marketable securities and restricted cash in a variety of securities, including commercial paper, money market funds, government and non-government debt securities and certificates of deposit. The risk associated with fluctuating interest rates is limited to our investment portfolio and we do not believe that a 10% change in interest rates will have a significant impact on our interest income. As of September 30, 2004, all of our investments were in money market accounts, certificates of deposit or investment grade corporate debt obligations and U.S. government securities.

Our exposure to market risk also relates to the increase or decrease in the amount of interest expense we must pay on our outstanding borrowings under a line of credit agreement we entered into with a financial institution in March 2003. As of September 30, 2004, this facility provides for borrowings up to $1.0 million, of which approximately $0.4 million is available for future borrowings. At September 30, 2004, approximately $0.4 million was outstanding under this facility. Each borrowing under the line of credit accrues interest at the greater of the treasury note rate plus 3.0% or a fixed rate of 5.5% per annum at the date of borrowings and are repayable in 36 monthly installments. The risk associated with fluctuating interest expense is limited to this debt instrument and we do not believe that a 10% change in the treasury note rate would have a significant impact on our interest expense.

BUSINESS

Overview

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

Our initial clinical focus is the treatment of cancer and benign prostatic hyperplasia, or BPH, a disease characterized by overgrowth of the prostate. We have three product candidates. Glufosfamide, our lead product candidate for cancer, has completed two Phase 1 and five Phase 2 clinical trials in patients with various solid tumors. In September 2004, we initiated a pivotal Phase 3 clinical trial of glufosfamide for the second-line treatment of pancreatic cancer. We have received a special protocol assessment from the FDA for this trial. In addition, glufosfamide for the treatment of refractory pancreatic cancer has received fast track designation by the FDA. TH-070, our lead product candidate for the treatment of BPH, has completed enrollment in a Phase 2 clinical trial, and we are evaluating interim data. We plan to initiate a registrational program for TH-070 to treat BPH in the first half of 2005. Our third product candidate, 2-deoxyglucose, or 2DG, for the treatment of solid tumors, is being evaluated in a Phase 1 clinical trial as a combination therapy, which means it is administered in conjunction with other chemotherapy treatments. We are also working to discover drug candidates that are activated under the metabolic conditions typical of cancer cells, and we have identified lead compounds with promising *in vitro* data. In addition, we are investigating additional compounds for activity against BPH.

For the treatment of cancer, we believe that our product candidates, based on Metabolic Targeting, can be broadly applied to the treatment of most solid tumors and have the potential to significantly increase the effectiveness of existing therapies. Metabolic Targeting provides the opportunity to treat not only rapidly dividing tumor cells, which are targeted by chemotherapy and radiation, but also slowly dividing tumor cells that generally evade these traditional therapies and ultimately contribute to relapse. For the treatment of BPH, we believe that Metabolic Targeting will enable us to develop a new class of drugs to treat the disease more rapidly and effectively, with fewer side effects than current therapies. We believe that our focus on Metabolic Targeting, combined with our expertise in medicinal chemistry and drug development, provides us with the capability to identify, discover and develop novel therapies.

Our product candidates are focused on treating patients with significant unmet medical needs. Cancer is the second leading cause of death in the United States after cardiovascular disease. The American Cancer Society estimates that 563,700 people will die from cancer in the United States this year. Many cancers, such as pancreatic, lung and liver cancer, have few effective treatments and very low survival rates. BPH, which often leads to debilitating urinary problems, affects 50% of men in their sixties and approximately 90% of men over seventy, and current treatments have significant deficiencies. Approximately 17 million men in the United States, 27 million men in five major European countries and eight million men in Japan are estimated to suffer from symptoms of the disease and could benefit from a safe and effective treatment for BPH.

Limitations of Conventional Therapies

Current Therapies for Cancer

Many different approaches are used in treating cancer, including surgery, radiation and drugs or a combination of these approaches. Drugs used to treat cancer include chemotherapeutics, hormones and immune-based therapies. Traditionally, strategies for designing cancer therapies have focused on killing cancer cells that exhibit rapid division and growth, and most conventional cancer drugs have been evaluated and optimized using cellular and animal models that reflect rapid cell growth. However, most solid tumors are actually composed of both rapidly and slowly dividing cells. Conventional cancer treatments are not designed to target the slowly

dividing cells found in large portions of solid tumors and therefore rarely succeed in killing all cancerous cells. These slowly dividing cells, which can evade treatment, often contribute to relapse.

Another disadvantage of current cancer therapies that target rapidly dividing cells is their toxic side effects. Because rapidly dividing cells are also found in many healthy tissues, particularly the gastrointestinal tract, bone marrow and hair follicles, nearly all conventional chemotherapy drugs cause severe side effects, such as diarrhea and reduction in blood cell production, which may lead to bleeding, infection and anemia, as well as other side effects, such as hair loss. Likewise, radiation generally cannot be administered without causing significant damage to healthy tissue surrounding a tumor. The toxic and potentially fatal side effects of chemotherapy and radiation therapy are controlled by carefully balancing dose and dosing schedules to minimize toxicity to healthy cells and maximize cancer cell death. Unfortunately, achieving such a balance may permit rapidly dividing cancer cells to survive treatment, resulting in inadequate therapy.

Current Therapies for BPH

BPH is currently treated with drugs and, if necessary, surgery. There are two classes of drugs to treat BPH. The first, alpha adrenergic receptor blockers, work by relaxing the smooth muscle in the urethra and bladder without addressing the underlying condition of the enlarged prostate. Drugs in the second category, 5-alpha reductase inhibitors, work by blocking production of the hormones that stimulate the growth of new prostate cells but do not immediately kill existing cells. Consequently, this class of drugs has a slow onset, typically requiring daily treatment for many months before improving patient symptoms. Drugs in both classes can have significant side effects, including decreased libido, impotence and cardiovascular effects. Many patients ultimately fail existing medical therapy, leading to 350,000 surgical procedures annually in the United States, despite the risks of serious surgical complications including impotence and incontinence. The deficiencies in current therapies provide an opportunity for new drugs with improved efficacy or reduced side effects.

Metabolic Targeting

Metabolic Targeting is a therapeutic approach that targets fundamental differences in energy metabolism between normal and certain diseased cells. Cells generate energy needed for survival in two ways: the citric acid cycle and glycolysis. The citric acid cycle is a highly efficient process which provides the majority of cellular energy under normal conditions. Oxygen is essential for energy production through the citric acid cycle. Glycolysis, also called glucose metabolism, is the process by which glucose is converted to energy and is much less efficient in producing energy than the citric acid cycle. Unlike the citric acid cycle, oxygen is not required for glycolysis, and cells that rely primarily on glycolysis for energy production consume large quantities of glucose. Some diseased cells rely predominantly or exclusively on glycolysis. When these cells shift energy production to glycolysis, they must increase the levels of the proteins needed to transport and metabolize glucose. Metabolic Targeting takes advantage of these metabolic differences to selectively target certain diseased cells.

Metabolic Targeting For Cancer

Cancer cells require large amounts of glucose for energy production and growth. This increased consumption of glucose has two causes: the process of a normal cell becoming a rapidly dividing cancer cell; and the exposure of a cell to the low oxygen conditions, also called hypoxia, within those regions of most solid tumors where cells are dividing slowly. First, when cells become cancerous, they require more energy and the level of proteins needed for glucose transport and metabolism increases. Second, as a tumor grows, it rapidly outgrows its blood supply, leaving portions of the tumor with regions where the oxygen concentration is significantly lower than in healthy tissues. As a consequence, tumor cells in these hypoxic zones rely on glycolysis for energy production and therefore further increase the levels of proteins responsible for glucose transport and metabolism.

We are focused on developing new cancer therapies by targeting the intake and metabolism of glucose by cells. In one application of Metabolic Targeting, we use a cancer-killing drug linked to glucose to take advantage of

increased glucose transport proteins of cancer cells, thereby delivering the drug selectively to these cancer cells. In another application of Metabolic Targeting, we use compounds that interfere with specific steps of glycolysis. Because cancer cells depend on glycolysis to survive, these compounds substantially reduce energy production, leading to cell death. We are also pursuing drugs that incorporate both of these applications of Metabolic Targeting.

We believe that our product candidates may prove effective for treating rapidly dividing cancer cells because these cells require large amounts of energy and thus metabolize more glucose than do normal cells. Glufosfamide targets the increased glucose transport by these cells through linking a cancer-killing drug to glucose, which enters these cells at relatively higher levels compared to most normal cells. Our other product candidates target glucose metabolism directly and provide the opportunity to increase the effectiveness of current therapies that treat the rapidly dividing cells in the tumor by reducing energy production in those cells. Radiation therapy, as well as the vast majority of chemotherapy drugs, kill cells by damaging DNA or affecting DNA synthesis to prevent cell replication. However, highly energy-dependent DNA repair mechanisms can restore the integrity of a cell's DNA. The balance between the extent of DNA damage and the efficiency of cellular DNA repair thus largely determines the effectiveness of therapy. Our product candidates that reduce cellular energy production inhibit these repair mechanisms, shifting the balance from repair to damage, and may increase the efficacy of current treatments. Furthermore, cancer cells become resistant to many conventional chemotherapy drugs by a highly energy-dependent process that pumps these drugs out of the cell, reducing their effect. Our product candidates that interfere with cellular energy production can disrupt this multidrug resistance, resulting in increased chemotherapy drug accumulation within the cell, which we believe will increase the effectiveness of these chemotherapy drugs.

In addition to treating rapidly dividing cancer cells, we believe that Metabolic Targeting provides the opportunity to kill slowly dividing cancer cells within hypoxic regions, which are poorly treated by current therapies that primarily target the rapidly dividing cells. Cell proliferation in hypoxic regions is greatly inhibited due to poor blood supply leading to insufficient nutrient supply and a lack of oxygen. Slowly dividing cells within the hypoxic region also undergo genetic changes which, as they accumulate in cells, can lead to the development of still more aggressive tumor cells that are resistant to therapy. Following treatment with radiation or chemotherapy, rapidly dividing cells in the vicinity of blood vessels are destroyed, providing room for these more aggressive cells from hypoxic regions to gain access to blood vessels and oxygen. These cells, which have become resistant to treatment, are then able to grow and proliferate, ultimately contributing to relapse. Thus, current cancer therapies leave the slowly proliferating cells in the hypoxic zones largely untreated while our product candidates are designed to kill these slowly dividing cells by targeting their increased glucose transport and metabolism.

Metabolic Targeting For BPH

We are also using Metabolic Targeting to develop a new class of drugs for BPH that may offer an improvement over current treatments. BPH is an overgrowth of prostate cells that results in a tumor that can restrict urine flow and cause a number of debilitating symptoms. Like hypoxic cancer cells, prostate cells in BPH tissue depend on glycolysis for energy production. These cells divert citrate, a molecule required for energy production by the citric acid cycle, into the seminal fluid to support the sperm, and therefore these cells cannot produce energy from the citric acid cycle. This process is mediated by the accumulation of high levels of zinc, which blocks citrate metabolism and disables the citric acid cycle in these prostate cells. These cells are therefore highly dependent on glycolysis for energy production. We are focused on developing new BPH therapies by targeting the metabolism of glucose by prostate cells. Preclinical studies and our interim Phase 2 data suggest that our product candidate TH-070 inhibits glycolysis and kills prostate cells disproportionately since normal cells can rely on the citric acid cycle for energy production. Current therapies either address BPH symptoms without addressing the underlying condition, or block growth of new prostate cells without reducing prostate size. We believe our product candidate treats both the symptoms of BPH and underlying condition as well as reduces prostate size.

Our Product Development Programs

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

Product Candidate/Indication	Development Status	Expected Milestones
Glufosfamide for Pancreatic Cancer		
• Second-line single-agent	Phase 3 in progress	Enrollment complete 1Q06
• First-line in combination with Gemzar	Single-agent Phase 1 completed	Initiate Phase 1/2 in 1Q05
TH-070		
• BPH	Phase 2 interim data available	Initiate registrational program 1H05
2-Deoxyglucose (2DG)		
• Various solid tumors	Phase 1 in progress	Results by 3Q05

Glufosfamide

Our lead product candidate for cancer, glufosfamide, is a small molecule in clinical development for the treatment of pancreatic cancer. In September 2004, we initiated a pivotal Phase 3 trial to support marketing approval of glufosfamide for the second-line treatment of metastatic pancreatic cancer. As part of our registration and approval strategy, we are also planning to initiate a Phase 1/2 clinical trial in the first quarter of 2005 to evaluate various doses of glufosfamide in combination with Gemzar for the first-line treatment of inoperable locally advanced or metastatic pancreatic cancer. Animal data suggest that glufosfamide and Gemzar may work together to kill cancer cells with greater efficacy than either drug alone, without additional side effects. We believe that the unique mechanism of action of glufosfamide and its demonstrated activity in combination with Gemzar in animal studies make it well-positioned to be used in combination with Gemzar. We are developing glufosfamide for pancreatic cancer based on activity seen in previous clinical trials, a known increase in glucose uptake in pancreatic cancer cells and the extreme hypoxia in tumors of this type. In Phase 1 and Phase 2 clinical trials, glufosfamide also has shown activity in advanced stage colon cancer, non-small cell lung cancer and relapsed breast cancer but not a type of brain tumor called glioblastoma, and we believe it may offer an improvement over conventional therapies for these indications.

Glufosfamide combines the active part of an approved alkylator, a member of a widely used class of chemotherapy drugs, with a glucose molecule. Because of its glucose component and a tumor cell's increased need for glucose, glufosfamide is preferentially transported into tumors compared to most normal tissues. Thus Metabolic Targeting offers the potential to provide increased selectivity for tumor cells and thereby improve the treatment of many solid tumors. Inside cells, the linkage between glucose and the alkylator is cleaved to release the active drug. With glucose as the side product, glufosfamide has fewer side effects than other drugs in its class, which are known to cause hemorrhagic cystitis, a serious condition characterized by severe bladder bleeding.

Market Opportunity

The American Cancer Society estimates that 31,860 patients will be diagnosed with pancreatic cancer in the United States in 2004, and approximately 31,270 patients will die from the disease. Only 15-20% of newly diagnosed patients are eligible for surgery, which is typically followed by radiation and chemotherapy. Patients with inoperable pancreatic cancer are treated with radiation and chemotherapy, or in the case of advanced disease, chemotherapy alone as the advantages of radiation are reduced. Gemzar is the standard of care for the first-line therapy of advanced metastatic pancreatic cancer. The largest published trial of Gemzar in advanced pancreatic cancer reported a median survival of 5.4 months. In Gemzar's Phase 3 registrational trial, median survival was 5.7 months, and no patient survived beyond two years. In this study, patients treated with 5-flurouracil, or 5-FU, the previous standard of care, had a median survival of 4.2 months, and no patient

survived beyond two years during the study. None of the 126 patients treated in both arms of this study achieved tumor shrinkage. Estimated worldwide 2003 sales of Gemzar for pancreatic cancer were $422 million.

Prior Clinical Trials

Glufosfamide has been evaluated in two Phase 1 and five Phase 2 clinical trials that together enrolled over 200 patients with a variety of advanced-stage cancers. In the two Phase 1 trials, escalating doses of glufosfamide were administered to 72 patients with solid tumors not amenable to established treatments. Although Phase 1 trials are designed primarily to assess safety, tumor shrinkage was observed in patients with breast cancer, non-small cell lung cancer, pleural mesothelioma, renal cell carcinoma and cancers of unknown primary origin.

In the Phase 1 trials, the one patient with advanced pancreatic cancer achieved a complete remission, and more than five years after being treated with glufosfamide alone, this patient remained alive and disease-free. This example may not be representative of the activity of glufosfamide when studied in larger trials.

The five Phase 2 studies of glufosfamide were multi-center studies to evaluate tumor response in patients with locally advanced or metastatic pancreatic cancer, relapsed non-small cell lung cancer, a type of brain cancer called glioblastoma, locally advanced or metastatic colon cancer not amenable to surgery and relapsed metastatic breast cancer. Glufosfamide was well tolerated and showed anti-tumor activity against breast, colon, non-small cell lung and pancreatic cancers, but not glioblastoma.

In the Phase 2 trial in patients with advanced pancreatic cancer, two of 34 patients achieved a partial response (defined as 30% or greater tumor diameter shrinkage) and 11 of 34 patients achieved stable disease (defined as less than 30% tumor diameter shrinkage and less than 20% growth in tumor diameter). Overall median survival with glufosfamide was estimated at 5.6 months, and two-year survival was estimated at 9%. The preliminary results of this study, published in the *European Journal of Cancer* in November 2003, reported a median survival of 5.3 months.

In the Phase 1 and Phase 2 trials, glufosfamide was generally well tolerated, with few drug-related serious adverse events. In particular, glufosfamide's adverse effects on bone marrow and the kidneys were generally reversible without requiring treatment of the side effects. Only 1% of patients developed severe lowering of the blood platelets, which help to stop bleeding. Toxicity to the kidney, as measured by serum elevation in waste products normally excreted by the kidney, was severe in only 1% of patients. Nausea and vomiting is the most common side effect of glufosfamide treatment. There have been no reports of hemorrhagic cystitis in patients treated with glufosfamide.

The Phase 1 and Phase 2 trials of glufosfamide were conducted by ASTA Medica Oncology, which was subsequently acquired by a subsidiary of Baxter International. We exclusively licensed worldwide rights to the compound and associated clinical data from Baxter.

Ongoing Clinical Programs

We are planning to develop glufosfamide as a single agent for the second-line treatment of metastatic pancreatic cancer, and in combination with Gemzar for the first-line treatment of inoperable, locally advanced and/or metastatic pancreatic cancer. In September 2004, we initiated a pivotal Phase 3 trial of glufosfamide for the treatment of patients with metastatic pancreatic cancer who have failed treatment with Gemzar. This two-arm trial will compare glufosfamide to best supportive care, since there is no approved second-line treatment for pancreatic cancer. The final trial design will call for enrollment of approximately 300 patients. For its primary endpoint, this trial will compare the survival of patients treated with glufosfamide to patients who receive only best supportive care. We have received a special protocol assessment from the FDA for this trial. The special protocol assessment is a process that allows for official FDA evaluation of the proposed design of a Phase 3 clinical trial. It provides trial sponsors with an agreement on trial design and analysis required to support a new

drug application submission, if the study is performed according to the special protocol assessment and meets its primary endpoint. In addition, glufosfamide for the treatment of refractory pancreatic cancer has been granted fast track designation by the FDA. The fast track drug development program provides for expedited regulatory review for new drugs demonstrating the potential to address unmet medical needs for the treatment of serious life-threatening conditions. Moreover, the FDA will facilitate and expedite the development and review of the application for drugs in the fast track program.

As part of our registration and approval strategy, we also plan to initiate a Phase 1/2 trial in the first quarter of 2005 to evaluate glufosfamide in combination with Gemzar for the first-line treatment of advanced pancreatic cancer patients. The trial will evaluate various doses of glufosfamide in combination with the standard dose of Gemzar. The trial is intended to determine the maximum tolerated dose and clinical activity of this combination. We anticipate that approximately 47 patients will be enrolled in this trial.

Even though our immediate efforts will be focused on pancreatic cancer, the results of Phase 1 and Phase 2 clinical trials suggest that glufosfamide may also be useful for the treatment of other cancers. We expect to initiate additional glufosfamide clinical trials for other indications. Based on human clinical data, the activity of approved alkylators and our understanding of the mechanism of action of glufosfamide, we believe that breast, lung and colon cancers, as well as lymphomas and sarcomas, represent the most promising indications.

TH-070

TH-070, our lead product candidate for the treatment of BPH, is an orally administered small molecule that has been reported to inhibit glycolysis by inactivating hexokinase, the enzyme that catalyzes the first step in glycolysis. As described above, hypoxic tumor cells and certain prostate cells depend on glycolysis for their energy production. By inhibiting glycolysis, TH-070 kills prostate cells, reducing the size of the prostate, and therefore may provide an effective treatment for BPH. We have completed enrollment and are evaluating interim clinical data from a Phase 2 trial of TH-070 for the treatment of BPH. We plan to initiate a registrational program for this indication in the first half of 2005. We initially selected TH-070 to treat BPH based on our understanding that prostate cells rely predominantly on glycolysis for energy production as well as published animal data and human clinical data demonstrating tolerability.

BPH Market Opportunity

As a man ages, it is common for his prostate to enlarge. This enlargement process begins as early as age 25 but does not cause problems until later in life, when the prostate presses against the urethra and symptoms of BPH become evident. Because the prostate surrounds the urethra, BPH can restrict the flow of urine, resulting in urine retention, which can cause weakening of the bladder wall and the inability to empty the bladder completely. The most common symptoms of BPH include a weak and interrupted urine stream, urgency, leaking and frequent urination. Severe BPH can result in urinary tract infections, kidney and bladder damage, bladder stones and incontinence.

The National Institutes of Health, or NIH, estimates that more than 50% of men in their sixties and approximately 90% of men over seventy have some symptoms of BPH. Approximately 17 million men in the United States, 27 million men in five major European countries and eight million men in Japan are estimated to suffer from symptoms of the disease and could benefit from a safe and effective treatment for BPH. Approximately 21% of them have been diagnosed, of which 59% receive medical therapy. In the United States, 2.0 million men are treated with drugs. These numbers are expected to increase in the future due to increased awareness and the aging population.

The two major drugs approved to treat BPH, Flomax and Proscar, had combined worldwide revenues of over $1.6 billion in 2003. Alpha adrenergic receptor blockers, such as Flomax, work by relaxing the smooth muscle in the urethra and bladder and do not change the size of the prostate. In clinical studies of Flomax for the

treatment of BPH symptoms, the average increase in urine flow was approximately 1.8 mL/sec. after four weeks of treatment. 5-alpha reductase inhibitors, such as Proscar and recently approved Avodart, work by blocking production of the hormones that stimulate the growth of new prostate cells but do not immediately kill existing cells. Consequently, this class of drugs has a slow onset, typically requiring daily treatment for many months before improving patient symptoms. In clinical studies of Avodart, the average increase in urine flow was approximately 0.8 mL/sec. and the average decrease in prostate size was approximately 8% after four weeks of treatment.

TH-070 offers the potential to treat BPH via a novel mechanism, by reducing the prostate size through Metabolic Targeting. By directly inhibiting glycolysis in prostate cells, we expect TH-070 to reduce the size of the prostate more rapidly than current medical treatments, without the attendant side effects, which include decreased libido, impotence and cardiovascular effects.

Prior Clinical Trials and Preclinical Studies

Studies have shown that, at the highest doses studied, multiple TH-070 doses can shrink the rat prostate by over 40%, and a single oral dose of a TH-070 analog can reduce the size of the rat prostate by up to 24%. Prostate shrinkage occurs at dosages that cause no observable adverse clinical effect on the animals and can be seen within ten days of dosing.

Ongoing Clinical Program

In January 2004, we initiated a Phase 2 clinical trial managed by PPD Development, L.P. and PPD Global Limited, at the University of Bari, Italy, to evaluate the safety and efficacy of TH-070 in patients with symptomatic BPH. This trial is an open-label, two-arm study designed to enroll a total of 60 patients in two 30-patient dosing schedules of TH-070, 150 mg once a day and 150 mg three times a day. These doses and dosing schedules were based on animal efficacy data as well as human safety data. Based on promising interim data from the low-dose group of patients in this study, we elected not to enroll the high-dose group and instead plan to initiate a registrational program for TH-070 to treat BPH in the first half of 2005.

In our Phase 2 trial, patients are being evaluated at several dates for specific efficacy variables, including prostate size, maximum urine flow rate, prostate specific antigen levels, or PSA, and an assessment of each patient's BPH symptoms called the International Prostate Symptom Score, or IPSS. IPSS is a clinically validated seven question, self-administered questionnaire to assess lower urinary tract symptoms. These efficacy variables include those that have been used as endpoints in previous clinical trials that led to FDA approval of currently marketed BPH drugs. The primary endpoint specified in the protocol for our trial is a comparison of prostate size between baseline and day 28 of treatment.

In the trial we observed statistically significant improvements in all variables measured by day 14 of treatment, and further improvements by day 28. All p-values were less than 0.005, except for day 14 PSA levels. A p-value is a statistical term that indicates the probability that a desired result is random. The smaller the p-value, the lower the likelihood that the desired result was random. A p-value of 0.05 or less is considered statistically significant. These interim results are shown in the table below.

	Percentage Change from Baseline			
	Prostate Size	Maximum Urine Flow Rate	IPSS	PSA
Day 14	– 7.4%	+33.0%	not determined	– 2.7%
Day 28	–13.5%	+47.9%	–44.2%	–24.3%

In particular, at day 28 of treatment the average decrease in prostate size was 7.1 cc (–13.5%), the average increase in maximum urine flow rate was 4.5 mL/sec. (+47.9%), the average decrease in IPSS was 8.4 units (–44.2%) and the average decrease in PSA levels was 0.9 ng/mL (–24.3%). TH-070 was well tolerated with no

therapy-related side effects. We continue to follow all patients enrolled and treated in the trial and will do so for a period of six months from first treatment. The purpose of looking at longer-term data is to determine whether the improvements are sustained after the treatment regimen has been completed.

We expect to publish detailed results of this trial in the second quarter of 2005. Based on the interim results, we intend to initiate a registrational program of TH-070 for the treatment of BPH in the first half of 2005. Our registrational program will include multiple multicenter, randomized, double-blinded, placebo-controlled studies, including at least one dose-comparison study. Although our final trial design is not complete, in these Phase 3 trials we expect to measure the same variables we are measuring in our Phase 2 trial. We expect to commence two Phase 3 trials in the first half of 2005.

2-Deoxyglucose (2DG)

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

We are conducting a Phase 1 trial of daily 2DG as a single agent and in combination with Taxotere to evaluate the safety, blood levels and maximum tolerated dose in patients with solid tumors. Animal studies suggest that 2DG and Taxotere may work together to kill cancer cells with greater efficacy than either drug alone, without increased risk of side-effects. We plan to also conduct a Phase 1 trial of single doses of 2DG to evaluate its effect on prostate metabolism. We are developing 2DG based on its specificity for targeting tumor cells and extensive human safety data, as well as recently demonstrated animal efficacy that we and our collaborators at the University of Miami published in *Cancer Research* in January 2004.

Clinical Trials

2DG has been administered in clinical trials to approximately 700 people principally to evaluate the hormonal and metabolic effects of glucose deprivation. Collectively, these studies have shown that single intravenous doses of 2DG as high as 200 mg/kg do not cause any serious adverse events. Although this data supports the safe use of 2DG in humans, we have not yet obtained human safety data for the cumulative dose or oral administration of 2DG we intend to use in our clinical trials. The FDA may require such data before allowing us to proceed into pivotal clinical trials that will support approval.

We launched a Phase 1 clinical trial of 2DG in January 2004 at the University of Miami and have initiated a second site at the Cancer Therapy and Research Center, located in San Antonio, Texas. This trial is a dose-escalation study to determine the safety, blood levels and maximum tolerated dose of daily oral doses of 2DG given alone or in combination with Taxotere. The study is intended to enroll up to 50 patients with previously treated refractory advanced solid tumors. The study will also evaluate the effect of 2DG alone and in combination with Taxotere on tumor metabolism, and provide a preliminary assessment of efficacy, as assessed by computer tomography. We expect initial data from the study to be available by the third quarter of 2005.

Provided our safety study yields favorable results, we are planning to initiate Phase 2 studies that will be randomized, blinded, multiple-dose studies designed to evaluate the safety and efficacy of 2DG given in

combination with chemotherapy. We will choose two indications and appropriate chemotherapy drugs for our Phase 2 program based on the results of the ongoing Phase 1 trial.

We plan to conduct a second Phase 1 trial of a single dose of 2DG in patients with prostate cancer. This study will evaluate the biological effect of 2DG on metabolism in the prostate. This study will provide additional data on the safety, tolerability and blood levels of 2DG.

Discovery Research

We have research programs focused on the design and development of novel cytotoxic prodrug compounds. A prodrug is an inactive compound that is converted in the human body either by spontaneous chemical reactions or enzymatic processes that result in the formation of an active drug. The prodrug concept is well established in chemotherapy, but it was initially only employed to modify the pharmacokinetic properties of compounds through non-specific activation processes. Only more recently has the concept been put to use in the design of agents that are selectively activated in tumor tissues through specific activation processes.

Our prodrugs have two distinct parts, a toxic portion and an attached trigger molecule. To prevent general toxicity, the trigger molecule masks the toxin until the prodrug is activated by low oxygen concentration in the target tissue. Once activated, the toxin kills cells in its vicinity. We have designed prodrugs that are triggered only at the very low oxygen levels found in the hypoxic regions of solid tumors. Our experiments indicate that we can achieve a greater than 100-fold difference in cytotoxicity between cells in normal oxygen levels and hypoxic cells. We have identified lead compounds with promising *in vitro* data, and additional characterization, evaluation and optimization of these compounds is currently underway.

In addition, we have an active effort to develop new formulations of TH-070 and identify additional compounds suitable for development as BPH products. Our efforts include de novo compound discovery, as well as evaluation of existing compounds.

Our expertise includes broad capabilities in target identification and validation, assay development and compound screening. Our medicinal chemistry expertise includes the use of state-of-the-art technologies to turn initially promising compounds generated by our chemists into drug candidates. We believe that our research focus combined with our medicinal chemistry expertise provide us with the capacity to identify, discover and develop novel therapies.

Our Strategy

Our goal is to create a leading biotechnology company that develops and commercializes drugs based on Metabolic Targeting with an initial focus on cancer and BPH. Key elements of our strategy are to:

- *Develop glufosfamide, TH-070 and 2DG successfully.* For glufosfamide, we have an ongoing Phase 3 trial for the second-line treatment of metastatic pancreatic cancer and expect to begin a Phase 1/2 trial in the first quarter of 2005 for the first-line treatment of inoperable locally advanced or metastatic pancreatic cancer. For TH-070, we have an ongoing Phase 2 trial for the treatment of BPH and expect to begin two Phase 3 trials for the treatment of BPH in the first half of 2005. For 2DG, we have an ongoing Phase 1 trial to evaluate the safety, blood levels and maximum tolerated dose in patients with solid tumors. We intend to advance all of our clinical programs as aggressively as possible, and assuming clinical results are positive, expect to file NDAs with the FDA and other foreign regulation agencies for our two lead product candidates, glufosfamide and TH-070, within three years. We are also exploring additional indications for these product candidates.
- *Continue to broaden our pipeline by identifying, discovering and developing new compounds.* We are actively pursuing a focused research program based on Metabolic Targeting to discover and develop

novel therapies that address major unmet medical needs. We also plan to continue to evaluate additional in-licensing opportunities that build on our expertise and complement our current development pipeline.

- *Build on our expertise in Metabolic Targeting through continued research in cellular metabolism.*We intend to continue our focused approach in research and clinical development. We believe our expertise in Metabolic Targeting gives us an advantage in the identification of new product candidates, therapeutic indications and technologies. We will also leverage the expertise of our scientific and clinical advisors and continue to enter into collaborations with other experts in the field.
- *Develop sales and marketing capabilities in select markets.* We intend to retain commercial rights to our products for indications and territories where we believe we can effectively market them. For all other indications and territories, we intend to pursue strategic collaborations.

Manufacturing and Supply

The production of glufosfamide, TH-070 and 2DG employs small molecule organic chemistry procedures that are standard for the pharmaceutical industry. We currently rely on contract manufacturers for the manufacture of API and final drug product of glufosfamide, TH-070, 2DG, and any other products or investigational drugs for development and commercial purposes. We intend to continue to use our financial resources to accelerate the development of our product candidates rather than diverting resources to establishing our own manufacturing facilities.

We currently have sufficient supplies of glufosfamide drug product to conduct and complete our planned clinical trials, which have been prepared by a subsidiary of Baxter International, Inc. Our supply of glufosfamide has been stable for the past two years; however, should our current supply not remain stable, we may experience a significant delay in the completion of our pivotal Phase 3 trial. We are in the process of qualifying back-up vendors to manufacture glufosfamide API and drug product, although we may not be able to do so at acceptable cost or terms, if at all.

We believe that we have sufficient supplies of TH-070 API to conduct and complete our two currently planned BPH clinical trials. We have ordered additional TH-070 API from Jiangsu Hengrui Medicine Company, Ltd. We have recently entered into an agreement with Pharmaceutics International, Incorporated for manufacture of TH-070 drug product. We have not yet received any API or drug product from these manufacturers. The failure of Pharmaceutics International to meet quality requirements or otherwise perform its obligations could significantly delay our TH-070 clinical program. In addition, failure of Jiangsu Hengrui Medicine Company to provide acceptable API could delay commercialization of TH-070, if approved.

We believe that we have a sufficient supply of 2DG for our anticipated clinical trials over the next two years, although there can be no assurance that these supplies will remain stable and usable during this period. If these materials are not stable, we may experience a significant delay in our 2DG clinical program.

Sales and Marketing

We intend to build our own sales force to market our cancer drugs and to maintain all commercial rights to our cancer products in the United States and potentially in Europe. Because the United States cancer market is relatively concentrated, we believe we can effectively target it with a small specialized sales force. We may pursue strategic collaborations to commercialize our products in other territories for cancer and on a worldwide basis for indications treated by large physician populations, such as BPH. We currently have no marketing, sales or distribution capabilities. In order to commercialize any of our drug candidates, we must develop these capabilities internally or through collaborations with third parties.

License and Development Agreements

TH-070 License

In June 2004, we entered into an agreement with Acraf, S.p.a., for rights to use Acraf's regulatory documents and pre-clinical and clinical information pertaining to the active ingredient in TH-070 for our regulatory filings on TH-070-based products and for obtaining marketing authorizations world-wide for such products. Our license is exclusive in territories other than specified European Union countries, including France, Germany, Great Britain, Italy, Portugal, Spain and Hungary, certain eastern European countries and certain countries in the former Soviet Union, which we call the Acraf Territory. In the Acraf Territory, our rights are non-exclusive. Additionally, under the agreement, Acraf will own all intellectual property rights with respect to the information licensed to us and we will own the intellectual property rights to any data that we obtain from our clinical trials related to anti-cancer activity pursuant to an agreed-upon development plan and, to the extent we conduct trials for certain cancer indications, we granted Acraf a co-exclusive license to use such data and any patents thereon in the Acraf Territory for purposes of supporting use of TH-070 for cancer indications.

In consideration for our licenses under this agreement, we paid Acraf a one-time payment of €300,000, or approximately $374,000. We will also pay Acraf milestone payments, with the next such milestone payment due in connection with the marketing approval of our first TH-070-based product in certain territories. In addition, there is a sales-based milestone due when sales of a TH-070 containing Threshold product exceed €50 million in one year. Future aggregate milestone payments could total €1.8 million. We have also agreed to use reasonable business efforts to determine whether development of TH-070 for other cancer indications should be pursued.

We purchased from Acraf 22 kilograms of active ingredient of TH-070 for a purchase price of €75,000. We also granted Acraf a first right to manufacture and supply 75 percent of the TH-070 active ingredient that we require on terms that are no less favorable than we could obtain from a third-party supplier. Acraf's supply right begins in June 2006 and extends for 10 years from the date of our first launch of our TH-070-based products unless Acraf fails to meet the terms offered by a third-party supplier, in which case Acraf's supply right will terminate.

Our licenses from Acraf under the agreement extend for fifteen years from the date of our first launch of the first TH-070-based products in exclusive territories. Acraf's licenses under the agreement extend for fifteen years following Acraf's first launch of any product in the Acraf Territory.

Glufosfamide License

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

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

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

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

Glufosfamide Asian Development Agreement

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

Under this agreement, we are due to receive an upfront payment of $4.75 million to support the development of glufosfamide in the Asian countries covered by the agreement and an option payment of $250,000. We will be required to refund these payments and the agreement will terminate if we and MediBIC cannot agree to the development plan described above by March 1, 2005, or a later date agreed by the parties. We are responsible for all development activities and MediBIC has no other funding obligations. We have agreed to pay MediBIC a percentage of net sales or net revenues from the sales of glufosfamide products for the treatment of cancer by us or third parties in the Asian countries covered by the agreement. We may also be required to pay MediBIC a percentage of up front or milestone payments we receive from any third-party sublicensee of ours for the development of a glufosfamide product for the treatment of cancer in those Asian countries. In addition, until July 1, 2005, or earlier if we terminate our agreement with MediBIC, we have agreed not to offer any party other than MediBIC the right to develop glufosfamide in the Asian countries covered by the agreement, except in connection with an acquisition of us or certain other transactions. We may terminate this restriction at any time by refunding the $250,000 option payment to MediBIC.

Our agreement with MediBIC will terminate if we and MediBIC do not agree to a development plan as described above by March 1, 2005, or a later date agreed by the parties. We may also terminate the agreement at any time by making certain payments to MediBIC ranging from $5.25 to $15 million, depending on the stage of development. Otherwise, the agreement will continue until the expiration of the last-to-expire patent in a country in the Asian territories covered by the agreement that is owned or controlled by us and claims glufosfamide, its use for the treatment of cancer or a process to make such compound in such country.

2DG License

In November 2002, we entered into an exclusive license agreement with Dr. Theodore J. Lampidis and Dr. Waldemar Priebe. This agreement gives us exclusive worldwide rights to international patent application US01/07173, to all of its United States counterpart and priority applications, and any United States and foreign patents and patent applications that claim priority from such application. One United States patent licensed under

this agreement has been issued. This patent and related pending applications cover the treatment of cancer with 2DG in combination with certain other cancer drugs.

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

The U.S. government funded research conducted by Drs. Lampidis and Priebe. Under the "march-in" provisions of the Bayh-Dole Act, which governs the transfer of technology developed under federal grants and contracts, the government may have the right under limited circumstances to grant licenses to the technology.

Patents and Proprietary Rights

Our policy is to patent the technologies, inventions and improvements that we consider important to the development of our business. As of September 30, 2004, we hold exclusive commercial rights to two issued United States patents, 24 issued foreign counterparts of one of these patents, three foreign counterpart applications and two United States continuation applications of the other of these patents and one additional foreign patent.

Intellectual Property Related to Glufosfamide

Our glufosfamide product candidate is covered by one issued United States patent and 24 foreign counterpart patents, as well as one foreign patent relating to its manufacture. These patents are owned by Baxter, which has exclusively licensed them to us. The major European market counterparts of the United States patent expire in 2009, and the United States patent expires in 2014. Under the Hatch-Waxman Act in the United States, and similar laws in Europe, there are opportunities to extend the term of a patent for up to five years. Although we believe that our glufosfamide product candidate will meet the criteria for patent term extensions, there can be no assurance that we will obtain such extensions. Based on our current clinical timeline, if such an extension were obtained we expect that it would be for approximately three years or less. In addition, we have filed an international patent application describing methods for the identification of patients likely to be most responsive to glufosfamide therapy and a United States provisional patent application describing the use of glufosfamide in combination with gemcitabine to treat cancer.

Intellectual Property Related to TH-070

Our TH-070 product candidate for BPH is protected by one United States patent application claiming methods of treating BPH, as well as one international counterpart of this application. In addition, we have filed an international patent application that broadly claims the use of glycolytic inhibitors to treat BPH. We have also filed five provisional United States patent applications relating to TH-070 analogs and prodrugs.

Intellectual Property Related to 2DG

Our 2DG product candidate is protected by one issued United States patent claiming methods for treating breast cancer with 2DG and either paclitaxel or docetaxel (Taxotere), as well as two pending United States applications claiming the use of 2DG and other glycolytic inhibitors in combination with certain other cancer drugs, and three pending foreign counterpart applications. We have licensed exclusive commercial rights to these patents from the inventors. In addition, we own one pending United States application and its international counterpart claiming methods for dosing, administering and formulating 2DG to treat cancer.

Intellectual Property Related to Our Discovery Research

Our hypoxia-activated prodrugs are protected by one provisional United States patent application and one international patent application claiming the compounds and their use as cancer drugs.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our technology will depend on our success in obtaining effective claims and enforcing those claims once granted. We do not know whether any of our patent applications will result in the issuance of any patents. Moreover, any issued patent does not guarantee us the right to practice the patented technology or commercialize the patented product. Third parties may have blocking patents that could be used to prevent us from commercializing our patented products and practicing our patented technology. Our issued patents and those that may be issued in the future may be challenged, invalidated or circumvented, which could limit our ability or render us unable to stop competitors from marketing related products as well as shorten the term of patent protection that we may have for our products. In addition, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages against competitors with similar technology. Furthermore, our competitors may independently develop similar technologies that do not infringe our intellectual property rights. For these reasons, we may have competition for our products. Moreover, because of the extensive time required for development, testing and regulatory review of a potential therapeutic product, it is possible that, before any of our products can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

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

The biotechnology and biopharmaceutical industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. For so long as our product candidates are in clinical trials, we believe our clinical activities fall within the scope of the exemptions provided by 35 U.S.C. Section 271(e) in the United States, which exempts from patent infringement liability activities reasonably related to the development and submission of information to the FDA. This exemption does not apply to commercialization activities, however, so if our product candidates are commercialized, the possibility of a patent infringement claim against us increases. While we attempt to ensure that our clinical product candidates and the methods we employ to manufacture them, as well as the methods for their use we intend to promote, do not infringe other parties' patents and other proprietary rights. However, there can be no assurance that they do not, and competitors or other parties may assert that we infringe their proprietary rights in any event.

Competition

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

Competition for our Cancer Product Candidates

Each cancer indication for which we are developing products has a number of established medical therapies with which our candidates will compete. Most major pharmaceutical companies and many biotechnology companies are aggressively pursuing cancer development programs, including traditional therapies and therapies

with novel mechanisms of action. Our glufosfamide product candidate for pancreatic cancer will compete with Gemzar, marketed by Lilly, and 5-flurouracil, or 5-FU, a generic product which is sold by many manufacturers. Estimated worldwide 2003 sales of Gemzar for pancreatic cancer were $422 million. In Gemzar's Phase 3 registrational trial, no patient survived beyond two years. In addition, Camptosar®, marketed by Pfizer, and Taxotere, marketed by Aventis, are under investigation as possible combination therapies for first-line treatment of pancreatic cancer, and Tarceva, under development by OSI Pharmaceuticals, Genentech and Roche, is being evaluated as a single-agent therapy for the first-line treatment of pancreatic cancer. Orathecin™ from SuperGen is under NDA review by the FDA for second-line treatment of pancreatic cancer. PANVAC-VF, a vaccine under development by Therion Biologics, is also entering Phase 3 trials as a second line treatment for pancreatic cancer.

Competition for our BPH Product Candidate

Our TH-070 product candidate for the treatment of BPH will compete with alpha adrenergic receptor blockers, including Flomax®, co-marketed by Boehringer Ingelheim and Abbott Laboratories, and Cardura®, marketed by Pfizer, and with 5-alpha reductase inhibitors, including Proscar®, marketed by Merck, Avodart®, marketed by GlaxoSmithKline, and Xatral®, marketed by the sanofi-aventis Group. In addition, we are aware that other companies are developing drugs for the treatment of BPH. We also will compete with other treatment alternatives such as surgery and other non-drug interventions. The leading BPH drugs are Flomax, which had worldwide 2003 sales of approximately $1 billion, and Proscar, which had worldwide 2003 sales of approximately $600 million. Alpha adrenergic receptor blockers, such as Flomax, work by relaxing the smooth muscle in the urethra and bladder and do not address the underlying condition of the enlarged prostate. 5-alpha reductase inhibitors, such as Proscar, work by blocking production of the hormones that stimulate the growth of new prostate cells but do not immediately kill existing cells. Consequently, this class of drugs has a slow onset, typically requiring daily treatment for many months before improving patient symptoms. Drugs in both classes can have significant side effects, including decreased libido, impotence and cardiovascular effects. Many patients ultimately fail existing medical therapy, leading to 350,000 surgical procedures annually in the United States, despite the risks of serious surgical complications including impotence and incontinence.

Governmental Regulation and Product Approval

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

United States Regulation

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

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

- pre-clinical laboratory and animal tests;
- submission of an investigational new drug application, or IND, which must become effective before human clinical trials may begin;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the proposed drug for its intended use;

- pre-approval inspection of manufacturing facilities and selected clinical investigators; and
- FDA approval of a new drug application, or NDA, or of a NDA supplement (for subsequent indications).

Preclinical Testing

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

Clinical Trials

Clinical trials for new drug candidates are typically conducted in three sequential phases that may overlap. In Phase 1, the initial introduction of the drug candidate into human volunteers, the emphasis is on testing for safety or adverse effects, dosage, tolerance, metabolism, distribution, excretion, and clinical pharmacology. Phase 2 involves studies in a limited patient population to determine the initial efficacy of the drug candidate for specific targeted indications, to determine dosage tolerance and optimal dosage and to identify possible adverse side effects and safety risks. Once a compound shows evidence of effectiveness and is found to have an acceptable safety profile in Phase 2 evaluations, pivotal Phase 3 trials are undertaken to more fully evaluate clinical outcomes and to establish the overall risk/benefit profile of the drug, and to provide, if appropriate, an adequate basis for product labeling. During all clinical trials, physicians will monitor patients to determine effectiveness of the drug candidate and to observe and report any reactions or safety risks that may result from use of the drug candidate. The FDA, the IRB, or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects are being exposed to an unacceptable health risk.

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

review of a NDA may involve review and recommendations by an independent FDA advisory committee. The FDA may deny approval of a NDA or NDA supplement if the applicable regulatory criteria are not satisfied, or it may require additional clinical data and/or an additional pivotal Phase 3 clinical trial. Even if such data are submitted, the FDA may ultimately decide that the NDA or NDA supplement does not satisfy the criteria for approval.

Data Review and Approval

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

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

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

Fast Track Approval

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

Orphan Drug Designation

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

We intend to file for orphan drug designation for all of our oncology product candidates. Obtaining FDA approval to market a product with orphan drug exclusivity may not provide us with a material commercial advantage.

Drug Price Competition and Patent Term Restoration Act of 1984

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

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

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

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

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

Foreign Approvals

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

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

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

Other Government Regulation

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

Legal Proceedings

We are not currently involved in any material legal proceedings.

Facilities

We sublease approximately 15,000 square feet of laboratory and office space in South San Francisco, California, under an agreement that terminates in December 2004. We have entered into a lease agreement for approximately 33,700 square feet of laboratory and office space in Redwood City, California, under an agreement that terminates in February 2010. We anticipate relocating to this facility by January 2005.

Employees

As of November 30, 2004 we had 42 employees, including 11 who hold Ph.D. and/or M.D. degrees. 25 of our employees are engaged in research and development, and our remaining employees are management or administrative staff. None of our employees is subject to a collective bargaining agreement. We believe that we have good relations with our employees.

MANAGEMENT

Officers and Directors

The following table sets forth, as of November 30, 2004, information about our executive officers and directors.

Name	Age	Position(s)
Executive Officers and Directors		
Harold E. Selick, Ph.D.	50	Chief Executive Officer and Director
George F. Tidmarsh, M.D., Ph.D.	44	Founder, President and Director
Janet I. Swearson	56	Chief Financial Officer, Vice President Finance and Operations
Wilfred E. Jaeger, M.D.[(1)(2)]	48	Director
Michael F. Powell, Ph.D.[(1)(2)(3)]	50	Director
Ralph E. Christoffersen, Ph.D.[(2)(3)]	66	Director
Patrick G. Enright[(1)(3)]	42	Director
William A. Halter	44	Director
George G.C. Parker, Ph.D.	65	Director
Significant Employee		
Mark G. Matteucci, Ph.D.	50	Vice President of Discovery

(1) Member of the audit committee
(2) Member of the compensation committee
(3) Member of the nominating and governance committee

Harold E. Selick, Ph.D. joined us as Chief Executive Officer in May 2003. Since June 2002, Dr. Selick has been a Venture Partner of Sofinnova Ventures, Inc., a venture capital firm. From January 1999 to April 2002, he was Chief Executive Officer of Camitro Corporation, a biotechnology company. From 1992 to 1999, he was at Affymax Research Institute, the drug discovery technology development center for Glaxo Wellcome plc, most recently as Vice President of Research. Prior to working at Affymax he held scientific positions at Protein Design Labs, Inc. and Anergen, Inc. Dr. Selick received his B.S. and Ph.D. from the University of Pennsylvania and was a Damon Runyon-Walter Winchell Cancer Fund Fellow and an American Cancer Society Senior Fellow at the University of California, San Francisco.

George F. Tidmarsh, M.D., Ph.D. is our founder and has served as a member of our board of directors and as our President since October 2001. From April 2001 to September 2001, Dr. Tidmarsh was an entrepreneur-in-residence at Three Arch Partners, the venture capital firm that provided initial financing to the company. From October 1996 to December 2000, he held various positions at Coulter Pharmaceuticals, Inc., including chief medical officer from September 1998. Prior to that he held scientific and clinical positions at SEQUUS, Gilead Sciences and SyStemix, Inc. He received his M.D. and Ph.D. from the Stanford University School of Medicine where he also completed fellowships in Pediatric Oncology and Neonatal Intensive Care. In addition, he has been a clinical staff member at Stanford Children's Hospital and El Camino Hospital.

Janet I. Swearson has served as our Chief Financial Officer and Vice President, Finance and Operations since September 2002. From 1999 to 2001, Ms. Swearson was Chief Financial Officer and Vice President, Finance and Operations of Camitro Corporation, a biotechnology company. From 1997 to 1999, she was Chief Financial Officer and Vice President, Finance and Administration of IntraBiotics Pharmaceuticals, Inc., a biotechnology company. From 1991 to 1997, Ms. Swearson served in a variety of positions at Affymax Research Institute, including Vice President, Finance and Operations, Senior Director, Director and Controller. She received her B.A. from the University of Minnesota, Duluth and her M.B.A. from Santa Clara University.

Wilfred E. Jaeger, M.D. has served as a member of our board of directors since 2001. He has been a Partner of Three Arch Partners, a venture capital firm, since 1993. Dr. Jaeger serves as a director of a number of private

companies. He received his B.S. from the University of British Columbia, his M.D. from the University of British Columbia School of Medicine and his M.B.A. from Stanford University.

Michael F. Powell, Ph.D. has served as a member of our board of directors since 2001. He has been a Managing Director of Sofinnova Ventures, Inc., a venture capital firm, since 1997. Dr. Powell was Group Leader of Drug Delivery at Genentech, Inc. from 1990 to 1997. From 1987 to 1990, he was the Director of Product Development for Cytel Corporation, a biotechnology firm. He was recently an Adjunct Professor at the University of Kansas and an editorial board member of several pharmaceutical journals. Dr. Powell also serves on the board of directors of Seattle Genetics, Inc. and a number of private companies. He received his B.S. and Ph.D. from the University of Toronto and completed his post-doctorate work at the University of California.

Ralph E. Christoffersen, Ph.D. has served as a member of our board of directors since 2003. He has been a Partner of Morgenthaler Ventures, a private equity firm, since 2001. From 2001 to 2002, he was Chairman of the Board of Ribozyme Pharmaceuticals, Inc., a company involved in developing ribozyme-based therapeutic agents, and from 1992 to 2001, he was Chief Executive Officer and President of Ribozyme Pharmaceuticals. Prior to joining Ribozyme Pharmaceuticals, he was the Senior Vice President of Research at SmithKline Beecham Corporation, Vice President of Discovery Research at The Upjohn Company and President of Colorado State University. Dr. Christoffersen also serves as a director of Serologicals Corp. and a number of private companies. He received his B.S. from Cornell College and his Ph.D. from Indiana University and did his post-doctorate work at Nottingham University, United Kingdom and Iowa State University. He also holds an honorary doctor of law degree from Cornell College.

Patrick G. Enright has served as a member of our board of directors since 2003. He has been a Principal of Pequot Capital Management, Inc., an investment management firm, and a General Partner of Pequot's venture capital and private equity funds since June 2002. From 1998 to 2001, Mr. Enright was a Managing Member of Diaz & Atschul Group, LLC, a principal investment group. From 1995 to 1998, he served in various executive positions at Valentis, Inc., including Senior Vice President, Corporate Development and Chief Financial Officer. From 1993 to 1994, he was Senior Vice President of Finance and Business Development for Boehringer Mannheim Therapeutics, a pharmaceutical company and a subsidiary of Corange Ltd. From 1989 to 1993, Mr. Enright was employed at PaineWebber Incorporated, an investment banking firm, where he became a Vice President in 1992. Mr. Enright is also currently a director of Valentis, Inc. and a number of private companies. Mr. Enright received his B.S. from Stanford University and his M.B.A. from the Wharton School of Business at the University of Pennsylvania.

William A. Halter has served as a member of our board of directors since October 2004. Mr. Halter was Acting Commissioner and Deputy Commissioner of the Social Security Administration from 1999 to 2001. From 1993 to 1999, Mr. Halter served as Senior Advisor of the Office of Management and Budget in the Executive Office of the President of the United States. Mr. Halter also served as Economist for the Joint Economic Committee of Congress and as Chief Economist for the U.S. Senate Committee on Finance. Prior to entering public service, he was an Associate at McKinsey and Company. Mr. Halter is a Trustee Emeritus of Stanford University where he chaired the Academic Policy Committee and serves on the Humanities and Sciences Council and Stanford Medical School's National Advisory Council. Mr. Halter also serves on the Board of Directors of Akamai Technologies, Inc., Intermune, Inc., webMethods, Inc. and Xenogen, Inc. Mr. Halter received his B.A. from Stanford University and his M.Phil. in Economics from Oxford University where he was a Rhodes Scholar.

George G.C. Parker, Ph.D. has served as a member of our board of directors since October 2004. Dr. Parker is the Dean Witter Distinguished Professor of Finance and Management and previously Senior Associate Dean for Academic Affairs and Director of the MBA Program, Graduate School of Business, Stanford University. He serves as a director of Continental Airlines, Inc., Affinity Group International, Inc., BGI Mutual Funds, Tejon Ranch Company, Converium Holding AG and First Republic Bank. Dr. Parker received his B.A. from Haverford College and his M.B.A. and Ph.D. from Stanford University.

Mark G. Matteucci, Ph.D. joined us as Vice President of Discovery in August 2003. From 1999 to 2002, he provided medicinal chemistry consultation to several biotechnology companies. From 1988 to 1999, he was the

Director of Bioorganic Chemistry at Gilead Sciences, Inc. where he was the first scientist hired and established that company's research program in nucleic acid targeting. Prior to joining Gilead Sciences. Dr. Matteucci was a scientist at Genentech, Inc. Dr. Matteucci received his B.S. from the Massachusetts Institute of Technology and Ph.D. from the University of Colorado.

Scientific and Clinical Advisors

The following persons are scientific and clinical advisors to the company:

Member	Affiliation	Specialty
James Abbruzzese, M.D.	MD Anderson Cancer Center	Oncology
Michael Brawer, M.D.	Northwest Prostate Institute	Urology
Stephen Carter, M.D.	Former Head of Worldwide Clinical Development, Bristol-Myers Squibb	Oncology
Stuart Holden, M.D.	Warschaw Prostate Cancer Center, Cedars Sinai Medical Center	Urology
Theodore J. Lampidis, Ph.D.	University of Miami	Tumor Cell Metabolism
Bernard Landau, M.D.	Case Western Reserve University	Metabolism and Biochemistry
Marc Lippman, M.D.	University of Michigan	Oncology
Claus G. Roehrborn, M.D.	University of Texas	Urology
Brian Seed, Ph.D.	Harvard University	Molecular Biology
Jonathan W. Simons, M.D.	Emory University	Hematology and Oncology
Alan Venook, M.D.	University of California, San Francisco	Oncology
Richard Wahl, M.D.	The Johns Hopkins University	Nuclear Medicine, Radiology and Positron Emission Tomography Nuclear Medicine

Board of Directors

We currently have eight directors. In accordance with the terms of our amended and restated certificate of incorporation, the terms of office of the directors are divided into three classes:

- the class I directors are Dr. Michael F. Powell and Dr. Ralph E. Christoffersen; their term will expire at the annual meeting of stockholders to be held in 2005.
- the class II directors are Dr. Wilfred E. Jaeger, Dr. George F. Tidmarsh and Mr. Patrick G. Enright; their term will expire at the annual meeting of stockholders to be held in 2006.
- the class III directors are Mr. William A. Halter, Dr. George G.C. Parker and Dr. Harold E. Selick; their term will expire at the annual meeting of stockholders to be held in 2007.

At each annual meeting of stockholders, or special meeting in lieu thereof, after the initial classification of the board of directors, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election or special meeting held in lieu thereof. The authorized number of directors may be changed only by resolution adopted by a majority of the board of directors. This classification of the board of directors may have the effect of delaying or preventing changes in control or management.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and governance committee.

Audit Committee

Our audit committee consists of Mr. Patrick G. Enright (chair), Dr. Wilfred E. Jaeger and Dr. Michael F. Powell. Our audit committee oversees our corporate accounting and financial reporting process. Our audit committee appoints our independent auditor and oversees and evaluates their work, ensures written disclosures and communicates with the independent auditor, meets with management and the independent auditor to discuss our financial statements, meets with the independent auditor to discuss matters that may affect our financial statements and approves all related party transactions. Mr. Enright will be our audit committee financial expert under the SEC rules implementing Section 407 of the Sarbanes-Oxley Act of 2002. We believe that the composition of our audit committee meets the requirements for independence under the current requirements of the Sarbanes-Oxley Act of 2002, the NASDAQ National Market and SEC rules and regulations. We believe that the functioning of our audit committee complies with the applicable requirements of the Sarbanes-Oxley Act of 2002, the NASDAQ National Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Compensation Committee

Our compensation committee consists of Dr. Ralph E. Christoffersen (chair), Dr. Wilfred E. Jaeger and Dr. Michael F. Powell. Our compensation committee will develop and review compensation policies and practices applicable to executive officers, review and recommend goals for our Chief Executive Officer and evaluate his performance in light of these goals, review and evaluate goals and objectives for other officers, oversee and evaluate our equity incentive plans and review and approve the creation or amendment of our equity incentive plans. We believe that the composition of our compensation committee meets the requirements for independence under, and the functioning of our compensation committee complies with, any applicable requirements of the Sarbanes-Oxley Act of 2002, the NASDAQ National Market and SEC rules and regulations. We intend to comply with future requirements to the extent they become applicable to us.

Nominating and Governance Committee

Our nominating and governance committee consists of Dr. Michael F. Powell (chair), Mr. Patrick G. Enright and Dr. Ralph E. Christoffersen. The committee will recommend nominees to the board of directors. Procedures for the consideration of director nominees recommended by stockholders are set forth in our amended and restated bylaws, which will be effective upon completion of this offering.

Director Compensation

Mr. William A. Halter and Dr. George G.C. Parker each receive $20,000 as an annual retainer, $2,500 for any in-person board meeting attended in excess of five in-person meetings per year, $500 for any telephonic board meeting attended, $1,000 per year for service on a board committee, if any, and $2,500 for service as a committee chairperson, if any. We have not provided cash compensation to our other non-employee directors for their services as directors. All of our directors are entitled to reimbursement for all reasonable out-of-pocket expenses incurred in connection with attendance at board and committee meetings.

Following the completion of this offering, all non-employee directors may receive automatic options grants under the 2004 Equity Incentive Plan as more fully described in the section entitled “Employee Benefit Plans—2004 Equity Incentive Plan.” All employee directors who are not 5% owners of the company will be eligible to participate in our 2004 Employee Stock Purchase Plan, as more fully described in the section entitled “Employee Benefit Plans—2004 Employee Stock Purchase Plan.”

Compensation Committee Interlocks and Insider Participation

Prior to establishing the compensation committee, the board of directors as a whole made decisions relating to compensation of our executive officers. No member of the board of directors or the compensation committee serves as a member of the board of directors or compensation committee of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Limitation of Liability and Indemnification of Officers and Directors

Our amended and restated certificate of incorporation limits the liability of directors to the maximum extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by law, including if he or she is serving as a director, officer, employee or agent of another company at our request. We believe that indemnification under our bylaws covers at least negligence and gross negligence on the part of indemnified parties. Our bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in connection with their services to us, regardless of whether our bylaws permit such indemnification.

We have entered into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our bylaws. These agreements, among other things, provide that we will indemnify our directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of such person's services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

There is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Executive Compensation

The following table summarizes the compensation paid to, awarded to or earned during the year ended December 31, 2003 by our chief executive officer and our other executive officers who were serving as executive officers on December 31, 2003 and whose salary and bonus exceeded $100,000 for services rendered to us in all capacities during the year ended December 31, 2003.

			Long Term Compensation
Name And Principal Position(s)	**Year**	**Annual Compensation Salary**	**Securities Underlying Options**
Harold E. Selick, Ph.D.[1] *Chief Executive Officer*	2003	$ 169,007	764,577
George F. Tidmarsh, M.D., Ph.D.[2] *Founder and President*	2003	$ 200,000	—
Janet I. Swearson[3] *Chief Financial Officer*	2003	$ 238,500	160,000

(1) Harold E. Selick, Ph.D., our Chief Executive Officer, initially served as our part-time Acting Chief Executive Officer, in which capacity he earned $2,340. On May 1, 2003, Dr. Selick converted his position to full-time

Chief Executive Officer, earning $166,667 on an annualized salary of $250,000. As of February 1, 2004, Dr. Selick's annual compensation was increased to $300,000. In 2004, he received bonuses totalling $274,614.

(2) As of February 1, 2004, Dr. Tidmarsh's annual compensation was increased to $250,000. In 2004, he received bonuses totalling $236,250.

(3) Janet I. Swearson, our Chief Financial Officer, initially served as a consultant to the company, in which capacity she earned $99,750. She commenced her employment in April 2003, earning $138,750 on an annualized salary of $185,000. As of February 1, 2004, Ms. Swearson's annual compensation was increased to $220,000. In 2004, she received bonuses totalling $91,375.

Option Grants In Year Ended December 31, 2003. The following table sets forth each grant of stock options during the fiscal year ended December 31, 2003 to each of the named executive officers. All options were granted under our 2001 Equity Incentive Plan at an exercise price equal to the fair market value of our common stock, as determined by our board of directors, on the date of grant. The percentage of options granted is based on an aggregate of options to purchase a total of 1,112,577 shares of common stock granted by us during the fiscal year ended December 31, 2003 to our employees. The potential realizable value set forth in the last column of the table is calculated based on the term of the option at the time of grant, which is ten years. This value is based on assumed rates of stock price appreciation of 5% and 10% compounded annually from the date of grant until their expiration date, assuming a fair market value equal to an assumed initial public offering price of $ (which is the midpoint of the range on the cover of this prospectus), minus the applicable exercise price. These numbers are calculated based on the requirements of the SEC and do not reflect our estimate of future stock price growth. Actual gains, if any, on stock option exercises will depend on the future performance of the common stock on the date on which the options are exercised.

Named Executive Officers	Number of Shares Underlying Options Granted	Percentage of Total Options Granted to Employees	Exercise Price per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Harold E. Selick, Ph.D.(1)	764,577	68.72%	$ 0.10	6/23/2013		
George F. Tidmarsh, M.D., Ph.D.	—					
Janet I. Swearson(2)	160,000	14.38%	$ 0.10	6/23/2013		

(1) Stock options granted to Dr. Selick vested 25% as of the grant date with the remaining shares vesting in equal monthly installments over the following 36 months.

(2) Stock options granted to Ms. Swearson vest in equal monthly installments over four years from the vesting commencement date.

Aggregated Option Exercises During Year Ended December 31, 2003 And Year-End Option Values. The following table sets forth information for each of the named executive officers regarding the number of shares subject to both exercisable and unexercisable stock options, as well as the value of unexercisable in-the-money options, as of December 31, 2003. There was no public trading market for our common stock as of December 31, 2003. Accordingly, the value of the unexercised in-the-money options at fiscal year-end has been calculated by determining the difference between the exercise price per share and the assumed offering price of $ per share, which is the midpoint of the range listed on the cover of this prospectus. None of the named executive officers exercised options during the fiscal year ended December 31, 2003.

Named executive officers	Number of Securities Underlying Unexercised Options at December 31, 2003		Value of Unexercised In-The-Money Options at December 31, 2003	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Harold E. Selick, Ph.D.	906,139	—	$	$
George F. Tidmarsh, M.D., Ph.D.	882,500	—	$	$
Janet I. Swearson	169,750	—	$	$

Employee Benefit Plans

2001 Equity Incentive Plan

Our 2001 Equity Incentive Plan, as amended, or the 2001 Plan, was adopted by our board of directors and approved by our stockholders. This plan provides for the grant of shares of stock, incentive stock options and nonstatutory stock options to employees, directors and consultants. Under this plan, we are authorized to grant shares and stock options for the purchase of up to a maximum of 7,000,000 shares of our common stock. Our board of directors has authorized the compensation committee to administer this plan. This plan terminates on December 2, 2011.

The administrator determines the vesting schedule (if any) applicable to options. The administrator may grant options that are exercisable for unvested shares of common stock and may further specify at the time of grant whether such right of repurchase shall be at either the (i) exercise price paid by the optionee for such shares or (ii) current fair market value, as determined in accordance with the 2001 Plan, upon termination of optionee's employment or other relationship with us. This repurchase right lapses at the same rate as the vesting schedule applicable to the shares underlying the option.

Upon a merger or sale of all or substantially all of our assets or shares of stock, the successor entity may provide for (i) the assumption of the outstanding stock options, (ii) substitution for any outstanding options of new options to purchase shares of the successor entity, or (iii) the accelerated vesting and immediate exercisability of the outstanding options. The acquiring entity may pursue any one or a combination of the actions specified above.

As of September 30, 2004:

- 437,000 shares were issued upon the exercise of options at a purchase price of $0.32 per share, but are subject to repurchase on or before January 31, 2005;
- 423,231 shares were issuable upon exercise of outstanding options granted under this plan at a weighted average exercise price of $0.24 per share;
- 2,758,923 shares were issued upon exercise of options at a purchase price of $0.10 per share, 2,320,124 shares were issued upon exercise of options at a purchase price of $0.16 per share, and 181,500 shares were issued upon exercise of options at a purchase price of $0.32 per share; and
- 879,222 shares of our common stock remained available for future grants under this plan.

All share numbers reflected in this summary, as well as the exercise price or purchase price applicable to outstanding options or purchase rights, will be automatically proportionately adjusted in the event we make certain changes in our capital structure, such as a stock split, reverse stock split, stock dividend or other similar transaction. Upon the closing of this offering, no additional stock options may be granted under the 2001 Plan, and any unused shares from the 2001 Plan will be included in our 2004 Equity Incentive Plan as described below.

2004 Equity Incentive Plan

In April 2004, our board of directors approved the 2004 Equity Incentive Plan, or 2004 Plan, which will become effective upon the completion of this offering. The 2004 Plan will terminate in 2014 unless it is terminated earlier by our board.

Stock options, stock appreciation rights, or SARs, stock awards and cash awards may be granted under the 2004 Plan. Each is referred to as an award in the 2004 Plan. Options granted under the 2004 Plan may be either "incentive stock options," as defined under Section 422 of the Internal Revenue Code of 1986, as amended, or nonstatutory stock options.

Share Reserve. We have reserved a total of 4,000,000 shares of our common stock, plus the shares described below, for issuance under the 2004 Plan, all of which are available for future grant. Awards generally shall not

reduce the share reserve until the earlier of vesting or the delivery of the shares pursuant to an award. Shares reserved under the plan also include (i) shares of common stock available for issuance as of the effective date of this offering under the 2001 Equity Incentive Plan, including the shares subject to outstanding awards under the 2001 Equity Incentive Plan, plus (ii) shares of common stock issued under the 2001 Equity Incentive Plan or the 2004 Plan that are forfeited or repurchased by the Company at or below the original purchase price or that are issuable upon exercise of awards granted pursuant to the 2001 Equity Incentive Plan or the 2004 Plan that expire or become unexercisable for any reason without having been exercised after the effective date of this offering, plus (iii) shares of common stock that are restored by our board or its compensation committee pursuant to provisions in the 2004 Plan that permit options to be settled in shares on a net appreciation basis at our election.

Automatic Annual Increase of Share Reserve. The 2004 Plan provides that the share reserve will be cumulatively increased on January 1 of each year, beginning January 1, 2005 and for nine years thereafter, by a number of shares that is equal to the lesser of (a) 5% of the number of our company's shares issued and outstanding prior to the preceding December 31, (b) 2,000,000 shares and (c) a number of shares set by our board.

Automatic Grants. The 2004 Plan provides that persons who first become non-employee directors after the effective date of this offering will be automatically granted options under the 2004 Plan in the following amounts: (a) an option to purchase shares of our common stock upon their initial appointment to our board, and (b) commencing in 2005 and provided that such individual has served as a non-employee director for at least six months, an option to purchase shares annually thereafter.

Administration. The 2004 Plan will be administered by the Compensation Committee of our board of directors or a delegated officer in certain instances. The Compensation Committee or officer is referred to in the 2004 Plan as the administrator.

Eligibility. Awards under the 2004 Plan may be granted to our employees, directors and consultants. Incentive stock options may be granted only to our employees. The administrator, in its discretion, approves awards granted under the 2004 Plan.

Termination of Awards. Generally, if an awardee's service to us terminates other than by reason of death, disability, retirement or for cause, vested options and SARs will remain exercisable for a period of three months following the termination of the awardee's service. Unless otherwise provided for by the administrator in the award agreement, if an awardee dies or becomes totally and permanently disabled while an employee or consultant or director, the awardee's vested options and SARs will be exercisable for one year following the awardee's death or disability, or if earlier, the expiration of the term of such award.

Nontransferability of Awards. Unless otherwise determined by the administrator, awards granted under the 2004 Plan are not transferable other than by will, a domestic relations order, or the laws of descent and distribution and may be exercised during the awardee's lifetime only by the awardee.

Stock Options

Exercise Price. The administrator determines the exercise price of options at the time the options are granted. The exercise price of an incentive stock option may not be less than 100% of the fair market value of the our common stock on the date of grant. The exercise price of a nonstatutory stock option may not be less than 85% of the fair market value of our common stock on the date of grant. The fair market value of our common stock will generally be the closing sales price as quoted on the NASDAQ National Market.

Exercise of Option; Form of Consideration. The administrator determines the vesting schedule (if any) applicable to options. The administrator may grant options that are exercisable for unvested shares of common stock. To the extent that an optionee exercises an unvested option, we generally have the right to repurchase any or all of such unvested shares for either the exercise price paid by the optionee for such shares or the lower of the

(i) exercise price paid by the optionee for such shares or (ii) current fair market value of such shares, as determined in accordance with the 2004 Plan, upon termination of optionee's employment or other relationship with us. This repurchase right lapses at the same rate as the vesting schedule applicable to the shares underlying the option. The means of payment for shares issued on exercise of an option are specified in each award agreement. The 2004 Plan permits payment to be made by any lawful means including cash, check, wire transfer, other shares of our common stock (with some restrictions), broker-assisted same day sales or cancellation of any debt owed by us or any of our affiliates to the optionholder or in certain instances a delivery of cash or stock for any net appreciation.

Term of Options. The term of an option may be no more than ten years from the date of grant. No option may be exercised after the expiration of its term. Any incentive stock option granted to a ten percent stockholder may not have a term of more than five years.

Stock Appreciation Rights. The administrator may grant SARs alone, in addition to, or in tandem with, any other awards under this plan. An SAR entitles the participant to receive the amount by which the fair market value of a specified number of shares on the exercise date exceeds an exercise price established by the administrator. The excess amount will be payable in ordinary shares, in cash or in a combination thereof, as determined by the administrator. The terms and conditions of an SAR will be contained in an award agreement. The grant of an SAR may be made contingent upon the achievement of objective performance conditions.

Stock Awards. The administrator may grant stock awards such as bonus stock, restricted stock or restricted stock units. Generally such awards will contain vesting features such that awards will either not be delivered, or may be repurchased by the Company at cost, if the vesting requirements are not met. The administrator will determine the vesting and share delivery terms. In the case of restricted stock units the administrator may in its discretion offer the awardee the right to defer delivery. Stock awards may be settled in cash or stock as determined by the administrator.

2004 Employee Stock Purchase Plan

General. On April 7, 2004, our board adopted the 2004 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan will become effective on the first day on which price quotations become available for our common stock on the NASDAQ National Market. The Purchase Plan provides our employees with an opportunity to purchase our common stock through accumulated payroll deductions.

Share Reserve. A total of shares of common stock has been reserved for issuance under the Purchase Plan. In addition, the Purchase Plan provides for annual increases in the total number of shares available for issuance under the Purchase Plan on January 1 of each year, by a number of shares that is equal to the least of:

- 1% of the outstanding shares of our common stock on that date;
- shares; or
- a lesser number as determined by the Compensation Committee of our board prior to such January 1.

Administration. The Compensation Committee appointed by our board, administers the Purchase Plan and has full and exclusive authority to interpret the terms of the Purchase Plan and determine eligibility, subject to the limitations of Section 423 of the Code or any successor provision in the Code.

Eligibility. Persons are eligible to participate in the Purchase Plan if they are employed by us or any participating subsidiary for more than 20 hours per week for more than five months in any calendar year. However, no person may participate in the Purchase Plan if, immediately after the grant of the stock purchase rights under the Purchase Plan, such person will own stock possessing five percent or more of the total combined voting power or value of all classes of our capital stock or of any participating subsidiary.

Offering Periods. The Purchase Plan provides for offering periods of 24 months or such shorter period as may be established by the Compensation Committee. The Purchase Plan includes four six-month purchase periods unless otherwise provided by the Compensation Committee. The initial offering and purchase periods commence on the first day on which price quotations for our common stock first become available on the NASDAQ National Market. The initial offering period will end February 14, 2006 and the initial purchase period will end February 14, 2005. Additional offering periods start on either February 15 or August 15 of each year and end on August 14 or February 14 of each year.

Payroll Deductions. The Purchase Plan permits participants to purchase our common stock through payroll deductions of between 1% and 15% of the participant's compensation under the Purchase Plan, up to a maximum of $21,250 per year, and up to a maximum of 2,500 shares per purchase period. Compensation includes regular salary payments, bonuses, incentive compensation, overtime pay and other compensation as determined from time to time by the board, but excludes all other payments including long-term disability or workers' compensation payments, car allowances, relocation payments and expense reimbursements.

Purchase Price. Amounts deducted and accumulated for the participant's account are used to purchase shares of our common stock on the last trading day of each purchase period at a price of 85% of the lower of the fair market values of the common stock at the beginning of the offering period and the end of the purchase period without interest. Participants may end their participation at any time during an offering period, and they will be paid their payroll deductions accumulated to that date. Participation ends automatically upon termination of employment and payroll deductions credited to the participant's account are returned to the participant without interest.

Qualification under the Code. The 2004 Purchase Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code.

Nontransferability. Stock purchase rights granted under the Purchase Plan are not transferable by a participant other than by will or the laws of descent and distribution. Shares purchased under the plan can be disposed of upon the provision of a notice.

Change in Control. In the event of a merger or other corporate transaction, the Purchase Plan will continue for the remainder of all open offering periods that commenced prior to the closing of the merger or other corporate transaction and shares will be purchased based on the fair market value of the surviving corporation's stock on each purchase date (taking account of the exchange ratio where necessary) unless otherwise determined by the Compensation Committee. In the event of a dissolution or liquidation of our company, the offering period will terminate immediately prior to the event, unless otherwise determined by the Compensation Committee. In exercising its discretion, the Compensation Committee may terminate the Purchase Plan after notice to participants.

Amendment and Termination. The board has the authority to amend or terminate the Purchase Plan at any time, including amendments to outstanding stock purchase rights under these plan, subject to required approvals of our stockholders in order for the Purchase Plan to qualify under Section 423 of the Code or other applicable law.

401(k) Plan

We have established and maintained a retirement savings plan under section 401(k) of the Code to cover our eligible employees. The Code allows eligible employees to defer a portion of their compensation, within prescribed limits, on a tax deferred basis through contributions to the 401(k) plan. Our 401(k) plan is qualified under Section 401(a) of the Code and its associated trust is exempt from federal income taxation under Section 501(a) of the Code. Our 401(k) permits us to make matching contributions on behalf of eligible employees; however, we currently do not make these matching contributions.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions:

- to which we are a party;
- in which the amount involved exceeds $60,000; and
- in which any director, executive officer or holder of more than 5% of our capital stock had or will have a direct or indirect material interest.

Preferred Stock Issuances

On October 29, 2001 and February 7, 2002, we sold an aggregate of 7,500,000 shares of Series A preferred stock at a price per share of $0.10, for an aggregate purchase price of $0.8 million. On August 15, 2002, we affected a 1:10 reverse stock split of our capital stock and sold an additional 8,250,000 shares (post-stock split) of Series A preferred stock at a price per share of $1.00, for an aggregate purchase price of $8.3 million. Following the reverse stock split and the August 15, 2002 sale of additional shares of Series A preferred stock, we had 9,000,000 shares of Series A preferred stock issued and outstanding. On November 17, 2003, we sold an aggregate of 24,848,484 shares of Series B preferred stock at a price per share of $1.65, for an aggregate purchase price of $41.0 million. Each share of Series A preferred stock and Series B preferred stock will convert automatically into one share of common stock upon the closing of this offering.

The following holders of more than 5% of our securities purchased securities in our preferred stock financings in the amounts and as of the dates shown below.

Investor	Series A Preferred Stock	Series B Preferred Stock
Entities affiliated with Morgenthaler Ventures[1]	—	5,454,545
Entities affiliated with Pequot Capital Management, Inc.[2]	—	5,454,545
Entities affiliated with ProQuest Investments	2,250,000	3,030,303
Entities affiliated with Sofinnova Ventures, Inc.[3]	2,250,000	3,030,303
Entities affiliated with Three Arch Partners[4]	2,250,000	3,030,303
Entities affiliated with Sutter Hill Ventures	1,589,079	2,140,175
Total	8,339,079	22,140,174

(1) Ralph E. Christoffersen, one of our directors, is a Partner of Morgenthaler Ventures.
(2) Patrick G. Enright, one of our directors, is a Principal of Pequot Capital Management, Inc. and a General Partner of the Pequot venture capital and private equity funds.
(3) Michael F. Powell, one of our directors, and Harold E. Selick, our Chief Executive Officer and one of our directors, are a Managing Director and Venture Partner, respectively, of Sofinnova Ventures, Inc.
(4) Wilfred E. Jaeger, one of our directors, is a Partner of Three Arch Partners. Additionally, George F. Tidmarsh, our President and one of our directors, served as an entrepreneur-in-residence at Three Arch Partners immediately prior to our inception.

Shares held by all affiliated persons and entities have been aggregated. For additional details on the shares held by each of these purchasers, please refer to the information in this prospectus under the heading “Principal Stockholders.” Each share of preferred stock will convert automatically into common stock upon the closing of this offering. The purchasers of these shares are entitled to certain registration rights. See “Description of Capital Stock—Registration Rights.”

Other Related Party Transactions and Business Relationships

Harold E. Selick has served as a venture partner of Sofinnova Ventures, Inc., a holder of more than 5% of our common stock, since June 2002. In 2003, Dr. Selick received $152,083.36 in compensation from Sofinnova Ventures, Inc. Dr. Selick also has a carried interest in a company in which Sofinnova Ventures, Inc. is an investor.

On September 9, 2002, we entered into a consulting agreement with Janet I. Swearson, our Chief Financial Officer. Under the agreement, Ms. Swearson agreed to provide us with financial consulting in exchange for $1,500 a day and a grant of an option to purchase 9,750 shares of our common stock. The agreement was terminated in April 2003 when Ms. Swearson commenced her full-time employment with us as our Chief Financial Officer.

Our amended and restated certificate of incorporation and bylaws provide that we will indemnify each of our directors and officers to the fullest extent permitted by Delaware Law. Further, we have entered into separate indemnification agreements with each of our directors and executive officers. For further information, see "—Limitation of Liability and Indemnification of Officers and Directors."

In connection with the sale of our Series B preferred stock, we entered into an Amended and Restated Investors Rights Agreement with the purchasers of such stock granting them certain registration rights. For further information, see "Description of Capital Stock."

In November 2004, we entered into a Development Agreement with MediBIC Co. Ltd. The Chief Operating Officer and a director of Anexus Pharmaceuticals, Inc., a subsidiary of MediBIC, is the wife of our Chief Executive Officer.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of September 30, 2004, and as adjusted to reflect the sale of shares of our common stock offered by this prospectus, by:

- each of our directors and the named executive officers;
- all of our directors and executive officers as a group; and
- each person or group of affiliated persons known by us to be the beneficial owner of more than 5% of our common stock.

Beneficial ownership and percentage ownership are determined in accordance with the rules of the SEC and includes voting or investment power with respect to shares of stock. This information does not necessarily indicate beneficial ownership for any other purpose. Under these rules, shares of common stock issuable under stock options that are exercisable within 60 days of September 30, 2004 are deemed outstanding for the purpose of computing the percentage ownership of the person holding the options but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated and subject to applicable community property laws, to our knowledge, each stockholder named in the following table possesses sole voting and investment power over their shares of common stock, except for those jointly owned with that person's spouse. Percentage of beneficial ownership before the offering is based on 39,396,531 shares of common stock outstanding as of September 30, 2004 assuming the conversion of all of our outstanding convertible preferred stock and shares of common stock immediately outstanding after completion of this offering. Unless otherwise noted below, the address of each person listed on the table is c/o Threshold Pharmaceuticals, Inc., 951 Gateway Boulevard, South San Francisco, CA 94080-7024.

Name And Address Of Beneficial Owner	Number of Shares Beneficially Owned Prior to Offering	Percent Of Shares Beneficially Owned	
		Before Offering	After Offering
Holders of more than 5% of our voting securities			
Entities affiliated with Morgenthaler Partners VII, L.P.[1] 2710 Sand Hill Road Suite 100 Menlo Park, CA 94025	5,454,545		
Pequot Capital Management, Inc.[2] 500 Nyala Farm Road Westport, CT 06880	5,454,545		
Entities affiliated with ProQuest Investments[3] 12626 High Bluff Drive Suite 360 San Diego, California 92130	5,280,303		
Entities affiliated with Sofinnova Ventures, Inc.[4] 140 Geary Street Tenth Floor San Francisco, CA 94108	5,280,303		
Entities affiliated with Three Arch Partners[5] 3200 Alpine Road Portola Valley, CA 94028	5,280,303		
Entities affiliated with Sutter Hill Ventures[6] 755 Page Mill Road, Suite A-200 Palo Alto, CA 94304-1005	3,729,254		

Name And Address Of Beneficial Owner	Number of Shares Beneficially Owned Prior to Offering	Percent Of Shares Beneficially Owned	
		Before Offering	After Offering
Directors and Named Executive Officers			
Harold E. Selick, Ph.D.[7]	1,856,139		
George F. Tidmarsh, M.D., Ph.D.[8]	1,857,500		
Janet I. Swearson[9]	574,750		
Ralph E. Christoffersen[10]	5,454,545		
Patrick G. Enright[11]	5,454,545		
Wilfred E. Jaeger[12]	5,280,303		
Michael F. Powell[13]	5,280,303		
William A. Halter[14]	—		
George G.C. Parker[15]	—		
All directors and executive officers as a group (9 persons)[16]	25,758,085		

(1) Includes 5,454,545 shares held by Morgenthaler Partners VII, L.P. (MP VII), of which Ralph E. Christoffersen is a member of the entity's Managing Partner, Morgenthaler Management Partners VII, LLC (MMP VII). Dr. Christoffersen, a member of our board of directors, shares voting power over the shares with the other members of MMP VII. The natural persons who have voting or investment power over the shares held of record by MP VII are Robert C. Bellas, Jr., Greg E. Blonder, James W. Broderick, Ralph E. Christoffersen, Andrew S. Lanza, Theodore A. Laufik, Paul H. Levine, Gary R. Little, John D. Lutsi, Gary J. Morgenthaler, Robert D. Pavey, G. Gary Shaffer, Peter G. Taft. Dr. Christoffersen disclaims beneficial ownership of the shares held by MP VII except to the extent of his pecuniary interest therein.

(2) Includes shares which may be deemed to be beneficially owned by Pequot Capital Management, Inc., the investment manager of Pequot Private Equity Fund III, L.P., which may be deemed to be the holder of record of 4,780,631 shares, and Pequot Offshore Private Equity Partners III, L.P., the holder of record of 673,914 shares. Pequot Capital Management, Inc. holds voting and dispositive power for all shares held by Pequot Private Equity Fund III, L.P., and Pequot Offshore Private Equity Partners III, L.P. (collectively, the "Funds"). Patrick G. Enright is a Principal of Pequot Capital Management, Inc. and a General Partner of each of the Funds. Mr. Enright serves as a member of our board of directors and may be deemed to beneficially own the securities held of record by the Funds. Mr. Enright disclaims beneficial ownership of the shares held by the Funds, except to the extent of his pecuniary interest therein.

(3) Includes 5,067,507 shares held of record ProQuest Investments II, L.P. and 212,796 shares held of record by ProQuest Investments II Advisors Fund, L.P. The natural persons affiliated with ProQuest Investments who have voting or investment power over these shares are Joyce Tsang, Jay Moorin, Alain Schreiber and Pasquale DeAngelis.

(4) Includes 5,040,990 shares of record held by Sofinnova Venture Partners V, LP, 165,731 shares of record held by Sofinnova Venture Affiliates V, LP, and 73,582 held by Sofinnova Venture Principals V, LP. The natural person affiliated with Sofinnova Ventures, Inc. who has voting or investment power over these shares is Michael F. Powell. Dr. Powell, a member of our board of directors, disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(5) Includes 5,010,946 shares of record held by Three Arch Partners III, L.P. and 269,357 shares of record held by Three Arch Associates III, L.P. Wilfred E. Jaeger, who serves as a member of our board of directors, is a member of Three Arch Management III, L.L.C., which is the general partner for Three Arch Partners III, L.P. and Three Arch Associates III, L.P. Dr. Jaeger disclaims beneficial ownership of shares held by Three Arch Partners III, L.P., Three Arch Associates III, L.P. and Three Arch Management III, L.L.C., except to the extent of his pecuniary interest therein.

(6) Includes 92,354 shares held by Sutter Hill Entrepreneurs Fund (AI), L.P.; 36,474 shares held by Sutter Hill Entrepreneurs Fund (QP), L.P.; 3,600,426 shares held by Sutter Hill Ventures, a California Limited Partnership, over which a managing director of the general partner of the partnerships mentioned herein, shares voting and investment power with seven other managing directors of the general partner of the

partnerships mentioned herein. The natural persons who have voting or investment power over the shares held of record by Sutter Hill Ventures are David L. Anderson, G. Leonard Baker, Jr., William H. Younger, Jr., Tench Coxe, Gregory P. Sands, James C. Gaither, Jeffrey W. Bird, and James N. White.

(7) Includes 200,000 shares which we have the right to repurchase on or before January 31, 2005 and 927,646 shares which we have the right to repurchase as of the date that is 60 days after September 30, 2004.

(8) Includes 200,000 shares issuable pursuant to options exercisable within 60 days of September 30, 2004, which shares, upon exercise, may be repurchased by us on or before January 31, 2005 and 804,515 shares which we have the right to repurchase as of the date that is 60 days after September 30, 2004.

(9) Includes 60,000 shares which we have the right to repurchase on or before January 31, 2005 and 370,834 shares which we have the right to repurchase as of the date that is 60 days after September 30, 2004.

(10) Includes 5,454,545 shares held of record by Morgenthaler Partners VII, L.P. (MP VII). Dr. Ralph E. Christoffersen, a member of our board of directors and a Managing Member of MP VII, shares voting or investment power over these shares with Robert C. Bellas, Jr., Greg E. Blonder, James W. Broderick, Andrew S. Lanza, Theodore A. Laufik, Paul H. Levine, Gary R. Little, John D. Lutsi, Gary J. Morgenthaler, Robert D. Pavey, G. Gary Shaffer, Peter G. Taft. Dr. Christoffersen disclaims beneficial ownership in these shares, except to the extent of his pecuniary interest.

(11) Includes shares which may be deemed to be beneficially owned by Pequot Capital Management, Inc., the investment manager of Pequot Private Equity Fund III, L.P., the holder of record of 4,780,631 shares, and Pequot Offshore Private Equity Partners III, L.P., which may be deemed to be the holder of record of 673,914 shares. Pequot Capital Management, Inc. holds voting and dispositive power for all shares held by Pequot Private Equity Fund III, L.P., and Pequot Offshore Private Equity Partners III, L.P. (collectively, the "Funds"). Patrick G. Enright is a Principal of Pequot Capital Management, Inc. and a General Partners of each of the Funds. Mr. Enright serves as a member of our board of directors and may be deemed to beneficially own the securities held of record by the Funds. Mr. Enright disclaims beneficial ownership of the shares held by the Funds, except to the extent of his pecuniary interest.

(12) Includes 5,280,303 shares held of record by Three Arch Partners III, L.P. and Three Arch Associates III, L.P. Wilfred E. Jaeger, who serves as a member of our board of directors, is a member of Three Arch Management III, L.L.C., which is the general partner for Three Arch Partners III, L.P. and Three Arch Associates III, L.P. Dr. Jaeger disclaims beneficial ownership of shares held by Three Arch Partners III, L.P., Three Arch Associates III, L.P. and Three Arch Management III, L.L.C., except to the extent of his pecuniary interest therein.

(13) Includes 5,280,303 shares held of record by Sofinnova Venture Partners V, LP, Sofinnova Venture Affiliates V, LP and Sofinnova Venture Principals V, LP. Michael F. Powell, a member of our board of directors and a Managing Member of Sofinnova Venture Partners, has voting or investment power over these shares.

(14) In October 2004, we granted options to purchase a total of 60,000 shares to Mr. Halter, which options are exercisable within 60 days of September 30, 2004, of which 40,000 vest at the rate of $^{1}/_{36}$ per month commencing September 22, 2004 and 20,000 vest on the anniversary of Mr. Halter's appointment to our board of directors commencing in 2005.

(15) In October 2004, we granted options to purchase a total of 60,000 shares to Dr. Parker, which options are exercisable within 60 days of September 30, 2004, of which 40,000 vest at the rate of $^{1}/_{36}$ per month commencing September 22, 2004 and 20,000 vest on the anniversary of Dr. Parker's appointment to our board of directors commencing in 2005.

(16) Total number of shares includes common stock held by entities affiliated with directors and executive officers. See footnotes 1 through 15 above.

DESCRIPTION OF CAPITAL STOCK

The description below of our capital stock and provisions of our amended and restated certificate of incorporation and restated bylaws are summaries and are qualified by reference to the amended and restated certificate of incorporation and the amended and restated bylaws that will become effective upon closing of this offering. These documents will be filed as exhibits to the registration statement of which this prospectus is a part. The descriptions of the common stock and preferred stock reflect changes to our capital structure that will occur upon the closing of this offering.

Our amended and restated certificate of incorporation, which will become effective upon the closing of this offering, authorizes the issuance of up to 150,000,000 shares of common stock, par value $0.001 per share, and 2,000,000 shares of preferred stock, par value $0.001 per share. The rights and preferences of the preferred stock may be established from time to time by our board of directors.

- As of September 30, 2004, 5,548,047 shares of common stock, 33,848,484 shares of preferred stock convertible into 33,848,484 shares of common stock upon the completion of this offering and a warrant to purchase 38,000 shares of preferred stock were issued and outstanding. In addition, as of September 30, 2004, 437,000 shares of common stock were outstanding but subject to repurchase on or before January 31, 2005.
- As of September 30, 2004, we had 44 common stockholders of record and 48 preferred stockholders of record.
- Immediately after the closing of this offering, we will have approximately shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of options to acquire additional shares of common stock.

Common Stock

Each holder of common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, except matters that relate only to one or more of the series of preferred stock and each holder does not have cumulative voting rights. Accordingly, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose.

Subject to preferences that may be applicable to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared from time to time by the board of directors out of legally available funds. In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

Holders of common stock have no preemptive or conversion rights or other subscription rights, and there are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and the shares of common stock offered by us in this offering, when issued and paid for, will be fully paid and nonassessable. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate in the future.

Preferred Stock

Upon the closing of this offering, our board of directors will be authorized, subject to any limitations prescribed by law, without stockholder approval, to issue up to an aggregate of 2,000,000 shares of preferred

stock in one or more series and to fix the rights, preferences, privileges and restrictions granted to or imposed upon the preferred stock, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of us. We have no present plans to issue any shares of preferred stock.

Warrant

On March 27, 2003, in connection with our loan and security agreement with Silicon Valley Bank, we issued to Silicon Valley Bank a warrant to purchase 38,000 shares of our common stock at an exercise price of $1.00 per share. The warrant expires on the later of March 27, 2013 or seven years after the closing to this public offering.

Options

We intend to file a registration statement under the Securities Act covering shares of common stock reserved for issuance under our 2001 Equity Incentive Plan, 2004 Equity Incentive Plan and 2004 Employee Stock Purchase Plan. That registration statement is expected to become effective upon filing with the SEC. Accordingly, common stock registered under that registration statement will, subject to vesting provisions and limitations as to the volume of shares that may be held by our affiliates under the Rule 144 described above, be available for sale in the open market unless the holder is subject to the 180-day lock-up period.

As of September 30, 2004, options to purchase 423,231 shares of common stock were issued and outstanding at a weighted average exercise price of $0.24 per share.

Registration Rights

We and the holders of our preferred stock entered into an amended and restated investor rights agreement, dated November 17, 2003. This agreement provides these holders with customary demand and piggyback registration rights with respect to the shares of common stock to be issued upon conversion of their preferred stock.

Pursuant to the terms of our warrant issued to Silicon Valley Bank, Silicon Valley Bank has customary piggyback registration rights with respect to the shares of common stock to be issued upon exercise of its warrant.

Demand Registration

According to the terms of the amended and restated investor rights agreement, holders of 75% of the common stock of the company issued or issuable upon conversion of the outstanding preferred stock of the company (not including common stock sold to the public under Rule 144, pursuant to a registration statement or held by a holder not having rights under the amended and restated investor rights agreement) have the right to require us to register their shares with the SEC for resale to the public. To demand such a registration, holders who hold together an aggregate of at least 75% of the shares held by persons with such registration rights pursuant to that agreement must request a registration statement to register at least a majority of all shares held by persons with such registration rights. We are not required to effect more than two demand registrations. We have currently not effected, or received a request for, any demand registrations. No demands for registration may be made until the later of 180 days following the later of the effective date of the registration statement of which this prospectus is a part and completion of the distribution of this offering.

Piggyback Registration

If we file a registration statement for a public offering of any of our securities solely for cash, other than a registration statement relating solely to our stock plans, the holders of demand registration rights will have the right to include their shares in the registration statement. The holders of the warrant to purchase preferred stock has piggyback registration rights as well.

Form S-3 Registration

At any time after we become eligible to file a registration statement on Form S-3, the holders of preferred stock having both demand and piggyback registration rights may require us to file a Form S-3 registration statement. We are obligated to file only two Form S-3 registration statement in any twelve-month period. Furthermore, the aggregate offering proceeds of the requested Form S-3 registration, before deducting underwriting discounts and expenses, must be at least $1,000,000.

These registration rights are subject to certain conditions and limitations, including the right of the underwriters of an offering to limit the number of shares of common stock to be included in the registration. We are generally required to bear the expenses of all registrations, except underwriting discounts and commissions. However, we will not pay for any expenses of any demand or S-3 registration if the request is subsequently withdrawn by the holders who requested such registration unless the withdrawal is based on material adverse information about the company not available at the time of the registration request or the right to demand one registration is forfeited by all holders of the right. The investors rights agreement also contains our commitment to indemnify the holders of registration rights for losses attributable to statements or omissions by us incurred with registrations under the agreement.

Effect of Certain Provisions of our Amended and Restated Certificate of Incorporation and Bylaws and the Delaware Anti-Takeover Statute

Amended and Restated Certificate of Incorporation and Bylaws

Some provisions of Delaware law and our amended and restated certificate of incorporation and bylaws contain provisions that could make the following transactions more difficult:

- acquisition of us by means of a tender offer;
- acquisition of us by means of a proxy contest or otherwise; or
- removal of our incumbent officers and directors.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids and to promote stability in our management. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors.

- *Undesignated Preferred Stock*. The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue one or more series of preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of our company.
- *Stockholder Meetings*. Our charter documents provide that a special meeting of stockholders may be called only by the chairman of the board or by our president, or by a resolution adopted by a majority of our board of directors.
- *Requirements for Advance Notification of Stockholder Nominations and Proposals*. Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of

candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors.

- *Elimination of Stockholder Action by Written Consent.* Our amended and restated certificate of incorporation eliminates the right of stockholders to act by written consent without a meeting.
- *Amendment of Bylaws.* Any amendment of our bylaws by our stockholders requires approval by holders of at least 66⅔% of our then outstanding common stock, voting together as a single class.
- *Staggered Board.* Our amended and restated certificate of incorporation provide for the division of our board of directors into three classes, as nearly equal in size as possible, with staggered three-year terms. Under our amended and restated certificate of incorporation and amended and restated bylaws, any vacancy on the board of directors, including a vacancy resulting from an enlargement of the board, may only be filled by vote of a majority of the directors then in office. The classification of the board of directors and the limitations on the removal of directors and filling of vacancies would have the effect of making it more difficult for a third party to acquire control of us, or of discouraging a third party from acquiring control of us.
- *Amendment of Amended and Restated Certificate of Incorporation.* Amendments to certain provisions of our amended and restated certificate of incorporation require approval by holders of at least 66 2/3% of our then outstanding common stock, voting together as a single class.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law. This law prohibits a publicly held Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines "business combination" to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of our assets involving the interested stockholder;
- in general, any transaction that results in the issuance or transfer by us of any of our stock to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an "interested stockholder" as an entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Limitation of Liability

Our amended and restated certificate of incorporation provides that no director shall be personally liable to us or to our stockholders for monetary damages for breach of fiduciary duty as a director, except that the limitation shall not eliminate or limit liability to the extent that the elimination or limitation of such liability is not permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended.

The NASDAQ National Market

We have applied to list our common stock on the NASDAQ National Market under the symbol "THLD."

Transfer Agent and Registrar

Upon the closing of this offering, the transfer agent and registrar for our common stock will be Mellon Investor Services LLC.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and we cannot predict the effect, if any, that market sales of shares or the availability of any shares for sale will have on the market price of the common stock prevailing from time to time. Sales of substantial amounts of our common stock (including shares issued on the exercise of outstanding options and warrants), or the perception that such sales could occur, could adversely affect the market price of our common stock and our ability to raise capital through a future sale of our securities.

Upon completion of this offering, shares of common stock will be outstanding, assuming the issuance of an aggregate of shares of common stock in this offering. The number of shares outstanding after this offering is based on the number of shares outstanding as of September 30, 2004 and assumes no exercise of outstanding options. The shares sold in this offering will be freely tradable without restriction under the Securities Act, unless those shares are purchased by affiliates as that term is defined in Rule 144 under the Securities Act.

The remaining 39,396,531 shares of common stock held by existing stockholders are restricted shares and are subject to the contractual restrictions described below. Restricted shares may be sold in the public market only if registered or if they qualify for an exception from registration under Rules 144 or 701 promulgated under the Securities Act, which are summarized below. All of these restricted shares will be available for resale in the public market in reliance on Rule 144 immediately following this offering and will be subject to lock-up agreements described below.

Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 or 701 under the Securities Act, which rules are summarized below.

Sales of Restricted Shares and Shares Held by Our Affiliates

In general, under Rule 144 as currently in effect, an affiliate of the Company or a person, or persons whose shares are aggregated, who has beneficially owned restricted securities for at least one year, including the holding period of any prior owner except an affiliate of the Company, would be entitled to sell within any three month period a number of shares that does not exceed the greater of 1% of our then outstanding shares of common stock or the average weekly trading volume of our common stock on the NASDAQ National Market during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Any person, or persons whose shares are aggregated, who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned shares for at least two years including any period of ownership of preceding non-affiliated holders, would be entitled to sell such shares under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from the Company by its employees, directors, officers, consultants or advisors prior to the date the issuer becomes subject to the reporting requirements of the Exchange Act. To be eligible for resale under Rule 701, shares must have been issued in connection with written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the SEC has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act, along with the shares acquired upon exercise of such options, including exercises after the date of this offering. Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this prospectus, may be sold by persons other than affiliates, subject only to the manner of sale provisions of Rule 144, and by affiliates, under Rule 144 without compliance with its one-year minimum holding period.

We have reserved an aggregate of 7,000,000 shares of common stock for issuance pursuant to our 2001 Equity Incentive Plan, of which options to purchase approximately 423,321 shares were outstanding as of September 30, 2004. We have also reserved an aggregate of 4,000,000 shares of common stock for issuance under our 2004 Equity Incentive Plan and shares of common stock for issuance under our 2004 Employee Stock Purchase Plan.

As soon as practicable following the offering, we intend to file registration statements under the Securities Act to register shares of common stock reserved for issuance under the 2004 Employee Stock Purchase Plan as well as pre-IPO shares qualified under Rule 701 that may be issued under the 2001 Equity Incentive Plan. Such registration statement will automatically become effective immediately upon filing. Any shares issued upon the exercise of stock options or following purchase under the 2004 Employee Stock Purchase Plan will be eligible for immediate public sale, subject to the lock-up agreements noted below. See "—2004 Employee Stock Purchase Plan" and "—2001 Equity Incentive Plan."

We have agreed not to sell or otherwise dispose of any shares of common stock during the 180-day period following the date of this prospectus, except we may issue, and grant options to purchase, shares of common stock under the 2004 Employee Stock Purchase Plan and the 2001 Equity Incentive Plan.

Lock-Up Agreements

Each of our executive officers, directors, stockholders and optionholders will have entered into lock-up agreements prior to the commencement of this offering providing, subject to exceptions, that they will not offer to sell, contract to sell or otherwise sell, dispose of, loan, pledge, or grant any rights with respect to any shares of common stock, any options or warrants to purchase, any of the shares of common stock or any securities convertible into, or exercisable or exchangeable for, common stock owned by them, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock, without the prior written consent of Banc of America Securities LLC, for a period of 180 days after the date of this prospectus. The 180-day lock-up period may be extended under certain circumstances where we release, or pre-announce a release of, our earnings or material news or a material event shortly before or after the termination of the 180-day period.

The foregoing does not prohibit open market purchases and sales of our common stock by such holders after the completion of this offering and transfers or dispositions by our officers, directors and stockholders can be made sooner, provided that the transferee agrees to be bound by the 180-day lock-up period:

- as a gift or by will or intestacy;
- to immediate family members; and
- to any trust for the direct or indirect benefit of the holder or his or her immediate family.

Banc of America Securities LLC in its sole discretion and at any time without notice, may release all or any portion of the securities subject to lock-up agreements. When determining whether or not to release shares from the lock-up agreements, Banc of America Securities LLC will consider, among other factors, the stockholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time. Following the expiration of the 180-day lock-up period, additional shares of common stock will be available for sale in the public market subject to compliance with Rule 144 or Rule 701.

Registration Rights

Upon completion of this offering, the holders of 33,848,484 shares of our common stock, or their transferees, have rights to require or participate in the registration of those shares under the Securities Act. For a detailed description of these registration rights see "Description of Capital Stock—Registration Rights."

MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS OF OUR COMMON STOCK

The following is a general discussion of the material U.S. federal income and estate tax considerations applicable to non-U.S. holders with respect to their ownership and disposition of shares of our common stock. This discussion is for general information only and is not tax advice. Accordingly, all prospective non-U.S. holders of our common stock should consult their own tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership and disposition of our common stock. In general, a non-U.S. holder means a beneficial owner of our common stock who is not for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation, or any other organization taxable as a corporation for U.S. federal tax purposes, created or organized in the U.S. or under the laws of the U.S. or of any state thereof or the District of Columbia; or
- an estate or trust, the income of which is included in gross income for U.S. federal income tax purposes regardless of its source.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, existing and proposed U.S. Treasury Regulations promulgated thereunder, current administrative rulings and judicial decisions, in effect as of the date of this prospectus, all of which are subject to change or to differing interpretation, possibly with retroactive effect. Any change could alter the tax consequences to non-U.S. holders described in this prospectus. We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset (generally property held for investment).

This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances nor does it address any aspects of U.S. state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as:

- insurance companies;
- tax-exempt organizations;
- financial institutions;
- brokers or dealers in securities;
- partnerships or other pass-through entities;
- regulated investment companies;
- pension plans;
- owners (directly, indirectly or constructively) of more than 5% of our common stock;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment;
- owners that have a functional currency other than the U.S. dollar; and
- certain U.S. expatriates.

There can be no assurance that the Internal Revenue Service, referred to as the IRS, will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, an opinion of counsel or IRS ruling with respect to the U.S. federal income or estate tax consequences to a non-U.S. holder of the purchase, ownership, or disposition of our common stock. **We urge prospective investors to consult with their own tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of acquiring, holding and disposing of shares of our common stock.**

Distributions on Our Common Stock

We have not declared or paid distributions on our common stock since our inception and do not intend to pay any distributions on our common stock in the foreseeable future. In the event we do pay distributions on our common stock, however, these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder's investment, up to such holder's tax basis in the common stock. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in "Gain on Sale, Exchange or Other Disposition of Common Stock."

Dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be provided by an applicable income tax treaty between the U.S. and such holder's country of residence. If we determine, at a time reasonably close to the date of payment of a distribution on our common stock, that the distribution will not constitute a dividend because we do not anticipate having current or accumulated earnings and profits, we intend not to withhold any U.S. federal income tax on the distribution as permitted by U.S. Treasury Regulations. If we or another withholding agent withholds tax on such a distribution, a non-U.S. holder may be entitled to a refund of the tax withheld which the non-U.S. holder may claim by filing a U.S. tax return with the IRS.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States (and if an applicable income tax treaty so provides, are also attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder) are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons. Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as specified by an applicable income tax treaty between the United States and such holder's country of residence.

A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty between the United States and such holder's country of residence generally will be required to provide a properly executed IRS Form W-8BEN and satisfy applicable certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by timely filing an appropriate claim with the IRS.

Gain on Sale, Exchange or Other Disposition of Our Common Stock

In general, a non-U.S. holder will not be subject to any U.S. federal income tax or withholding tax on any gain realized upon such holder's sale, exchange or other disposition of shares of our common stock unless:

- the gain is effectively connected with a U.S. trade or business (and if an applicable income tax treaty so provides, is also attributable to a permanent establishment or a fixed base maintained by such non-U.S. holder), in which case the graduated U.S. federal income tax rates applicable to U.S. persons and, if the non-U.S. holder is a foreign corporation, the additional branch profits tax described above in "Distributions on Our Common Stock" may apply;
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax on the net gain derived from the disposition, which may be offset by U.S. source capital losses of the non-U.S. holder, if any; or

- we are or have been, at any time during the five-year period preceding such disposition (or the non-U.S. holder's holding period if shorter) a "U.S. real property holding corporation" unless our common stock is regularly traded on an established securities market and the non-U.S. holder holds no more than 5% of our outstanding common stock, directly, indirectly or constructively. If we are determined to be a U.S. real property holding corporation and the foregoing exception does not apply, then a purchaser may withhold 10% of the proceeds payable to a non-U.S. holder from a sale of our common stock and the non-U.S. holder generally will be taxed on its net gain derived from the disposition at the graduated U.S. federal income tax rates applicable to U.S. persons and, if the non-U.S. holder is a foreign corporation, the additional branch profits tax described above in "Distributions on Our Common Stock" may apply. Generally, a corporation is a U.S. real property holding corporation only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, we do not believe that we are, or have been, a U.S. real property holding corporation, or that we are likely to become one in the future. Furthermore, no assurance can be provided that our stock will be regularly traded on an established securities market for purposes of the rules described above.

U.S. Federal Estate Tax

Shares of our common stock that are owned or treated as owned by an individual non-U.S. holder at the time of death and certain lifetime transfers of an interest in our common stock made by such individual are considered U.S. situs assets and will be included in the individual's gross estate for U.S. federal estate tax purposes. Such shares, therefore, may be subject to U.S. federal estate tax, unless an applicable estate tax or other treaty provides otherwise.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the gross amount of the distributions on our common stock paid to such holder and the tax withheld, if any, with respect to such distributions. Non-U.S. holders may have to comply with specific certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding with respect to dividends on our common stock. The gross amount of dividends paid to a non-U.S. holder that fails to certify its non-U.S. holder's status in accordance with the applicable U.S. Treasury Regulations generally will be reduced by backup withholding at the applicable rate, currently 28%. Dividends paid to non-U.S. holders subject to the U.S. withholding tax, as described above in "Distributions on Our Common Stock," generally will be exempt from U.S. backup withholding.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a non-U.S. holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a non-U.S. holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the U.S. through a non-U.S. office of a non-U.S. broker. However, for information reporting purposes, certain brokers with substantial U.S. ownership or operations generally will be treated in a manner similar to U.S. brokers. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Copies of information returns may be made available to the tax authorities of the country in which the non-U.S. holder resides or is incorporated under the provisions of a specific treaty or agreement.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that an appropriate claim is timely filed with the IRS.

UNDERWRITING

We are offering the shares of common stock described in this prospectus through a number of underwriters. Banc of America Securities LLC, CIBC World Markets Corp., Lazard Frères & Co. LLC and William Blair & Company, L.L.C are acting as representatives of the underwriters. We have entered into a firm commitment underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to the underwriters, and each underwriter has agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of common stock listed next to its name in the following table:

Underwriter	Number of Shares
Banc of America Securities LLC	
CIBC World Markets Corp.	
Lazard Frères & Co. LLC	
William Blair & Company, L.L.C	
Total	

The underwriters initially will offer shares to the public at the price specified on the cover page of this prospectus. The underwriters may allow some dealers a concession of not more than $ per share. The underwriters also may allow, and any dealers may re-allow, a concession of not more than $ per share to some other dealers. If all the shares are not sold at the initial public offering price, the underwriters may change the offering price and other selling terms. The common stock is offered subject to a number of conditions, including:

- receipt and acceptance of our common stock by the underwriters, and
- the right to reject orders in whole or in part.

The underwriters have an option to buy up to additional shares of common stock from us to cover sales of shares by the underwriters which exceed the number of shares specified in the table above at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus. The underwriters have 30 days from the date of this prospectus to exercise this option. If the underwriters exercise this option, they will each be obligated, subject to certain conditions, to purchase additional shares approximately in proportion to the amounts specified in the table above. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered. We will pay the expenses associated with the exercise of the over-allotment option.

The underwriting fee is equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting fee is % of the initial public offering price. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	Paid by Threshold	
	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

In addition, we estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately $.

We and our directors, executive officers, all of our existing stockholders and all of our optionholders will have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant

to which we and such holders of stock and options have agreed, with limited exceptions, not to sell, directly or indirectly, any shares of our common stock without the prior written consent of Banc of America Securities LLC and CIBC World Markets Corp. for a period of 180 days after the date of this prospectus. This consent may be given at any time without public notice. We have entered into a similar agreement with the representatives of the underwriters, except that we may grant options and sell shares pursuant to our stock plans without such consent. There are no agreements between the representatives and any of our stockholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

We have applied to list our common stock on the NASDAQ National Market under the symbol "THLD." The underwriters have undertaken to sell and distribute our common stock in compliance with the standards of the NASDAQ National Market.

We will indemnify the underwriters against some specified types of liabilities, including liabilities under the Securities Act of 1933. If we are unable to provide this indemnification, we will contribute to payments the underwriters may be required to make in respect of those liabilities.

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of common stock in the open market for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress.

These stabilizing transactions may include making short sales of the common stock, which involves the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount.

The underwriters may close out any covered short position either by exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the over-allotment option.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters may also engage in other activities that stabilize, maintain or otherwise affect the price of the common stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase common stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the common stock or preventing or retarding a decline in the market price of the common stock, and, as a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on The NASDAQ National Market, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed % of the total number of shares of common stock offered by this prospectus.

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiation between us and the representatives of the underwriters. Among the factors considered in these negotiations are:

- the history of, and prospects for, our company and the industry in which we compete,
- the past and present financial performance of our company,
- an assessment of our management,
- the present state of our development,
- the prospects for our future earnings,
- the prevailing market conditions of the applicable United States securities market at the time of this offering, market valuations of publicly traded companies that we and the representatives of the underwriters believe to be comparable to our company, and
- other factors deemed relevant.

The estimated initial public offering price range set forth on the cover of this preliminary prospectus is subject to change as a result of market conditions and other factors.

We will not offer any shares in this offering on-line or through any other form of prospectus other than a printed prospectus.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for us by Heller Ehrman White & McAuliffe LLP, Menlo Park, CA. Shearman & Sterling LLP, New York, NY is counsel for the underwriters in connection with this offering.

EXPERTS

The financial statements of Threshold Pharmaceuticals, Inc. as of December 31, 2002 and 2003 and for the period from October 17, 2001 (date of inception) to December 31, 2001 and for each of the years ended December 31, 2002 and 2003 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933 with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits, schedules and amendments to the registration statement. For further information with respect to us and the shares of common stock to be sold in this offering, reference is made to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement, or other document to which we make reference are not necessarily complete. In each instance, if we have filed a copy of such contract, agreement, or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the matter involved. Each statement regarding a contract, agreement or other document is qualified in all respects by reference to the actual document.

Upon completion of this offering, we will become subject to the reporting and information requirements of the Securities Exchange Act of 1934 and, as a result, will file periodic and current reports, proxy statements, and other information with the SEC. You may read and copy this information at the Public Reference Room of the SEC located at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Copies of all or any part of the registration statement may be obtained from the SEC's offices upon payment of fees prescribed by the SEC. The SEC maintains an Internet site that contains periodic and current reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's website is *http://www.sec.gov*.

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

	Page
Report of Independent Registered Public Accounting Firm	F-2
Balance Sheets	F-3
Statements of Operations	F-4
Statements of Stockholders' Deficit	F-5
Statements of Cash Flows	F-6
Notes to Financial Statements	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Threshold Pharmaceuticals, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of stockholders' deficit and of cash flows present fairly, in all material respects, the financial position of Threshold Pharmaceuticals, Inc. (a development stage enterprise) at December 31, 2002 and 2003, and the results of its operations and its cash flows for the period from October 17, 2001 (date of inception) to December 31, 2001 and for the years ended December 31, 2002 and 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California
April 8, 2004

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

	December 31,			
	2002	2003	September 30, 2004	Pro forma Stockholders' Equity at September 30, 2004
			(unaudited)	
ASSETS				
Current assets:				
Cash and cash equivalents	$ 6,215	$ 40,609	$ 16,237	
Marketable securities	45	209	12,982	
Prepaid expenses and other current assets	280	128	1,574	
Restricted cash	30	115	85	
Total current assets	6,570	41,061	30,878	
Property and equipment, net	71	199	305	
Restricted cash	85	—	192	
Other assets	—	10	—	
Total assets	$ 6,726	$ 41,270	$ 31,375	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable	$ 313	$ 281	$ 835	
Accrued liabilities	103	437	1,105	
Notes payable	—	166	211	
Other current liabilities	—	—	140	
Total current liabilities	416	884	2,291	
Notes payable, less current portion	—	242	185	
Total liabilities	416	1,126	2,476	
Commitments and contingencies (Note 7)				
Redeemable convertible preferred stock, $0.001 par value:				
Authorized: 33,886,484 shares				
Issued and outstanding: 9,000,000 shares in 2002, 33,848,484 shares in 2003 and 2004 (unaudited) and no shares pro forma (unaudited)				
(Liquidation value: $49,999,999 at December 31, 2003)	8,977	49,839	49,839	$ —
Stockholders' equity (deficit):				
Common stock, $0.001 par value:				
Authorized: 50,000,000 shares				
Issued and outstanding: 291,500 shares in 2002, 304,202 shares in 2003, 5,548,047 shares in 2004 (unaudited) and 39,396,531 shares pro forma (unaudited)	—	—	6	39
Additional paid-in-capital	52	2,685	21,900	71,706
Deferred stock-based compensation	(24)	(1,546)	(16,244)	(16,244)
Accumulated other comprehensive income (loss)	(1)	163	98	98
Deficit accumulated during the development stage	(2,694)	(10,997)	(26,700)	(26,700)
Total stockholders' equity (deficit)	(2,667)	(9,695)	(20,940)	$ 28,899
Total liabilities and stockholders' deficit	$ 6,726	$ 41,270	$ 31,375	

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

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

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31,		Nine Months Ended September 30,		Cumulative Period from October 17, 2001 (date of inception) to September 30, 2004
		2002	2003	2003	2004	
				(unaudited)		(unaudited)
Operating expenses:						
Research and development	$ 35	$ 2,179	$ 6,252	$ 4,868	$ 10,852	$ 19,318
General and administrative	201	306	2,057	1,591	5,137	7,701
Total operating expenses	236	2,485	8,309	6,459	15,989	27,019
Loss from operations	(236)	(2,485)	(8,309)	(6,459)	(15,989)	(27,019)
Interest income	—	27	65	17	313	405
Interest expense	—	—	(59)	(24)	(27)	(86)
Net loss	(236)	(2,458)	(8,303)	(6,466)	(15,703)	(26,700)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	(40,862)	—	—	(40,862)
Net loss attributable to common stockholders	$ (236)	$(2,458)	$(49,165)	$(6,466)	$(15,703)	$ (67,562)
Net loss per common share:						
Basic and diluted	$ (1.29)	$(21.19)	$(305.37)	$(40.92)	$ (16.14)	
Weighted average number of shares used in per common share calculations:						
Basic and diluted	183	116	161	158	973	
Pro forma net loss per common share (unaudited)(see Note 13):						
Basic and diluted			$ (4.04)		$ (0.45)	
Weighted-average number of shares used in pro forma per common share calculations (unaudited)(see Note 13):						
Basic and diluted			12,156		34,821	

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

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE PERIOD
FROM OCTOBER 17, 2001 (DATE OF INCEPTION) TO SEPTEMBER 30, 2004
(in thousands, except share and per share data)

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Deficit
	Shares	Amount					
Issuance of restricted common stock to a founder and member of the Board of Directors in October 2001 for cash at $0.01 per share	250,000	$ —	$ 2	$ —	$ —	$ —	$ 2
Net loss	—	—	—	—	—	(236)	(236)
Balances, December 31, 2001	250,000	—	2	—	—	(236)	(234)
Issuance of restricted common stock to a member of the Board of Directors for cash at $0.10 per share in January 2002	37,500	—	4	—	—	—	4
Issuance of common stock pursuant to exercise of stock options for cash at $0.10 per share	4,000	—	—	—	—	—	—
Deferred stock-based compensation	—	—	25	(25)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	1	—	—	1
Non-employee stock-based compensation	—	—	21	—	—	—	21
Components of other comprehensive income (loss):							
Unrealized loss on marketable securities	—	—	—	—	(1)	—	(1)
Net loss	—	—	—	—	—	(2,458)	(2,458)
Comprehensive loss							(2,459)
Balances, December 31, 2002	291,500	—	52	(24)	(1)	(2,694)	(2,667)
Issuance of common stock pursuant to exercise of stock options for cash at $0.10 per share	12,702	—	1	—	—	—	1
Issuance of a warrant to purchase Series A redeemable convertible preferred stock	—	—	44	—	—	—	44
Beneficial conversion feature related to issuance of Series B redeemable convertible preferred stock	—	—	40,862	—	—	—	40,862
Deemed dividend related to beneficial conversion feature of Series B redeemable convertible preferred stock	—	—	(40,862)	—	—	—	(40,862)
Deferred stock-based compensation, net of cancellations	—	—	2,332	(2,332)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	810	—	—	810
Non-employee stock-based compensation	—	—	256	—	—	—	256
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	164	—	164
Net loss	—	—	—	—	—	(8,303)	(8,303)
Comprehensive loss							(8,139)
Balances, December 31, 2003	304,202	—	2,685	(1,546)	163	(10,997)	(9,695)
Issuance of common stock pursuant to exercise of stock options for cash at $0.10 per share (unaudited)	2,742,221	3	271	—	—	—	274
Issuance of common stock pursuant to exercise of stock options for cash at $0.16 per share (unaudited)	2,320,124	2	369	—	—	—	371
Issuance of common stock pursuant to exercise of stock options for cash at $0.32 per share (unaudited)	181,500	1	59	—	—	—	60
Deferred stock-based compensation, net of cancellations (unaudited)	—	—	18,120	(18,120)	—	—	—
Amortization of deferred stock-based compensation (unaudited)	—	—	—	3,422	—	—	3,422
Non-employee stock-based compensation (unaudited)	—	—	396	—	—	—	396
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities (unaudited)	—	—	—	—	(65)	—	(65)
Net loss (unaudited)	—	—	—	—	—	(15,703)	(15,703)
Comprehensive loss (unaudited)							(15,768)
Balances, September 30, 2004 (unaudited)	5,548,047	$ 6	$ 21,900	$ (16,244)	$ 98	$ (26,700)	$ (20,940)

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

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

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31, 2002	Years Ended December 31, 2003	Nine Months Ended September 31, 2003	Nine Months Ended September 31, 2004	Cumulative Period from October 17, 2001 (date of inception) to September 30, 2004
				(unaudited)		(unaudited)
Cash flows from operating activities:						
Net loss	$ (236)	$(2,458)	$ (8,303)	$(6,466)	$(15,703)	$ (26,700)
Adjustments to reconcile net loss to net cash used in operating activities:						
Depreciation	—	11	90	65	101	202
Stock-based compensation expense	—	22	1,066	857	3,818	4,906
Amortization of debt issuance costs	—	—	34	30	11	45
Loss on disposal of property and equipment	—	5	—	—	—	5
Changes in operating assets and liabilities:						
Prepaids and other current assets	(8)	(272)	152	159	(1,307)	(1,435)
Accounts payable	51	262	(32)	(210)	554	835
Accrued liabilities	142	(39)	334	465	528	965
Net cash used in operating activities	(51)	(2,469)	(6,659)	(5,100)	(11,998)	(21,177)
Cash flows from investing activities:						
Acquisition of property and equipment	—	(87)	(218)	(214)	(206)	(511)
Acquisition of marketable securities	—	(46)	—	—	(19,855)	(19,901)
Proceeds from sale of marketable securities	—	—	—	—	7,017	7,017
Restricted cash	—	(115)	—	—	(162)	(277)
Net cash used in investing activities	—	(248)	(218)	(214)	(13,206)	(13,672)
Cash flows from financing activities:						
Proceeds from redeemable convertible preferred stock, net	236	8,741	40,862	—	—	49,839
Proceeds from issuance of common stock	2	4	1	1	705	712
Proceeds from issuance of unvested options	—	—	—	—	140	140
Proceeds from issuance of notes payable	—	—	510	510	122	632
Repayment of notes payable	—	—	(102)	(62)	(135)	(237)
Net cash provided by financing activities	238	8,745	41,271	449	832	51,086
Net increase (decrease) in cash and cash equivalents	187	6,028	34,394	(4,865)	(24,372)	16,237
Cash and cash equivalents, beginning of period	—	187	6,215	6,215	40,609	—
Cash and cash equivalents, end of period	$ 187	$ 6,215	$40,609	$ 1,350	$ 16,237	$ 16,237
Supplemental disclosures:						
Cash paid for interest	$ —	$ —	$ 14	$ 24	$ 27	$ 41
Non-cash financing activities:						
Deferred stock-based compensation	$ —	$ 25	$ 2,332	$ 2,294	$ 18,120	$ 20,477
Fair value of redeemable convertible preferred stock warrant	$ —	$ —	$ 44	$ 44	$ —	$ 44
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	$ —	$ —	$40,862	$ —	$ —	$ 40,862

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

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

NOTE 1—THE COMPANY:

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Unaudited Interim Financial Data

The accompanying balance sheet as of September 30, 2004, the statements of operations and of cash flows for the nine months ended September 30, 2003 and 2004, and the statement of stockholders' deficit for the nine months ended September 30, 2004 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to state fairly the Company's financial position and results of operations and cash flows for the nine months ended September 30, 2003 and 2004. The financial data and other information disclosed in these notes to financial statements related to the nine month periods are unaudited. The results for the nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004 or for any other interim period or for any future year.

Use of estimates

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

Cash and cash equivalents

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

Restricted cash

Restricted cash represents two certificates of deposit held at a financial institution. The certificates serve as collateral for the Company's facility sublease agreements.

Marketable securities

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

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

Fair value of financial instruments

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of the notes payable at December 31, 2003 approximates fair value. Estimated fair values for marketable securities, which are separately disclosed elsewhere, are based on quoted market prices for the same or similar instruments.

Concentration of credit risk and other risks and uncertainties

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

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

The Company is currently developing its first product offering and has no products that have received regulatory approval. To achieve profitable operations, the Company must successfully develop, test, manufacture and market its products. There can be no assurance that any such products can be developed successfully or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect on the Company's future financial results.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets, generally three years. Maintenance and repairs are charged to operations as incurred. Upon sale or retirement of assets, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is reflected in operations.

Impairment of long-lived assets

In accordance with the provisions of Statement of Financial Accounting Standards Board ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," the Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Under SFAS No. 144, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The Company considers various valuation factors, principally discounted cash flows, to assess the fair values of long-lived assets. As of December 31, 2003, the Company has not incurred such impairment losses.

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

Comprehensive income (loss)

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

Unaudited pro forma stockholders' equity

If the offering contemplated by this prospectus is closed, all of the redeemable convertible preferred stock outstanding will automatically convert into 33,848,484 shares of common stock based on the shares of redeemable convertible preferred stock outstanding at September 30, 2004. Unaudited pro forma stockholders' equity, as adjusted for the assumed conversion of the redeemable convertible preferred stock, is set forth on the balance sheet.

Research and development expenditures

Research and development costs are charged to research and development expense as incurred. Cost accruals for preclinical and clinical studies are based upon estimates of work completed under service agreements, milestones achieved and services performed. The Company's estimates of work completed and associated cost accruals include its assessments of information received from third-party contract research organizations and the overall status of preclinical and clinical trial activities.

Advertising costs

Advertising costs will be expensed as incurred. The Company has not incurred any advertising costs since its inception.

Income taxes

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

Segments

The Company operates in one segment, using one measurement of profitability to manage its business. All long-lived assets are maintained in the United States of America.

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

Net loss per common share

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

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31,		Nine Months Ended September 30,	
		2002	2003	2003	2004
				(unaudited)	
Numerator:					
Net loss	$ (236)	$(2,458)	$ (8,303)	$(6,466)	$(15,703)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	(40,862)	—	—
Net loss attributable to common stockholders	$ (236)	$(2,458)	$(49,165)	$(6,466)	$(15,703)
Denominator:					
Weighted-average number of common shares outstanding	224	286	301	299	3,228
Less: Weighted-average shares subject to repurchase	(41)	(170)	(140)	(141)	(2,255)
Weighted-average number of common shares outstanding used in computing basic and diluted net loss per common share	183	116	161	158	973

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

	December 31,			September 30,	
	2001	2002	2003	2003	2004
				(unaudited)	
Redeemable convertible preferred stock	250	9,000	33,848	9,000	33,848
Options to purchase common stock	—	1,775	2,949	2,939	860
Common stock subject to repurchase	162	157	125	131	3,145
Warrants to purchase redeemable convertible preferred stock	—	—	38	38	38

Stock-based compensation

The Company uses the intrinsic value method of Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees,” (“APB No. 25”) in accounting for its employee stock options, and presents disclosure of pro forma information required under SFAS No. 123, “Accounting for Stock-Based Compensation

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

("SFAS No. 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS No. 148").

If compensation expense had been determined based upon the fair value at the grant date for employee compensation arrangements, consistent with the methodology prescribed under SFAS No. 123, the Company's pro forma net loss attributable to common stockholders and pro forma net loss per common share attributable to common stockholders under SFAS No. 123 would have been as follows (in thousands, except per share data):

	Period from October 17, 2001 (date of inception) to December 31, 2001	Years Ended December 31,		Nine Months Ended September 30,	
		2002	2003	2003	2004
				(unaudited)	
Net loss attributable to common stockholders, as reported	$ (236)	$(2,458)	$(49,165)	$(6,466)	$(15,703)
Add: Employee stock-based compensation included in reported net loss	—	1	810	665	3,422
Deduct: Employee total stock-based compensation determined under fair value method	—	(13)	(815)	(670)	(2,345)
Pro forma net loss attributable to common stockholders	$ (236)	$(2,470)	$(49,170)	$(6,471)	$(14,626)
Net loss attributable to common stockholders per common share, basic and diluted:					
As reported	$ (1.29)	$(21.19)	$(305.37)	$(40.92)	$ (16.14)
Pro forma	$ (1.29)	$(21.29)	$(305.40)	$(40.96)	$ (15.03)

Differences may not be representative of future compensation costs because options vest over several years and additional grants are made each year.

In accordance with the provisions of SFAS No. 123, the fair value of each option is estimated using the minimum value method based on the following assumptions:

	Years Ended December 31,		Nine Months Ended September 30,	
	2002	2003	2003	2004
			(unaudited)	
Weighted average risk-free interest rate	2.98%	1.98%	1.98%	4.27%
Expected life (in years)	4	4	4	4
Dividend yield	—	—	—	—

The grant date weighted average fair value per share of options granted during the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2004 was $0.03, $2.11 and $5.13 (unaudited), respectively. The Company did not grant any options to purchase common stock during the period from October 17, 2001 (date of inception) to December 31, 2001.

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

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

Recent accounting pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify those financial instruments as liabilities (or assets in some circumstances). Under previous guidance, issuers could account for those financial instruments as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. In November 2003, certain elements of SFAS No. 150 were deferred to fiscal periods beginning after December 15, 2004. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of the effective elements of SFAS No. 150 had no material effect on the Company's financial position or results of operations. The Company does not expect the adoption of the deferred elements of SFAS No. 150 to have a material effect on its financial position or results of operations.

In December 2003, the FASB issued a revised FASB Interpretation No. 46 ("FIN No. 46R"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." The FASB published the revision to clarify and amend some of the original provisions of FIN No. 46, which was issued in January 2003, and to exempt certain entities from its requirements. A variable interest entity ("VIE") refers to an entity subject to consolidation according to the provisions of this Interpretation. FIN No. 46R applies to entities whose equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support provided by any parties, including equity holders, or where the equity investors (if any) do not have a controlling financial interest. FIN No. 46R provides that if an entity is the primary beneficiary of a VIE, the assets, liabilities, and results of operations of the VIE should be consolidated in the entity's financial statements. In addition, FIN No. 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE provide additional disclosures. The provisions of FIN No. 46R will be effective in the first quarter of fiscal 2004. The Company does not expect the adoption of FIN No. 46R to have a material effect on its financial position or results of operations.

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

NOTE 3—MARKETABLE SECURITIES:

As of December 31, 2002 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Common stock in a public company	$ 46	$ —	$ (1)	$ 45

As of December 31, 2003 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Common stock in a public company	$ 46	$ 163	$ —	$ 209

As of September 30, 2004 (unaudited, in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Common stock in a public company	$ 46	$ 110	$ —	$ 156
Corporate bonds	2,955	—	(3)	2,952
Government securities	5,306	—	(4)	5,302
Commercial paper	4,577	—	(5)	4,572
Total	$12,884	$ 110	$ (12)	$12,982

NOTE 4—PROPERTY AND EQUIPMENT:

Property and equipment comprise the following (in thousands):

	December 31, 2002	December 31, 2003
Laboratory equipment	$ 52	$ 270
Computer equipment	30	30
	82	300
Less: Accumulated depreciation	(11)	(101)
	$ 71	$ 199

NOTE 5—ACCRUED LIABILITIES:

Accrued liabilities comprise the following (in thousands):

	December 31, 2002	December 31, 2003
Professional services fees	$ 50	$ 125
Payroll and employee related expenses	12	77
Clinical expenses	7	217
Other accrued expenses	34	18
	$ 103	$ 437

NOTE 6—NOTES PAYABLE:

On March 27, 2003, the Company entered into a line of credit agreement, as amended, with a financial institution under which the Company can borrow up to $1,000,000 for working capital requirements and

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

equipment purchases through March 31, 2005. Each borrowing under the line of credit accrues interest at the greater of the treasury note rate plus 3.0% or a fixed rate of 5.5% per annum at the date of borrowing and is repayable in 36 monthly installments. As of December 31, 2003, the Company had borrowed $300,000 under its working capital line of credit and $210,000 under the equipment line of credit, for borrowings of approximately $510,000 at an interest rate of 5.5% per annum. Borrowings under the equipment line of credit are collateralized by the related equipment. In connection with the agreement, the Company issued a warrant to purchase 38,000 shares of Series A redeemable convertible preferred stock to the financial institution (see Note 8).

At December 31, 2003, future principal payments under the notes payable are as follows (in thousands):

Year Ending December 31,	
2004	$ 166
2005	175
2006	67
Total	$ 408

Under the line of credit agreement, the Company is required to maintain the lower of 85% of its total cash and cash equivalents or $10,000,000 with the financial institution. At December 31, 2003, the Company was in compliance with this and all other covenants in the agreement.

NOTE 7—COMMITMENTS AND CONTINGENCIES:

On December 18, 2002, the Company entered into a noncancelable facility operating sublease which expires on December 31, 2004. At December 31, 2003, future minimum payments under the lease were $473,000. In conjunction with the facility lease, the Company issued a standby letter of credit collateralized by a certificate of deposit in lieu of a security deposit for $85,000. The certificate of deposit is classified as restricted cash (see Note 2).

On August 31, 2004, the Company entered into a noncancelable facility sublease agreement. The lease was effective October 1, 2004 and expires February 2010. The future rental payments required by the Company under all noncancelable operating subleases as of September 30, 2004 are as follows (unaudited, in thousands):

Years Ended December 31,	
Remainder of 2004	$ 193
2005	384
2006	400
2007	417
2008	518
2009 and thereafter	623
Future minimum rental payments	$ 2,535

Rent expense for the period from October 17, 2001 (date of inception) to December 31, 2001, for the years ended December 31, 2002 and 2003 and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2003 was $26,000, $112,000, $447,000 and $585,000, respectively.

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

License agreements

In November 2002, the Company entered into an exclusive license agreement with certain individuals for rights to certain patent applications. Under the terms of the agreement, the Company was required to make aggregate upfront payments of approximately $15,000. Based on the early stage of development and the uncertainty of the feasibility of the licensed technology, the upfront fees were expensed immediately as incurred. The Company is also required to make various milestone payments up to $700,000 in connection with regulatory filings and approvals and additional royalty payments upon product commercialization. No milestone or royalty payments have been made as of December 31, 2003.

In June 2004, the Company entered into an agreement with Acraf, S.p.a. for rights to use Acraf's regulatory documents and pre-clinical and clinical information pertaining to the active ingredient in TH-070 for the Company's regulatory filings on TH-070-based products and for obtaining marketing authorizations world-wide for such products. In consideration for the licenses under this agreement, the Company paid Acraf a one-time payment of €300,000, or approximately $374,000, in 2004. The Company is also also obligated to pay Acraf milestone payments, with the next such milestone payment due in connection with the marketing approval of the first TH-070-based product in certain specified territories. In addition, there is a sales-based milestone due should sales of a Company product containing TH-070 exceed €50 million in one year. Future aggregate milestone payments under this agreement could total €1.8 million.

In August 2003, the Company entered into an exclusive worldwide license and development agreement with a corporation for certain patent rights and technology. Under the terms of the agreement, the Company made an initial upfront payment of $100,000 and as of December 31, 2003, the Company has made a milestone payment of $100,000. Total additional milestone payments in connection with the development of glufosfamide and United States of America and foreign regulatory submissions and approvals could equal $9,300,000. In addition, based on the attainment of specified sales thresholds the Company could be required to make payments totaling $17,500,000. The Company will also be required to make royalty payments upon product commercialization. No royalty payments have been made as of December 31, 2003.

In November 2004, the Company entered into a Development Agreement with MediBIC Co. Ltd. Under this agreement, the Company is due to receive an upfront payment of $4.75 million to support the development of glufosfamide in the Asian countries covered by the agreement and an option payment of $250,000. The Company will be required to refund these payments and the agreement will terminate if the Company and MediBIC cannot agree to the development plan by March 1, 2005, or a later date agreed by the parties. The Company is responsible for all development activities and MediBIC has no other funding obligations. The Company will also be required to make royalty payments upon product commercialization.

Indemnification

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

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

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. As of December 31, 2003, the Company did not have directors' and officers' insurance.

NOTE 8—REDEEMABLE CONVERTIBLE PREFERRED STOCK:

Under the Company's Certificate of Incorporation, as amended, the Company is authorized to issue preferred stock in series. The Company's Board of Directors is authorized to determine the rights, preferences and terms of each series.

As of December 31, 2001, the redeemable convertible preferred stock comprises:

	Number of Shares Designated and Authorized	Number of Shares Issued and Outstanding	Carrying Value	Liquidation Value per Share
Series A	9,500,000	250,000	$ 236,000	$ 1.00

As of December 31, 2002, the redeemable convertible preferred stock comprises:

	Number of Shares Designated and Authorized	Number of Shares Issued and Outstanding	Carrying Value	Liquidation Value per Share
Series A	9,500,000	9,000,000	$ 8,977,000	$ 1.00

As of December 31, 2003 and September 30, 2004 (unaudited), the redeemable convertible preferred stock comprises:

	Number of Shares Designated and Authorized	Number of Shares Issued and Outstanding	Carrying Value	Liquidation Value per Share
Series A	9,038,000	9,000,000	$ 8,977,000	$ 1.00
Series B	24,848,484	24,848,484	40,862,000	$ 1.65
	33,886,484	33,848,484	$ 49,839,000	

On November 14, 2003, the Company amended its Certificate of Incorporation to increase the total number of authorized shares of redeemable convertible preferred stock to 33,886,484, of which 9,038,000 and 24,848,484 shares have been designated as Series A and B redeemable convertible preferred stock, respectively. As part of the amendment, the Company re-designated 462,000 shares of unissued Series A redeemable convertible preferred stock into authorized Series B redeemable convertible preferred stock.

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

As of December 31, 2003, the rights, preferences, privileges and restrictions of Series A and B redeemable convertible preferred stock are:

Dividends

The holders of the Series B redeemable convertible preferred stock are entitled to receive noncumulative annual dividends at the rate of $0.132 per share when, as and if declared by the Board of Directors. Dividends on Series B redeemable convertible preferred stock shall be payable in preference to and prior to payment of dividends on Series A redeemable convertible preferred stock and common stock. If Series B redeemable convertible preferred stock have been paid in full or declared and set apart, the holders of the Series A redeemable convertible preferred stock are entitled to receive noncumulative annual dividends at the rate of $0.08 per share when, as and if declared by the Board of Directors. Dividends on Series A redeemable convertible preferred stock shall be payable in preference to and prior to payment of dividends on common stock. In the event that dividends are paid on common stock, dividends shall be paid on redeemable convertible preferred stock in an amount equal per share (on an as-if-converted basis) to the amount paid for each share of common stock. As of September 30, 2004 (unaudited), no dividends had been declared on any class of the Company's capital stock.

Liquidation

A merger, consolidation or sale of all or substantially all of the assets of the Company which will result in the Company's stockholders immediately prior to such transaction holding less than 50% of the voting power of the surviving, continuing or purchasing entity will be deemed to be a liquidation, dissolution or winding up of the Company.

In the event of any liquidation or winding up of the Company, the holders of the Company's Series B redeemable convertible preferred stock are entitled to receive, prior to any distribution of the Company's assets to and in preference to any distribution to holders of Series A redeemable convertible preferred stock and common stock, an amount equal to $1.65 per share for each outstanding share of Series B redeemable convertible preferred stock, plus any declared but unpaid dividends. If the Company's assets are insufficient to provide for such preferential distributions, the holders of Series B redeemable convertible preferred stock will receive all of the Company's remaining assets on a pro rata basis.

After distributions have been made to the holders of Series B redeemable convertible preferred stock, the holders of the Company's Series A redeemable convertible preferred stock will be entitled to receive, prior to any distribution of the Company's assets to and in preference to any distribution to holders of the common stock, an amount equal to $1.00 per share for each outstanding share of Series A redeemable convertible preferred stock, plus any declared but unpaid dividends. If the Company's assets are insufficient to provide for such preferential distributions, the holders of Series A redeemable convertible preferred stock will receive all of the Company's remaining assets on a pro rata basis.

Following full payment to the holders of Series A and B redeemable convertible preferred stock, the holders of common stock will be entitled to the remaining assets, if any, on a pro rata basis.

Redemption

The merger or consolidation of the Company into another entity or any transactions in which more than 50% of the voting power of the Company is disposed of or the sale, transfer or disposition of substantially all of the

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

property or business of the Company is deemed a liquidation, dissolution, or winding up of the Company. These liquidation characteristics require classification of the redeemable convertible preferred stock outside of the stockholders' deficit section as these factors are outside the control of the Company. The redeemable convertible preferred stock is not redeemable in any other circumstances.

Conversion

Each share of redeemable convertible preferred stock, at the option of the holder, is convertible at any time into the number of fully paid and nonassessable shares of common stock (adjusted to reflect stock dividends, stock splits and recapitalization) that results from dividing the original issue price by the conversion price in effect at the time of the conversion. The original issue price of the Series A and B redeemable convertible preferred stock is $1.00 and $1.65 per share, respectively. The initial per share conversion price of the Series A and B redeemable convertible preferred stock is $1.00 and $1.65 per share, respectively.

If not previously converted at the option of the holder, the conversion of the convertible preferred stock is automatic and will be converted at the then applicable prices upon the earlier of any of the following events: (i) affirmative election of the holders of at least 75% of the then outstanding shares of the redeemable convertible preferred stock, or (ii) the closing of a firm commitment underwritten public offering based on an effective registration statement under the Securities Act of 1933 for the issuance of common stock. The aggregate proceeds raised from the offering must exceed $50,000,000 prior to the underwriters' commission and other offering costs, and with a pre-money valuation not less than $200,000,000.

Voting rights

The holder of each share of the Company's redeemable convertible preferred stock has the right to one vote for each share of common stock into which such redeemable convertible preferred stock could be converted.

As long as at least 6,000,000 shares of Series B redeemable convertible preferred stock remain outstanding, the Company must obtain approval from at least 60% of the then outstanding shares of Series B redeemable convertible preferred stock in order to amend the Certificate of Incorporation or Bylaws as related to Series B redeemable convertible preferred stock, or change or reclassify any shares of redeemable convertible preferred stock that adversely effects the rights, preferences or privileges relating to Series B redeemable convertible preferred stock.

As long as at least 4,000,000 shares of Series A redeemable convertible preferred stock remain outstanding, the Company must obtain approval from a majority of the then outstanding shares of Series A redeemable convertible preferred stock in order to amend the Certificate of Incorporation or Bylaws as related to Series A redeemable convertible preferred stock, or change or reclassify any shares that adversely effects the rights, preferences or privileges relating to Series A redeemable convertible preferred stock.

As long as at least 8,462,121 shares of Series A and Series B redeemable convertible preferred stock remain outstanding, the Company must obtain approval from at least 75% of the then outstanding Series A and Series B redeemable convertible preferred shares in order to change the authorized number of shares of common stock or redeemable convertible preferred stock, take actions that result in certain redemption or repurchase of any shares of common stock, result in a consolidation, merger or asset sale, declare or pay dividends, enter into a consolidation or sale of substantially all of its assets, or issue debt in excess of $500,000.

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

Sale of Series B redeemable convertible preferred securities

In November 2003, the Company sold an aggregate of 24,848,484 shares of Series B redeemable convertible preferred stock for net proceeds of approximately $40,862,000. The issuance of Series B redeemable convertible preferred stock resulted in a beneficial conversion feature, calculated in accordance with EITF No. 00-27, "Application of Issue No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios" to Certain Convertible Instruments" based upon the conversion price of the preferred stock into common, and the fair value of the common stock at the date of issue. Accordingly, the Company has recognized approximately $40,862,000 as a charge to additional paid-in-capital to account for the deemed dividend on the redeemable convertible preferred stock as of the issuance date in the year ended December 31, 2003. In accordance with the provisions of EITF No. 00-27, the amount of the deemed dividend related to the beneficial conversion feature is limited to the net proceeds received by the Company for the sale of the related securities and was recorded upon issuance of the Series B redeemable convertible preferred stock, as the Series B redeemable convertible preferred stock can be converted to common stock by the holder at any time.

Warrant

In connection with the line of credit agreement in March 2003, the Company issued a warrant to purchase an aggregate of 38,000 shares of Series A redeemable convertible preferred stock at an exercise price of $1.00 per share. The warrant was fully vested and exercisable upon grant, and will expire in March 2013 or seven years after the closing date of the Company's initial public offering, whichever is later. At the date of issuance, the aggregate fair value of the warrant was deemed to be $44,000, which was determined using the Black-Scholes valuation model with the following assumptions: term of 10 years, risk free rate of 4.33%, volatility of 70% and a dividend yield of zero. The fair value of the warrant has been reflected as an other asset and is being amortized to interest expense on a straight-line basis over the term of the line of credit.

NOTE 9—STOCKHOLDERS' DEFICIT:

Common stock

Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid as of December 31, 2003.

On October 24, 2001, shares of restricted stock were issued to the Company's founder and member of the Board of Directors under a restricted stock purchase agreement. On January 29, 2002, shares of restricted common stock were issued to a member of the Board of Directors under a restricted stock purchase agreement. Generally, the shares vest over a four-year period. The unvested shares of common stock are subject to repurchase by the Company in the event of termination of the employment or consulting relationship. Included in common stock as of December 31, 2002 and 2003 and September 30, 2004 are 157,061, 125,116 and 98,842 (unaudited) shares subject to the Company's right of repurchase, respectively.

2001 Equity Incentive Plan

In December 2001, as amended in November 2003, the Board of Directors authorized the 2001 Stock Plan (the "2001 Plan") under which the Company may issue incentive stock options and nonstatutory stock options.

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

As of December 31, 2003, the Company has reserved 7,000,000 shares of common stock for issuance under the 2001 Plan. Options may be granted at an exercise price not less than fair market value for incentive stock options and not less than 85% of fair market value for nonstatutory stock options. For employees holding more than 10% of the voting rights of all classes of stock, the exercise prices for incentive and nonstatutory stock options may not be less than 110% of fair market value. The options may be exercised, in whole or in part, upon grant and generally vest over a four-year period. The 2001 Plan requires that options be exercised no later than ten years after the date of the grant. Included in common stock at September 30, 2004 are 3,045,717 (unaudited) shares subject to repurchase relating to options exercised prior to vesting.

Activity under the 2001 Plan is set forth below:

	Shares Available for Grant	Outstanding Options		Weighted Average Exercise Price
		Number of Shares	Exercise Price	
Shares reserved at Plan inception	2,000,000	—	$ —	$ —
Balances, December 31, 2001	2,000,000	—	—	—
Options granted	(1,778,692)	1,778,692	0.10	0.10
Options exercised	—	(4,000)	0.10	0.10
Balances, December 31, 2002	221,308	1,774,692	0.10	0.10
Additional shares reserved	5,000,000	—	—	—
Options granted	(1,196,577)	1,196,577	0.10–0.16	0.10
Options exercised	—	(12,702)	0.10	0.10
Options canceled	9,170	(9,170)	0.10	0.10
Balances, December 31, 2003	4,033,901	2,949,397	0.10–0.16	0.10
Options granted (unaudited)	(3,233,000)	3,233,000	0.16–0.32	0.20
Options exercised (unaudited)	—	(5,243,845)	0.10–0.32	0.13
Options canceled (unaudited)	78,321	(78,321)	0.10–0.32	0.11
Balances, September 30, 2004 (unaudited)	879,222	860,231	$ 0.10–0.32	$ 0.28

The number of options outstanding at September 30, 2004 includes 437,000 (unaudited) unvested options granted and exercised that are not considered to be exercised for accounting purposes in accordance with EITF Issue No. 00-23, “Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44.”

The number of options outstanding and vested at December 31, 2002 was 726,671 shares with a weighted- average exercise price of $0.10 per share.

At December 31, 2003, stock options outstanding and vested by exercise price are as follows:

Options Outstanding and Exercisable			Options Vested	
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Number Vested	Weighted Average Exercise Price
$0.10	2,939,397	9.21	1,518,843	$ 0.10
$0.16	10,000	9.92	208	0.16
	2,949,397		1,519,051	$ 0.10

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

At September 30, 2004 (unaudited), stock options outstanding and vested by exercise price are as follows:

Options Outstanding and Exercisable			Options Vested	
Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Number Vested	Weighted Average Exercise Price
$0.10	122,855	8.03	231,153	$ 0.10
$0.16	44,376	9.44	149,969	0.16
$0.32	693,000	9.61	18,906	0.32
	860,231		400,028	$ 0.13

Deferred stock-based compensation

During the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004, the Company issued options to certain employees under the 2001 Plan with exercise prices below the fair market value of the Company's common stock at the date of grant, determined with hindsight. In accordance with the requirements of APB No. 25, the Company has recorded deferred stock-based compensation for the difference between the exercise price of the stock option and the fair market value of the Company's stock at the date of grant. This deferred stock-based compensation is amortized to expense on a straight-line basis over the period during which the Company's right to repurchase the stock lapses or the options vest, generally four years. During the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004, the Company has recorded deferred stock-based compensation related to these options of approximately $25,000, $2,332,000, $2,294,000 (unaudited) and $11,986,000 (unaudited), net of cancellations, respectively.

During May 2004, the Company granted 637,000 (unaudited) options to employees to purchase shares of common stock at $0.32 per share. These options contain a call feature that allows the Company to cancel the options by January 31, 2005 if the Company does not complete an initial public offering by December 31, 2004. If the Company elects to exercise this call feature, the outstanding options will be cancelled and any shares purchased pursuant to exercise of the options will be immediately repurchasable by the Company at the original purchase price. The Company has applied the provisions of EITF Issue No. 00-23 and applied variable accounting to these options, resulting in deferred stock-based compensation of $6,134,000 and stock compensation expense of $1,505,000 during the nine months ended September 30, 2004 (unaudited). Stock compensation expense has been amortized in accordance with the provisions of FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" for these awards subject to variable accounting. At September 30, 2004, 437,000 (unaudited) of these options had been exercised at $0.32 per share and were subject to the repurchase feature. The aggregate proceeds of $140,000 (unaudited) from the exercise of these options is included within liabilities and excluded from earnings per share calculations in accordance with EITF Issue No. 00-23, based upon the Company's right to repurchase the shares at their original exercise price.

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

The Company granted stock options to employees with exercise prices below estimated fair market value on the date of grant as follows (unaudited):

Grants Made During Quarter Ended	Number of Options Granted (000's)	Weighted-Average Exercise Price Per Share	Weighted-Average Fair Value Per Share	Weighted-Average Intrinsic Value Per Share
December 31, 2002	166	$ 0.10	$ 0.25	$ 0.15
March 31, 2003	25	0.10	0.82	0.72
June 30, 2003	1,058	0.10	2.20	2.10
September 30, 2003	20	0.10	3.12	3.02
December 31, 2003	10	0.16	3.98	3.82
March 31, 2004	2,309	0.16	4.85	4.69
June 30, 2004	822	0.32	6.55	6.23
September 30, 2004	3	0.32	8.25	7.93

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

	Years Ended December 31,		Nine Months Ended September 30,	
	2002	2003	2003	2004
			(unaudited)	
Research and development	$ —	$ 57	$ 39	$ 1,485
General and administrative	1	753	626	1,937
	$ 1	$810	$665	$ 3,422

Stock-based compensation expense related to stock options granted to non-employees is recognized on a straight-line basis, as the stock options are earned. During the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2004 (unaudited), the Company issued options to non-employees. The options generally vest ratably over three or four years. The values attributable to these options are amortized over the service period and the unvested portion of these options were remeasured at each vesting date. The Company believes that the fair value of the stock options is more reliably measurable than the fair value of the services received. The fair value of the stock options granted were revalued at each reporting date using the Black-Scholes option pricing model as prescribed by SFAS No. 123 using the following assumptions:

	Years Ended December 31,		Nine Months Ended September 30,	
	2002	2003	2003	2004
			(unaudited)	
Risk-free interest rate	4.76%	4.26%	4.26%	4.50%
Expected life (in years)	10	10	10	10
Dividend yield	—	—	—	—
Expected volatility	70%	70%	70%	70%

The stock-based compensation expense will fluctuate as the deemed fair market value of the common stock fluctuates. In connection with the grant of stock options to non-employees, the Company recorded stock-based compensation of approximately $21,000, $256,000, $192,000 (unaudited) and $396,000 (unaudited) for the years

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

ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004, respectively. The Company did not grant any options to purchase common stock during the period from October 17, 2001 (date of inception) to December 31, 2001. Stock-based compensation expenses related to options granted to non-employees were entirely expensed to research and development.

NOTE 10—INCOME TAXES:

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

	December 31,	
	2002	2003
Capitalized start-up costs	$ 126	$ 605
Net operating loss carryforwards	947	3,407
Research and development credits	88	385
Other	4	49
Total deferred tax assets	1,165	4,446
Less: Valuation allowance	(1,165)	(4,446)
	$ —	$ —

At December 31, 2003, the Company had federal and state net operating loss carryforwards of approximately $8,592,000 and $8,328,000 available to offset future regular taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in various amounts in 2021 and 2011, respectively, if not used before such time to offset future taxable income or tax liabilities. For federal and state income tax purposes, a portion of the Company's net operating loss carryforward is subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws.

At December 31, 2003, the Company has research credit carryforwards of approximately $227,000 and $239,000 for federal and state income tax purposes, respectively. If not utilized, the federal carryforwards will expire in various amounts beginning in 2011. The California credit can be carried forward indefinitely.

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. Management evaluates on a periodic basis the recoverability of deferred tax assets. At such time as it is determined that it is more likely than not that deferred tax assets are realizable, the valuation allowance will be reduced.

NOTE 11—EMPLOYEE BENEFIT PLAN:

In November 2002, the Company implemented a 401(k) Plan to provide a retirement savings program for the employees of the Company. The 401(k) Plan is maintained for the exclusive purpose of benefiting the 401(k) Plan participants. The 401(k) Plan is intended to operate in accordance with all applicable state and federal laws and regulations and, to the extent applicable, the provisions of Department of Labor regulations issued pursuant to ERISA Section 404(c). As of December 31, 2003, the Company did not make any contributions to the 401(k) Plan.

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

NOTE 12—SUBSEQUENT EVENTS:

Initial Public Offering

On April 7, 2004, the Board of Directors authorized management of the Company to file a registration statement with the Securities and Exchange Commission permitting the Company to sell shares of its common stock to the public. If the initial public offering is closed under the terms presently anticipated, all of the redeemable convertible preferred stock outstanding will automatically convert into shares of common stock.

2004 Equity Incentive Plan

On April 7, 2004, the Board of Directors adopted the 2004 Equity Incentive Plan (the "2004 Plan"), subject to stockholder approval. The 2004 Plan will become effective upon the completion of the Company's initial public offering and provides for the granting of incentive stock options, nonstatutory stock options, stock appreciation rights, stock awards and cash awards to employees and consultants.

A total of 4,000,000 shares of common stock have been authorized for issuance pursuant to the 2004 Plan, plus any shares which have been reserved but not issued under the 2001 Plan or issued and forfeited after the date of the initial public offering, plus any shares repurchased at or below the original purchase price and any options which expire or become unexercisable after the initial public offering, thereafter plus all shares of common stock restored by the Board of Directors pursuant to the provision of the 2004 Plan that permits options to be settled on a net appreciation basis. The Company will not grant any options under the 2001 Plan after the effectiveness of the 2004 Plan. On January 1, 2005, and annually thereafter, the authorized shares will automatically be increased by a number of shares equal to the lesser of:

- 5% of the number of the Company's shares issued and outstanding prior to the preceding December 31;
- 2,000,000 shares;
- an amount determined by the Board of Directors.

2004 Employee Stock Purchase Plan

On April 7, 2004, the Board of Directors adopted the 2004 Employee Stock Purchase Plan (the "Purchase Plan"), subject to stockholder approval. The Purchase Plan contains consecutive, overlapping 24 month offering periods. Each offering period includes four six-month purchase periods. The price of the common stock purchased will be the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of the purchase period. The initial offering period will commence on the effective date of the Company's initial public offering.

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

NOTE 13—PRO FORMA COMMON SHARES OUTSTANDING AND PRO FORMA NET LOSS PER SHARE (UNAUDITED):

Pro forma basic and diluted net loss per common share have been computed to give effect to redeemable convertible preferred stock that will convert to common stock upon the closing of the Company's initial public offering (using the as-converted method) for the year ended December 31, 2003 and the nine months ended September 30, 2004 as if the closing occurred at the beginning of fiscal 2003. A reconciliation of the numerator and denominator used in the calculation of pro forma net loss per common share follows (in thousands, except per share data):

	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
		(unaudited)
Numerator:		
Net loss	$ (8,303)	$ (15,703)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	(40,862)	—
Net loss attributable to common stockholders	$ (49,165)	$ (15,703)
Denominator:		
Weighted-average number of shares outstanding used in computing basic and diluted net loss per common share	161	973
Adjustment to reflect the effect of the assumed conversion of the weighted-average number of preferred stock from the date of issuance, basic and diluted	11,995	33,848
Weighted-average number of shares used in computing basic and diluted pro forma net loss per common share	12,156	34,821
Pro forma net loss per common share		
Basic and diluted	$ (4.04)	$ (0.45)

Shares

Common Stock

PROSPECTUS

, 2004

Banc of America Securities LLC **CIBC World Markets**

Lazard **William Blair & Company**

Through and including , 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Our estimated expenses (other than underwriting discounts) payable in connection with the sale of the common stock offered hereby are as follows:

SEC registration fee	$ 10,927.88
NASD filing fee	9,120.00
NASDAQ National Market listing fee	*
Printing and engraving expenses	200,000.00
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky qualification fees and expenses	*
Transfer agent and registrar fees and expenses	10,000.00
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by amendment

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 102 of the General Corporation Law of the State of Delaware permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. The registrant's certificate of incorporation provides that no director of the registrant shall be personally liable to it or its stockholders for monetary damages for any breach of fiduciary duty as a director, notwithstanding any provision of law imposing such liability, except to the extent that the General Corporation Law of the State of Delaware prohibits the elimination or limitation of liability of directors for breaches of fiduciary duty.

Section 145 of the General Corporation Law of the State of Delaware provides that a corporation has the power to indemnify a director, officer, employee, or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against expenses (including attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he is or is threatened to be made a party by reason of such position, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

The registrant's certificate of incorporation provides for the indemnification of directors and officers to the fullest extent permissible under Delaware law.

The Underwriting Agreement provides that the underwriters are obligated, under certain circumstances, to indemnify directors, officers and controlling persons of the registrant against certain liabilities, including liabilities under the Securities Act of 1933, as amended. Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Set forth below in chronological order is information regarding the number of shares of capital stock, options and warrants issued by us since our inception on October 17, 2001. Also included is the consideration if any received by us for the securities.

There was no public offering in any such transaction and we believe that each transaction was exempt from the registration requirements of the Securities Act of 1933 by reason of Regulation D and Section 4(2) of the 1933 Act, based on the private nature of the transactions and the financial sophistication of the purchasers, all of whom had access to complete information concerning us and acquired the securities for investment and not with a view to the distribution thereof. In addition, we believe that the transactions described below with respect to the issuance of option grants to our employees and exercise of such options were exempt from registration requirements of the 1933 Act by reason of Rule 701 promulgated thereunder.

1. In October 2001, we sold 250,000 shares of common stock to George F. Tidmarsh, M.D., Ph.D., at $0.01 per share, for an aggregate purchase price of $2,500.00.

2. In January 2002, we sold 37,500 shares of common stock to a former director at $0.10 per share, for an aggregate purchase price of $3,750.00.

3. Between October 2001 and August 2002, we issued 9,000,000 shares of our Series A preferred stock to investors for an aggregate cash consideration of $9,000,000.

4. In March 2003, in connection with a loan and security agreement, we issued to Silicon Valley Bank a warrant to purchase 38,000 shares of our Series A convertible preferred stock with an exercise price of $1.00 per share. The warrant expires on the later of March 27, 2013 or seven years after the effective date of this registration statement.

5. In November 2003, we issued 24,848,484 shares of our Series B preferred stock to investors for an aggregate cash consideration of approximately $41,000,000.

6. As of September 30, 2004, we had granted and issued options to purchase 6,208,269 shares of our common stock with a weighted average price of $0.24 per share to a number of our employees, directors and consultants pursuant to our 2001 Equity Incentive Plan. As of September 30, 2004, 5,697,547 shares of common stock were issued upon exercise of certain of these options, of which 437,000 shares are subject to repurchase on or before January 31, 2005.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

EXHIBIT NUMBER	DESCRIPTION
1.1*	Form of Underwriting Agreement
3.1**	Amended and Restated Certificate of Incorporation of the Registrant
3.2**	Form of Amended and Restated Certificate of Incorporation of the Registrant to be effective upon closing of the offering
3.3**	Bylaws of the Registrant
3.4**	Form of Amended and Restated Bylaws of the Registration to be effective upon closing of the offering
4.1*	Specimen Certificate evidencing shares of common stock
4.2**	Warrant to purchase stock, issued to Silicon Valley Bank on March 27, 2003
4.3**	Amended and Restated Investor Rights Agreement dated as of November 17, 2003 among the Registrant and the parties listed therein
5.1**	Form of Opinion of Heller Ehrman White & McAuliffe LLP
10.1**	2001 Equity Incentive Plan
10.2**	2004 Equity Incentive Plan
10.3*	2004 Employee Stock Purchase Plan
10.4**	Sub-Lease Agreement by and between Thervance, Inc., a Delaware corporation, and the Registrant dated as of December 5, 2002
10.5**	Amended and Restated Lease Agreement by and between HMS Gateway Office L.P., a Delaware limited partnership, and Advanced Medicine, Inc., a Delaware corporation, dated January 1, 2001
10.6†	Agreement between the Registrant, Baxter International Inc., a Delaware corporation, and Baxter Oncology GmbH, a German corporation, dated as of August 5, 2003
10.7†**	Exclusive License Agreement by and between the Registrant, Dr. Theodore Lampidis and Dr. Waldemar Priebe, dated as of November 11, 2002
10.8**	Loan and Security Agreement by and between the Registrant and Silicon Valley Bank, dated March 27, 2003
10.9	Form of Indemnification Agreement by and between the Registrant and its officers and directors
10.10†	Agreement by and between the Registrant and Aziende Chimiche Riunite Angelini Francesco - Acraf S.p.a. dated as of June 24, 2004
10.11	Sublease by and between the Registrant and ArQule, Inc. dated as of August 31, 2004
10.12	Offer Letter by and between the Registrant and William A. Halter dated as of September 3, 2004
10.13	Offer Letter by and between the Registrant and George G.C. Parker dated as of September 3, 2004
10.14†	Development Agreement by and between the Registrant and MediBIC Co. Ltd., dated as of November 30, 2004
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
23.2**	Consent of Heller Ehrman White & McAuliffe LLP (included in Exhibit 5.1)

EXHIBIT NUMBER	DESCRIPTION
24.1**	Powers of Attorney

* To be filed by amendment
** Previously filed.
† Confidential treatment request as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 above, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offerings of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, Threshold Pharmaceuticals, Inc., has duly caused this Amendment No. 3 to Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on the 6th day of December, 2004.

THRESHOLD PHARMACEUTICALS, INC.

By: /s/ HAROLD E. SELICK
Harold E. Selick
Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HAROLD E. SELICK Harold E. Selick	Director and Chief Executive Officer (principal executive officer)	December 6, 2004
* Janet I. Swearson	Chief Financial Officer (principal financial and accounting officer)	December 6, 2004
* George F. Tidmarsh	Founder, Director and President	December 6, 2004
* Michael F. Powell	Director	December 6, 2004
* Ralph E. Christoffersen	Director	December 6, 2004
* Patrick G. Enright	Director	December 6, 2004
* Wilfred E. Jaeger	Director	December 6, 2004
/s/ WILLIAM A. HALTER William A. Halter†	Director	December 6, 2004
/s/ GEORGE G. C. PARKER George G. C. Parker†	Director	December 6, 2004
*/s/ HAROLD E. SELICK Attorney in fact		

†KNOW ALL PERSONS BY THESE PRESENTS, that each person whose name above is noted with a † constitutes and appoints Harold E. Selick and Janet I. Swearson, and each of them, his true and lawful attorneys-in-fact and agents with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to sign any registration statement for the same offering covered by the registration statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

EXHIBIT INDEX

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24.1**	Powers of Attorney

* To be filed by amendment

** Previously filed.

+ Confidential treatment request as to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 10.6

*CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS

AGREEMENT

between

THRESHOLD PHARMACEUTICALS INC.

and

BAXTER INTERNATIONAL INC.

and

BAXTER ONCOLOGY GmbH

For the Licensing and Development of Glufosfamide

THIS AGREEMENT is made, as of the date of signature of the last party to affix its signature hereto,

by and among

THRESHOLD Pharmaceuticals Inc., a corporation organized and existing under the laws of Delaware of the United States of America and having its head office at 951 Gateway Boulevard, Suite 3A, South San Francisco, CA 94080, United States of America (hereinafter referred to as "THRESHOLD"),

and

Baxter International Inc., a corporation organized and existing under the laws of Delaware of the United States of America and having its headquarters at One Baxter Parkway, Deerfield, Illinois 60015-4633. United States of America (hereinafter referred to as "BAXTER")

and

Baxter Oncology GmbH, a corporation organized and existing under the laws of the Federal Republic of Germany, having its head office at Daimlerstrasse 40, 60314 Frankfurt, Federal Republic of Germany (hereinafter referred to as "BAXTER ONCOLOGY");

WHEREAS BAXTER and/or BAXTER ONCOLOGY are the owners of certain proprietary information, patents and know-how related to Glufosfamide, with all right, title and interest thereto;

WHEREAS BAXTER ONCOLOGY is the licensee of certain patents related to Glufosfamide, owned by BAXTER, with all right, title and interest thereto

WHEREAS THRESHOLD desires to obtain an exclusive license under the patents and proprietary information and know-how belonging or licensed to BAXTER and BAXTER ONCOLOGY relating to the composition referred to in the recital above to develop and market a product for human and animal therapeutic uses primarily in tumor diseases.

NOW THEREFORE FOR GOOD AND VALUABLE CONSIDERATION, THE RECEIPT AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THE PARTIES INTENDING TO BE LEGALLY BOUND HEREBY, AGREE AS FOLLOWS:

1. Definitions

In this Agreement the following words shall have the following meanings, unless the context otherwise requires:

1.1 "**Affiliate**" means any firm, person or company which controls, is controlled by or is under common control with a Party where "control" means the possession, directly or indirectly of the power to direct or cause the direction of the management and policies of such firm, person or company whether through the ownership of voting securities, by contract or otherwise, or the ownership either directly or indirectly of fifty percent (50%) or more of the voting securities of such firm, person or company (or such smaller maximum ownership interest in those countries where foreign ownership is restricted, but not below forty percent (40%).

1.2 "**Animal Studies**" means those studies approved by THRESHOLD and conducted by BAXTER ONCOLOGY pursuant to Clause 6.2, the results of which provide THRESHOLD sufficient information upon which to base a decision as to whether to proceed with development of a Licensed Product.

1.3 "**BAXTER ONCOLOGY Know-How**" means all information in BAXTER ONCOLOGY's or BAXTER's possession or under their control at the date of this Agreement or which comes into their possession or under their control during the term hereof relating to Licensed Product and including, but not limited to, all Manufacturing Know How.

1.4 "**BAXTER ONCOLOGY Patents**" means all Patents and patent applications set forth in Part A of Schedule 1.4

1.5 "**Clinical Trial**" means a clinical trial to demonstrate the safety or efficacy of Licensed Product in the Field.

1.6 "**Commercial Delivery**" means the sale to a Customer of Licensed Product.

1.7 "**CSC**" means the Commercial Steering Committee which shall be appointed and shall operate in accordance with the provisions of Clause 4.

1.8 "**Customer**" means any third party, other than an Affiliate or Sub-Licensee of THRESHOLD to whom THRESHOLD or its Affiliates or Sub-Licensee supplies Licensed Product in a country where such Licensed Product has been approved for sale (including pricing approval where applicable).

1.9 "**Development Data**" means all data, whether raw or analyzed, charts, studies, summaries, analyses, reports, know-how and other information relating to Licensed Product generated by or on behalf of THRESHOLD in performing the Development Plan.

1.10 "**Development Plan**" means the plan directed to the development of Licensed Product to be prepared by THRESHOLD within ninety (90) days of the Effective Date, as updated and/or modified from time to time by THRESHOLD.

1.11 "**Drug Master File**" means the bulk and finished product in final dosage form manufacturing information referenced in a Licensed Product's application for marketing approval in the Territory, in such form as is

acceptable to the Regulatory Agency with whom it has been, or is intended to be, filed.

1.12 "**DSC**" means the Development Steering Committee which shall be appointed and shall operate in accordance with the provisions of Clause 4.

1.13 "**Effective Date**" means the first business day after satisfaction of the condition set forth in Clause 3.1.

1.14 "**FDA**" means the Food and Drug Administration of the United States or any successor thereto.

1.15 "**Field**" means the cure, mitigation, treatment, prevention or diagnosis of (i) cancer in humans and animals, including, but not limited to, benign, pre-malignant, metastatic and malignant tumors and (ii) such other activities as may be permitted to BAXTER and/or BAXTER ONCOLOGY under their agreement with Deutsches Krebsforschungszentrum Stiftung des Offentlichen Rechts, a copy of which is attached hereto as Schedule 1.15

1.16 "**Glufosfamide**" means ß-D-Glucopyranosyl-N,N´-di-(2-chloroethyl)-phosphoric acide diamide.

1.17 "**Improvement**" means any new technique, application, formulation or chemical or biological analog (i.e. metabolite) or derivative developed by or on behalf of a Party under the Licensed Patents or the Licensed Know-How. For the avoidance of doubt the definition of Improvement excludes Development Data.

1.18 "**IND**" means an investigational new drug application relating to a Licensed Product filed with the FDA pursuant to 21 C.F.R. Part 312, or such similar application filed with or submitted to a similar Regulatory Agency in another country, including but not limited to amendments thereto.

1.19 "**Indication**" means pancreatic cancer.

1.20 "**Initiate**" means to administer the first dose of Licensed Product to the first patient in a Clinical Trial.

1.21 "**Licensed Know How**" means the BAXTER ONCOLOGY Know How and the Regulatory Documents.

1.22 "**Licensed Patents**" means the BAXTER ONCOLOGY Patents and Manufacturing Patents.

1.23 "**Licensed Product**" means the product known as Glufosfamide together with its salts, solvates, esters, analogs, mimetics, and chemical and biological derivatives.

1.24 "**Manufacture**" means all activities necessary or required to manufacture the Licensed Product in bulk and finished product forms.

1.25 "**Manufacturing and Supply Agreement**" means an agreement entered into among the Parties in accordance with Clause 2.2 that pertains to the

manufacture of Licensed Product by BAXTER ONCOLOGY for THRESHOLD.

1.26 "**Manufacturing Know How**" means all information in BAXTER's or BAXTER ONCOLOGY's or their Sub-Contractor's possession or under their control at the date of this Agreement or which comes into their possession or under their control during the term hereof relating to the Manufacture of Licensed Product (including but not limited to the identity of any Sub-Contractor). Provided however, that information in Sub-Contractor's possession or under their control is only included in "Manufacturing Know-How" to the extent it is or has to be transferred from Sub-Contractor to BAXTER or BAXTER ONCOLOGY.

1.27 "**Major Market Countries**" means United States of America, France, Germany, Great Britain, Italy and Japan.

1.28 "**Manufacturing Patents**" means all Patents and Patent applications set forth in Part B of Schedule 1.4.

1.29 "**NDA**" NDA means a New Drug Application and all supplements filed pursuant to the requirements of the FDA, including all documents, data and other information concerning Licensed Product which are necessary for, or included in, FDA approval to market Licensed Product in the United States of America as more fully defined in 21. C.F.R. §314.5 et seq or such similar application and supplements filed with or submitted to a similar Regulatory Agency in another country.

1.30 "**Net Sales**" means the amount invoiced by THRESHOLD, its Affiliates or Sub-Licensees to Customers for sales of Licensed Product in the Territory less deductions for the following: (i) cash, trade, quantity and volume credits, allowances, discounts and bad debt (any deduction for bad debt shall be not more than one percent (1%) of sales of Licensed Product, and any allowances for amounts written off as bad debt shall be included in Net Sales if later paid); (ii) rebates such as price reductions, rebates to social and welfare systems, charge-backs, government mandated rebates and similar rebates; (iii) excise, sales, use, value added, and all other similar taxes and tariffs and all other similar import/export duties; (iv) invoiced outbound freight and other transportation charges and shipping insurance if any; and (v) allowances or credits for rejections, withdrawals, recalls, and returns. For the avoidance of doubt, the computation of Net Sales shall not include amounts received by THRESHOLD, its Affiliates or Sub-Licensees for the sale of Licensed Product among THRESHOLD, its Affiliates and Sub-Licensees.

1.31 "**New Indication**" means any therapeutic indication within the Field, other than the Indication.

1.32 "**Parties**" means BAXTER, BAXTER ONCOLOGY and THRESHOLD.

1.33 "**Patents**" means a patent or patent application and including any and all divisions, continuations, continuations in part, extensions, substitutions, renewals, registrations, revalidations, re-issues thereof or additions

thereto and including supplementary certificates of protection or similar of or to any patent.

1.34 "**Phase I**" means, with respect to the United States, the first phase of human clinical trials using a limited number of human subjects to gain evidence of the safety and tolerability of a product or compound and information regarding pharmacokinetics and potentially pharmacological activity for such product or compound, which human clinical trials are completed prior to the initiation of Phase II, as described in 21 C.F.R. § 312.21(a), as it may be amended, or, with respect to any other country or jurisdiction, its equivalent in such other country or jurisdiction.

1.35 "**Phase II**" means, with respect to the United States, the second phase of human clinical trials of a product or compound in human subjects to gain evidence of the efficacy in one or more indications and expanded evidence of the safety of a product or compound, as well as an indication of the dosage regimen required, as described in 21 C.F.R.§ 312.21(b), as may be amended, or, with respect to any other country or jurisdiction, its equivalent in such other country or jurisdiction.

1.36 "**Phase III**" means, with respect to the United States, the third phase of human clinical trials of a product or compound which are large-scale, randomized trials to gain evidence of the efficacy and safety in a number of human subjects sufficient to support Product Approval for a product or compound with the FDA, as described in 21 C.F.R. § 312.21(c), as it may be amended, or, with respect to any other country or jurisdiction, its equivalent in such other country or jurisdiction.

1.37 "**Product Approval**" means the grant of all necessary governmental and regulatory approvals, by the FDA, the EMEA or by any other involved Regulatory Agency to sell Licensed Product in the Territory.

1.38 "**Quarter**" means a three (3) month period ending, on the last day of March, June, September or December in any year.

1.39 "**Regulatory Agency**" means, with respect to any particular country, the governmental authority, body, commission, agency or other instrumentality of such country (or the EMEA with respect to the EU), with the primary responsibility for the evaluation or approval of pharmaceutical products before a pharmaceutical product can be tested, marketed, promoted, distributed or sold in such country, including such governmental bodies that have jurisdiction over the pricing and reimbursement of such pharmaceutical product. The term Regulatory Agency includes but is not limited to the FDA.

1.40 "**Regulatory Documents**" means, without limitation, all (i) documents, information, data, and reports, regardless of form, filed with, or submitted to, a Regulatory Agency, (ii) all correspondence to or from a Regulatory Agency, (iii) minutes of all meetings, whether in person or by means of videoconference or teleconference, with a Regulatory Agency or its

representatives, and (iv) all requests, demands, deficiencies, suggestions, reports or other communications by a Regulatory Agency relating to the development, testing, manufacture, safety, efficacy, or approval of Licensed Product.

1.41 "**Royalties**" means the amounts due to BAXTER ONCOLOGY in respect of sales of Licensed Products as described in Clause 3.4 herein.

1.42 "**Sub-Contractor**" means any person, firm or company contracted by BAXTER ONCOLOGY to Manufacture Licensed Product for supply to THRESHOLD.

1.43 "**Sub-Licensee**" means any person, firm or company licensed by THRESHOLD under a Valid Claim to practice the Licensed Patents.

1.44 "**Territory**" means all countries of the world.

1.45 "**Valid Claim**" means a claim in any patent application which has been pending for less than three (3) years from original application or of an issued and unexpired Patent included in Licensed Patents which has not been disallowed or held unenforceable, unpatentable or invalid by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been admitted to be invalid or unenforceable through re-issue or disclaimer or otherwise.

1.46 "**Year**" means each consecutive calendar year during the term hereof starting from the calendar year that commences after the first Commercial Delivery.

2. Grant of Licenses

2.1 BAXTER ONCOLOGY and BAXTER hereby grant to THRESHOLD with effect from the Effective Date, subject to the terms and conditions of this Agreement, an exclusive license and/or sublicense, with the right to sublicense, under and using the Licensed Patents and Licensed Know-How (for itself or on its behalf) to develop, make, have made, use, supply, offer for sale, sell, import, export and otherwise distribute Licensed Product in the Territory for use in the Field.

2.2 Notwithstanding the foregoing to the contrary, THRESHOLD shall be entitled to exercise its Clause 2.1 rights in respect of the manufacture of Licensed Products containing Glufosfamide only as follows. BAXTER'S and BAXTER ONCOLOGY's existing supply of Glufosfamide shall be used for the Animal Studies and for any Clinical Trials sponsored by THRESHOLD. THRESHOLD, BAXTER, and BAXTER ONCOLOGY further agree to negotiate diligently and in good faith, from the Effective Date until the date THRESHOLD is required to notify BAXTER ONCOLOGY whether it will proceed with the development of Licensed Product pursuant to Clause 3.2.1, regarding the terms of a Manufacturing

and Supply Agreement under which BAXTER or BAXTER ONCOLOGY shall be THRESHOLD's principal supplier of Glufosfamide for commercial use; provided, however, that: (i) during the term of the Manufacturing and Supply Agreement THRESHOLD shall be free to establish and receive a supply of Licensed Products from a second source, whether that second source be THRESHOLD or a third party; (ii) THRESHOLD shall have the right, without limitation, in the event of a material breach by BAXTER ONCOLOGY under the Manufacturing and Supply Agreement to manufacture Glufosfamide itself or to contract a Third Party to manufacture Glufosfamide for THRESHOLD, and (iii) THRESHOLD shall have the right, without limitation, following expiration or termination of, or failure of the Parties to enter into, the Manufacturing and Supply Agreement to manufacture Glufosfamide itself or to contract a Third Party to manufacture Glufosfamide for THRESHOLD.

2.3 THRESHOLD shall have all right and title to all intellectual property rights, including, but not limited to, patent protection in respect of any Improvements and/or new Licensed Product. Each Party shall promptly disclose in writing to the other Parties all Improvements and new Licensed Product.

3. License Fees, Development Milestone Payments and Royalty Payments

3.1 Upfront Payment

THRESHOLD shall pay to BAXTER ONCOLOGY the non-refundable sum of one hundred thousand dollars (US$100,000), within fifteen (15) days following the final signature of this Agreement.

3.2 Development Milestone Payments

THRESHOLD shall make the following one time payments to BAXTER ONCOLOGY:

3.2.1 Within [***] days following the receipt of complete final reports for the Animal Studies, THRESHOLD shall notify BAXTER ONCOLOGY whether it will proceed with the development of Licensed Product. Such notice will be given on or before December 31, 2003; provided that THRESHOLD has had no less than [***] days to review the complete final report. The deadline for such notice shall be extended to the extent necessary to give THRESHOLD [***] days to make its decision. In the event THRESHOLD decides to proceed with development of a Licensed Product, it shall pay BAXTER ONCOLOGY the sum of one hundred thousand United States dollars (US$100,000) contemporaneously with such notice, and the data and results of the Animal Studies shall be deemed to be Development Data belonging to THRESHOLD. For the avoidance of doubt such decision triggering the Milestone Payment is the precondition to initiate a Clinical Trial.

3.2.2 Within [***] days following the Initiation of a Phase III Clinical Trial for the Indication, a sum of one million three hundred thousand United States dollars (US$1,300,000).

3.2.3 Within [***] days of the filing of an application by THRESHOLD to the FDA for Product Approval for use of Licensed Product for the Indication, a sum of [***] United States dollars (US$[***]).

3.2.4 Within [***] days of the grant by the FDA of Product Approval for use of Licensed Product for the Indication the sum of [***] United States dollars (US$[***]).

3.2.5 Within [***] days of the grant by the EMEA of Product Approval in the European Union for use of Licensed Product for the Indication the sum of [***] United States dollars (US$[***]).

3.3 Performance Milestone Payments

THRESHOLD shall pay to BAXTER ONCOLOGY the following one time amounts:

3.3.1 At the end of the first calendar quarter following the Year during which the US annual Net Sales exceed US $[***], the sum of [***] United States dollars (US$[***]).

3.3.2 At the end of the first calendar quarter following the Year during which European annual Net Sales exceed US $[***], the sum of [***] United States dollars (US$[***]).

3.3.3 At the end of the first calendar quarter following the Year during which the worldwide annual Net Sales exceed US$[***], the sum of [***] United States dollars (US$[***]); provided that the sums due to be paid to BAXTER ONCOLOGY pursuant to Clauses 3.3.1 and 3.3.2 have previously become due.

3.4 Royalty Payments

3.4.1 Subject to the terms and conditions herein, THRESHOLD shall pay to BAXTER ONCOLOGY Royalties as follows:

(a) An amount equal to [***] of Net Sales of Licensed Product in those countries where, and only for as long as, compound per se patent protection exists for such Licensed Product; and

(b) An amount equal to [***] of Net Sales of Licensed Product in those countries where, and only for as long as, use patent protection covers the use authorized by the applicable Regulatory Agency for such Licensed Product, but no compound per se patent protection exists in such jurisdictions; and

(c) An amount equal to [***] of Net Sales of Licensed Product in those countries where no patent protection exists.

3.4.2 The Royalties shall be payable on a country by country basis in respect of Net Sales of each Licensed Product made during the longer of:

(a) the period while there exists a Valid Claim of a Licensed Patent; or

(b) [***] years from the date of first Commercial Delivery of said Licensed Product in the Territory.

3.5 THRESHOLD shall not be required to pay multiple Royalties hereunder to BAXTER ONCOLOGY due to any Licensed Product being covered by more than one Valid Claim that is included in the Licensed Patents. Royalties shall be paid at the highest applicable rate set forth in Clause 3.4.1.

3.6 At the end of the period for which any Royalties are due in a given country of the Territory pursuant to this Agreement, THRESHOLD shall have a fully paid, exclusive, royalty free license, with the right to sublicense, under the Licensed Patents and the Licensed Know How in such country of the Territory.

3.7 Royalties shall be payable within [***] days of the end of each Quarter in respect of sales of Licensed Product made during such Quarter by THRESHOLD and its Sublicensees; provided, however, that if THRESHOLD has sublicensed its rights under this Agreement but does not have a royalty report from any Sublicensee sufficiently in advance of the due date for Royalty payments for a Quarter, then THRESHOLD shall (i) provide a good-faith estimate of the Royalties owed on such Sublicensee's sales for such Quarter, but in any event such estimate shall at least equal the Royalties paid during the preceding Quarter; (ii) pay such estimate; and (iii) make a payment or take a credit, as appropriate, in subsequent Royalty payments to the extent such estimated Royalties owed differ from actual Royalties owed for such Sublicensee's sales in such Quarter. Each payment shall be accompanied by a written royalty statement, certified as accurate by THRESHOLD's chief financial officer or chief executive officer, setting forth in reasonable detail the amount of Licensed Products sold and the basis of calculation of the Royalties paid during the Quarter to which the payment pertains.

3.8 In the event that (i) Licensed Product is deemed by a court of competent jurisdiction to infringe a valid claim of a patent owned or controlled by a third party in any given country of the Territory, or (ii) THRESHOLD, its Affiliates or its Sub-Licensees determine, at their reasonable discretion, that it is necessary to pay royalties or other fees to any third party to obtain a license to practice any third party's rights in order to market or develop a Licensed Product in any given country, then in such event, THRESHOLD and its Affiliates may deduct such royalties due to such third parties (or such amounts expended in settlement of such claim, or for securing such rights) from the Royalties otherwise due to BAXTER

ONCOLOGY with respect to Net Sales of such Licensed Product in such country. However, the reduction in the royalty rate shall in no case exceed [***].

3.9 Should a compulsory license be granted to a third party under the applicable laws of any country under the Licensed Patents or Licensed Know-How licensed hereunder to THRESHOLD, the Royalty rate payable hereunder for sales of Licensed Products in such country shall be adjusted to match any lower royalty rate granted to such third party for such country, with respect to the sales of such Licensed Products, and during such periods, for which such third parties sell under the compulsory license articles that compete with the Licensed Products then marketed and sold by THRESHOLD, its Affiliates or Sub-Licensees in that country. In the event that this Clause 3.9 should come to apply to the adjustment of the royalty rate in any given country, THRESHOLD shall be entitled to the benefit of such reduction.

3.10 The Royalty payable on combination products which include another therapeutic compound in addition to Licensed Product, shall be the applicable Royalty rate set forth in Clause 3.4.1 above based on a pro rata portion of Net Sales of combination products in accordance with the following formula:

X = A/B, where

X = the pro rata portion of Net Sales attributable to Licensed Patents and Licensed Know-How licensed hereunder (expressed as a percentage), and

A = the fair market value of the component in the combination product utilizing the licenses granted hereunder, and

B = A plus the fair market value of all other components in the combination product.

The fair market values described above shall be determined by BAXTER ONCOLOGY and THRESHOLD in good faith. In the absence of agreement as to the fair market value of all of the components contained in a combination product, the fair market value of each component shall be determined by arbitration in accordance with the provisions hereof.

3.11 Any amount payable to BAXTER ONCOLOGY in respect of income in a currency other than that of the United States shall be converted into its equivalent in United States currency at the average selling rate for the relevant foreign currency during the Quarter in which such income has been received by THRESHOLD with such rate to be calculated by averaging the rates as published by The Wall Street Journal, New York edition, or such other financial newspaper or reporting system agreed upon by THRESHOLD and BAXTER ONCOLOGY, in effect at the close of

business on the business days occurring in the Quarter. If there exist currency translation restrictions, embargoes, or other currency restrictions that would prevent THRESHOLD, its Affiliates, or Sub-Licensees from converting local currency into United States dollars and remitting the same to BAXTER ONCOLOGY, THRESHOLD, its Affiliates and Sub-Licensees shall be entitled to pay BAXTER ONCOLOGY in the local currency in the country where such restrictions exist.

3.12 THRESHOLD shall provide an annual report to BAXTER ONCOLOGY, that indicates: (i) amounts of Licensed Products sold during the relevant period; (ii) allowable deductions and (iii) payments due pursuant to this Agreement. THRESHOLD shall keep and maintain complete and accurate records of sales of Licensed Products. Such records shall be open upon request of BAXTER ONCOLOGY for a special inspection upon not less than seven (7) days advance written notice not more than once each year, at any reasonable time within two (2) years after the royalty period to which such records relate, by an accounting firm selected by BAXTER ONCOLOGY and reasonably acceptable to THRESHOLD. THRESHOLD shall permit the representative of such accounting firm to have access during ordinary business hours to such records as may be necessary, to determine the accuracy of Net Sales and any report and/or payment made under this Agreement. Such representative shall not disclose to BAXTER ONCOLOGY any information other than the quantity, the calculation and Net Sales of Licensed Products sold and shall otherwise maintain such information in confidence. Said findings shall be maintained in confidence by BAXTER ONCOLOGY. Findings on the accuracy or supposed inaccuracy of such payment shall be disclosed to BAXTER ONCOLOGY by such representative who shall, at the time of reporting his conclusions to BAXTER ONCOLOGY, supply THRESHOLD with a copy of such findings. If the audit shall determine an underpayment of more than five percent (5%) between royalty reported and that actually due, then the reasonable expense of the audit shall be borne by THRESHOLD and otherwise by BAXTER ONCOLOGY.

3.13 THRESHOLD shall withhold and pay to the appropriate authorities in respect of any amount due to BAXTER ONCOLOGY hereunder, any and all withholding taxes, duties, fees and other charges imposed by any taxing authority. In such event, THRESHOLD shall provide BAXTER ONCOLOGY with such evidence of withholding and payment as may be provided by or to taxing authorities.

3.14 Payments due to BAXTER ONCOLOGY pursuant to this Clause 3 not made within 30 (thirty) days after they are due shall bear an interest charge from the due date at the prime rate as determined by CitiBank, N.A. on the due date, plus 3% (three percent).

4. DSC; Development Plan; CSC

4.1 BAXTER ONCOLOGY and THRESHOLD shall establish the DSC and the CSC which shall exist to facilitate active communication between them during the development and commercialization of the Licensed Product, it being further agreed and understood that THRESHOLD shall be responsible for and in control of the research and development and commercialization activities of Licensed Product in the Territory.

4.2 As soon as practicable following the date hereof, BAXTER ONCOLOGY and THRESHOLD shall form the DSC which shall consist of [***] representatives from THRESHOLD and [***] representatives from BAXTER ONCOLOGY.

4.3 THRESHOLD shall prepare and submit a copy of the Development Plan to BAXTER ONCOLOGY's representatives on the DSC within ninety (90) days of the Execution of this Agreement. THRESHOLD shall update and/or modify the Development Plan, as well as the budget thereof, on an annual basis.

4.4 The DSC shall meet to discuss the progress of the Development Plan, the attainment of the objectives of each phase of the development and to share any information related to the development, and commercialization until the formation of the CSC, of the Licensed Product.

4.5 The DSC shall meet at least twice annually and each such meeting shall be held alternately at each of the party's offices. The DSC shall meet on such other occasions as may be reasonably requested by either party throughout each stage of the development of the Licensed Product. THRESHOLD and BAXTER ONCOLOGY shall pay their own costs in attending such meetings and may agree to conduct any such meeting by means of videoconference or teleconference.

4.6 Upon filing of an NDA for the Licensed Product, BAXTER ONCOLOGY and THRESHOLD shall form the CSC which shall consist of [***] representatives from THRESHOLD and [***] representatives from BAXTER ONCOLOGY.

4.7 The CSC shall meet to discuss the worldwide marketing of Licensed Product, the launch of the Licensed Product in the Territory and the supply forecast of Licensed Product requirements for sale in the Territory.

4.8 The CSC shall meet on an annual basis. THRESHOLD and BAXTER ONCOLOGY shall pay their own costs in attending such meetings.

4.9 The activities of the DSC and CSC may be consolidated into one Steering Committee, at any time, upon the mutual agreement of THRESHOLD and BAXTER ONCOLOGY. The DSC shall cease to exist following approval by the FDA of Licensed Product for marketing and sale; provided, however, the DSC shall continue to function thereafter until any mandatory

post-marketing clinical studies, if any, have been completed and the results thereof analyzed and submitted to the FDA.

4.10 BAXTER ONCOLOGY and THRESHOLD shall establish a written agenda not less than seven (7) days in advance of each meeting of the DSC and the CSC. The hosting Party shall be responsible for preparing minutes of each meeting of the DSC and the CSC, which shall not become official until submitted and approved by the DSC or CSC, as the case may be. Each of BAXTER ONCOLOGY and THRESHOLD shall be entitled to bring such of its employees and consultants to meetings of the DSC and the CSC, in addition to its regular members, as it deems appropriate in light of the matters to be discussed.

5. THRESHOLD's Responsibilities

5.1 THRESHOLD shall use its reasonable efforts to undertake the development of the Licensed Product in accordance with the Development Plan and shall diligently perform the work set forth in the Development Plan using reasonable skill and care and in a manner consistent with accepted practices in the pharmaceutical industry.

5.2 THRESHOLD shall pay the costs of preparing and performing activities related to the Development Plan which are or may be reasonably necessary to develop, apply for and obtain Product Approvals for Licensed Product in the Field in the Territory, subject to and without derogating from BAXTER ONCOLOGY's obligations under Section 6 hereinbelow.

5.3 Within [***] of the Execution of the Agreement, THRESHOLD shall Initiate in a country in the Territory a Phase III Clinical Trial of Licensed Product for the Indication, or for another tumor disease indication, subject to the following conditions:

5.3.1 THRESHOLD's receipt from BAXTER ONCOLOGY of the complete chemistry and manufacturing (CMC) file sufficient for regulatory purposes to be incorporated into the IND and NDA applications to be filed with the FDA for Product Approval or access to the Drug Master Files for Licensed Product prepared by BAXTER ONCOLOGY and/or its Sub-Contractors and on file with the FDA; and

5.3.2 effectiveness of the IND application with the FDA for use of Licensed Product for the Indication or alternative indication.

5.4 THRESHOLD shall be responsible for preparing and applying for applications for Product Approvals in the Territory and shall be responsible for the maintenance of all Product Approvals in the Territory and for preparing and applying for applications for, and monitoring all other regulatory approvals relating to Licensed Product. THRESHOLD shall be responsible for deciding in which countries in the Territory such activities shall be conducted.

5.5 All Product Approvals applied for pursuant to Clause 5.4 shall be applied for in the name of THRESHOLD or its Affiliates, contractors or Sub-Licensees.

5.6 THRESHOLD shall use reasonable efforts consistent with its normal business practices to promote and market the Licensed Product in the Major Market Countries in the Territory. Subject to restrictions imposed by applicable law or regulation, if any, upon request of BAXTER ONCOLOGY, THRESHOLD shall mark Licensed Product or promotional materials/accompanying literature to indicate that the Licensed Patents are licensed from BAXTER.

5.7 THRESHOLD, its Affiliates or Sub-Licensees, as the case may be, shall be responsible for the preparation of scientific literature and promotional material relating to Licensed Product and its activities in the Territory in accordance with its normal business practices and quality standards and in accordance with local legal requirements. A draft copy of any such scientific and/or promotional material shall be given to BAXTER ONCOLOGY no less than ten (10) days prior to the distribution thereof for BAXTER ONCOLOGY's approval, which will not be unreasonably, withheld or delayed, unless THRESHOLD is required by law to release such information, in which case it will be exempt from giving BAXTER ONCOLOGY a copy in advance. THRESHOLD will provide BAXTER ONCOLOGY with three (3) final copies of any such materials.

6. BAXTER ONCOLOGY's Responsibilities

6.1 Within thirty (30) days after the Effective Date, BAXTER ONCOLOGY shall provide THRESHOLD with all documentary form or other form of licensed Know How, research and development, clinical and manufacturing data, and Regulatory Documents related to the Licensed Product including, but not limited to, all data resulting from Phase I and Phase II clinical trials of Licensed Product, for the Indication or alternative indications, conducted by or on behalf of BAXTER or BAXTER ONCOLOGY. As further information and/or data related to Licensed Product comes into possession of BAXTER ONCOLOGY it shall forthwith disclose the same to THRESHOLD.

Following execution of this Agreement, BAXTER ONCOLOGY shall provide THRESHOLD access for copying to all written BAXTER ONCOLOGY Know-How, evaluations, memorandum and documentation in its possession relevant to the Licensed Product. BAXTER ONCOLOGY shall use reasonable efforts to provide its personnel time for preparation and transfer of technology (including, but not limited to, manufacturing technology specific to Licensed Product) and BAXTER ONCOLOGY Know-How in BAXTER ONCOLOGY's possession, relating to Licensed Product that is necessary for the development and manufacture of Licensed Product by THRESHOLD or a THRESHOLD Sub-licensee or Subcontractor. Such information shall be specific to Licensed Product and

BAXTER ONCOLOGY shall be under no obligation to transfer general knowledge of development, manufacture, registration or commercialization of this type of product.

BAXTER ONCOLOGY's obligations in accordance with Clause 6.1 shall include, but not be limited to, making employees available for telephone consultations with respect to the transfer of written information and associated documentation relating to pre-clinical and clinical activities, IND, NDA and Manufacture matters.

6.2 BAXTER ONCOLOGY will conduct animal studies to determine dose titration of the combination of Glufosfamide and gemcitabine and one xenograft study with human pancreatic cancer tissue using this combination with changing treatment sequences (Glufosfamide and gemcitabine simultaneously, Glufosfamide then gemcitabine, or gemcitabine first). BAXTER may conduct additional animal studies with other xenograft types as well as a combination study of Glufosfamide with 5-FU. BAXTER will complete such studies and report the results therefrom to THRESHOLD no later than 15 November 2003. During the conduct of the foregoing studies, BAXTER shall keep THRESHOLD informed of the status of such studies and the results thereof on an ongoing basis.

6.3 BAXTER and BAXTER ONCOLOGY shall be responsible for the filing, prosecution and maintenance, at their expense, of all Licensed Patents.

7. Patents

7.1 THRESHOLD may, at its own cost and expense, prepare, file and prosecute new patent applications for the Licensed Product and uses or methods thereof, as it sees fit. Notwithstanding the foregoing, should BAXTER and BAXTER ONCOLOGY decide that they are no longer interested in maintaining or prosecuting a Licensed Patent, BAXTER and BAXTER ONCOLOGY shall assign free of charge such Licensed Patent to THRESHOLD. Upon assignment, such Licensed Patent shall no longer be included in Licensed Patents and THRESHOLD may thereafter maintain and prosecute such Licensed Patent at its expense to the extent that it desires to do so.

7.2 Infringement of Third Party Rights

7.2.1 If the manufacture, use or sale of the Licensed Products using the Licensed Patents and Licensed Know How may constitute an infringement of the rights of a third party in the Territory, each Party shall, as soon as it becomes aware of such possible infringement, notify the other Parties thereof in writing.

7.2.2 The Parties shall after receipt of such notice referred to in Clause 7.2.1 above, discuss the situation and, to the extent necessary, attempt to agree on a course of action in order to

permit THRESHOLD to practice the licenses granted under this Agreement. Such course of action may include (1) obtaining an appropriate license from such third party or (2) contesting any claim or proceedings brought by the third party.

7.2.3 If within [***] the Parties fail to agree upon a course of action, BAXTER ONCOLOGY or BAXTER may decide upon the course of action at its expense in the interest of further development and/or commercialization of Licensed Product, including the negotiation of an appropriate license from such third party, in which event BAXTER ONCOLOGY or BAXTER shall keep THRESHOLD fully informed as to progress of such negotiations or the defense of any suit or claim and shall seek and consider the opinion of THRESHOLD regarding all such matters.

7.2.4 BAXTER ONCOLOGY or BAXTER shall make no settlement of any claims of a third party without the written consent of THRESHOLD, which consent shall not be unreasonably withheld or delayed.

7.2.5 In the event of a final judgment or settlement in any suit brought by a third party or settlement of a claim of a third party against THRESHOLD requiring royalty payments for any other damages to be paid by THRESHOLD, such royalty payments or damages paid by THRESHOLD shall be deducted from Royalties required to be paid to BAXTER.

7.3 Infringement of Licensed Patents and Licensed Know-How

7.3.1 In the event that either party becomes aware of any infringement or suspected infringement of the Licensed Patents or misuse of Licensed Know-How or Development Data, then it shall promptly give notice to the other in writing and:

7.3.2 BAXTER ONCOLOGY and THRESHOLD shall consult within [***] days after one Party gives notice to the other Party of any infringement or suspected infringement to decide what steps shall be taken to prevent or terminate such infringement or misuse and the proportions in which they shall share the cost thereof and any damages and other sums which may be awarded in their favour or against them.

7.3.3 When failing agreement between BAXTER ONCOLOGY and THRESHOLD by the end of the period set forth in Clause 7.3.2, unless such period has been extended by mutual written agreement of BAXTER ONCOLOGY and THRESHOLD, then THRESHOLD may at its own discretion take such action that it may consider necessary and appropriate to terminate or prevent such infringement or misuse and THRESHOLD shall be entitled, subject to all damages and other sums which may be awarded

or recovered against it as a result thereof, to all damages and other sums recovered by it and shall indemnify BAXTER and BAXTER ONCOLOGY against all and any costs, expenses, losses, damages or compensation awarded against or incurred by BAXTER and BAXTER ONCOLOGY as a result of such action being taken.

7.3.4 THRESHOLD shall not make any settlement or compromise without the consent of BAXTER ONCOLOGY, which consent shall not be unreasonably withheld or delayed. If any such settlement includes the grant of a license on terms more favorable than those provided to THRESHOLD hereunder, the terms of THRESHOLD's license shall be automatically modified to embody such more favorable terms for the benefit of THRESHOLD.

7.3.5 If THRESHOLD determines not to institute action to restrain infringement or suspected infringement within [***] after failing agreement by the Parties and notice from BAXTER ONCOLOGY, BAXTER ONCOLOGY shall have the right to institute action at its own expense and on the same terms and conditions as set forth in Clauses 7.3.3 and 7.3.4, with BAXTER ONCOLOGY assuming the rights and duties of THRESHOLD, and THRESHOLD assuming the rights and duties of BAXTER ONCOLOGY, under Clauses 7.3.3 and 7.3.4.

7.3.6 Each Party shall provide all reasonable assistance to the other (including but not limited to the use of its name in or being joined as a party to the proceedings) at the request of the other, in connection with any action to be taken by the other party pursuant to the provisions of this Clause 7.

7.4 Patent Protection Extensions

Each Party agrees to cooperate with the other Parties to secure, where possible, appropriate patent protection extensions and shall inform the other Parties in writing within twenty (20) days after:

7.4.1 the initiation of each Phase of clinical trials of a Licensed Product;

7.4.2 the date of filing of an NDA for a Licensed Product in the United States or its foreign equivalent in a Major Market Country;

7.4.3 the date of obtaining approval of an NDA for a Licensed Product in the United States or its foreign equivalent in a Major Market Country;

7.4.4 the date of the first sale of a Licensed Product in each country of the Territory; and

7.4.5 any events that might be material in connection with a possible extension of the patent protection term.

7.4.6 In this regard, the Parties shall cooperate in filing for and obtaining patent protection extensions and supplementary or complementary protection certificates in any country of the Territory, if and when available, including supplementary protection certificates in European Union ("EU") countries and European Free Trade Area ("EFTA") countries, patent extensions in the United States, and administrative protection, such as so-called pipeline protection in certain countries of the Territory. Such cooperation shall include, without limitation, providing any information, data and documents in a timely manner for the purpose of applying for patent extension and, within one (1) month of receipt, a copy of every marketing authorization for Licensed Product issued by any country providing for patent protection extensions, and in addition, within one (1) month of availability of the document, a copy of the official journal page from each EU or EFTA country giving the marketing approval number and date of authorization for Licensed Product, and a summary of the characteristics of Licensed Product for that country, for the purpose of applying for supplementary protection certificates under EEC (European Economic Community) Directive 1768/92, and providing information and signing of documents as required.

8. Warranty, Liability and Indemnity

8.1 Warranties

BAXTER ONCOLOGY and BAXTER warrant that:

8.1.1 they are free to enter into this Agreement in their own right and that there are no rights exercisable by or obligations owed to any third party which may prevent or restrict them from entering into this Agreement and that the execution and delivery of this Agreement and performance hereunder by them has been duly authorized by all necessary corporate action;

8.1.2 the Licensed Patents and the Licensed Know-How comprise all of the intellectual property owned or controlled by BAXTER and BAXTER ONCOLOGY related to Licensed Products;

8.1.3 BAXTER ONCOLOGY has disclosed or will disclose according to Clause 6 to THRESHOLD all Licensed Know-How under its or its licensor's control or in its or licensor's possession and it has not disclosed to any third party other than under written obligation of confidence and non-use the Licensed Patents or Licensed Know-How or the subject matter thereof;

8.1.4 so far as they are aware having made due and proper enquiry and subject to the filing of a certificate disclaiming Glufosfamide from the scope of the claims of US Patent No. 6489302, the Licensed Patents are or will be when granted valid and that the manufacture use, supply, sale, import or export of Licensed Product for the Field or for any other indication will not infringe the rights of any third party in the Territory, and in addition to any other right or remedy that THRESHOLD may have under this Agreement or law, THRESHOLD shall have the right to terminate this Agreement in the event that a certificate of correction disclaiming Glufosfamide from the scope of the claims of US Patent No. 6489302 assigned to the Deutsches Krebsforschungszentrum Stiftung des Offentlichen Rechts, 69120 Heidelberg, DE, has not been filed with the US Patent Office by the patent owner on or before November 30, 2003 and, in the event of such termination, BAXTER ONCOLOGY shall pay THRESHOLD the sum of [***] U.S. dollars ($[***]) as a termination fee and as liquidated damages for such termination; the Parties agree to take any steps, if and as far as necessary, with regard to the above patent family in close cooperation;

8.1.5 so far as they are aware having made due and proper enquiry, there is no know-how or other information owned or controlled by BAXTER, BAXTER ONCOLOGY, their licensor or their Sub-Contractors necessary for the development, use, manufacture, supply or sale of Licensed Products other than the Licensed Know How, and that BAXTER is the absolute beneficial and legal owner of the Licensed Patents which comprise all the intellectual property possessed or controlled by them relating to the Licensed Product, its uses, and manufacture, and BAXTER and BAXTER ONCOLOGY are the beneficial and legal owners of the Licensed Know-How, both the Licensed Patents and the Licensed Know-How are free and clear of all liens, charges and encumbrances, and they are entitled to grant all of the rights granted or agreed to be granted hereunder;

8.1.6 they have not granted and will not grant to any person or entity, other than THRESHOLD, any right, license or privilege with respect to the Licensed Patents and Licensed Know How for use in the Territory;

8.1.7 BAXTER and BAXTER ONCOLOGY have disclosed to THRESHOLD all information in their possession relating to the Licensed Product and in which the novelty, validity or sufficiency of the Licensed Patents and any claim made therein has been challenged or disallowed;

8.1.8 they know of no information or data which will or may adversely affect or prevent the development, manufacture or use of

Licensed Product in the Field in the Territory or render the use of Licensed Product for use by way of administration to humans unsafe or lacking in efficacy; and

8.1.9 none of BAXTER, BAXTER ONCOLOGY or their Affiliates, Sublicensees or Sub-Contractors shall utilize the Licensed Patents or Licensed Know How, or develop Glufosfamide for use in the Territory.

8.2 Product Liability

8.2.1 THRESHOLD shall assume all third party liabilities arising from the, use, offer for sale or supply, sale or supply by through or on behalf of THRESHOLD or its Affiliates or Sub-Licensees of Licensed Products (and related materials) including without limitation all claims based upon product liability laws, except for liabilities and claims arising from the breach of the terms of the Agreement by BAXTER ONCOLOGY or the negligence of BAXTER ONCOLOGY or its Affiliates for which BAXTER ONCOLOGY and BAXTER shall assume all liabilities. To the extent claims based upon product liability laws arise from instructions or specifications of THRESHOLD for the Manufacture of Licensed Products that are not based on instructions or specifications provided by BAXTER or BAXTER ONCOLOGY, THRESHOLD shall assume all related liabilities.

8.2.2 THRESHOLD shall defend, indemnify and hold harmless BAXTER, BAXTER ONCOLOGY, their Sub-Contractor(s), their Affiliates, their directors, officers, employees and consultants and those of their Affiliates and Sub-Contractor(s) from and against any and all claims, demands, losses, damages and/or expenses (including without limitation reasonable legal fees) arising from or in connection with any use by, sale to third parties or supply of third parties by THRESHOLD or its Affiliates or Sub-Licensees of Licensed Products in the Territory except to the extent that any such claims, demands, losses, damages and/or expenses result from the negligence of BAXTER, BAXTER ONCOLOGY or its Affiliates or the breach by BAXTER ONCOLOGY of the terms of this Agreement. To the extent third party claims arise from instructions or specifications of THRESHOLD for the Manufacture of Licensed Products that are not based on instructions or specifications provided by BAXTER or BAXTER ONCOLOGY, THRESHOLD shall defend, indemnify and hold harmless BAXTER, BAXTER ONCOLOGY, their Sub-Contractor(s), their Affiliates, their directors, officers, employees and consultants and those of their Affiliates and Sub-Contractor(s) from and against any and all such claims.

8.2.3 BAXTER ONCOLOGY and BAXTER shall defend, indemnify and hold harmless THRESHOLD, its Affiliates, its Sub-Licensees, its directors, officers, employees and consultants and those of its Affiliates and Sub-Licensees from and against any and all claims, demands, losses, damages and/or expenses (including without limitation reasonable legal fees) arising from any use by, sale to or supply by THRESHOLD or its Affiliates or Sub-Licensees of Licensed Products in the Territory to the extent that any such claims, demands, losses, damages and/or expenses result from the negligence of BAXTER ONCOLOGY or its Affiliates or the breach by BAXTER ONCOLOGY or BAXTER of the terms of this Agreement.

8.2.4 Within thirty (30) days of receipt of written request for indemnification, to be provided promptly upon receipt of a claim, the party from whom indemnification is sought shall advise the other whether it will provide the requested indemnification. The indemnified party shall permit the indemnifying party, at the indemnifying party's expense, to assume the complete defense of any claims with a full authority to conduct such defense and to settle or otherwise dispose of the claims as provided below. The indemnified party will fully co-operate in such defense and shall provide reasonable assistance necessary to enable the indemnifying party to defend such claims. The indemnified party may retain separate co-counsel, at its sole cost and expense and participate in the defense of the claim. The indemnifying party will not, except with the consent of the indemnified party, consent to the entry of any judgment or enter into any settlement which provides for any relief other than the payment of monetary damage and which does not include as an unconditional term thereof the giving by the claimant or plaintiff to the indemnified party a release from all liability in respect thereof. The indemnifying party shall not be responsible for or bound by any settlement made by the indemnified party without the prior written consent of the indemnifying party, which consent shall not be unreasonably withheld or denied. To the extent that any claim for indemnification involves an action wherein counts or claims are alleged which are attributed or attributable to the indemnified party, following settlement or termination of said action, the Parties agree to apportion their respective indemnification obligations based upon their attributed fault in the event of jury, court or other alternate dispute resolution mechanism or based upon good faith negotiations among the Parties in the event of a settlement.

8.2.5 THRESHOLD and BAXTER ONCOLOGY shall each use its reasonable efforts to obtain and maintain in force at all times during the term hereof third party liability insurance in respect of

the risks in respect of which it is providing indemnity hereunder with a reputable insurance carrier or by self-insurance. THRESHOLD and BAXTER ONCOLOGY shall each use its reasonable endeavors to name the other as named insured under its policy of insurance as aforesaid and provide a copy thereof upon request.

9. BAXTER ONCOLOGY Improvements

9.1 BAXTER ONCOLOGY and BAXTER shall promptly disclose in writing to THRESHOLD, free of charge all new techniques, formulations, applications or chemical or biological analogs (i.e. metabolites), or derivatives of Licensed Product developed or acquired by BAXTER ONCOLOGY or BAXTER ("BAXTER ONCOLOGY Improvements").

9.2 Where THRESHOLD wishes to use a BAXTER ONCOLOGY Improvement for Licensed Products it shall notify BAXTER ONCOLOGY or BAXTER, as the case may be, of its wish within 90 (ninety) days of being informed thereof and shall have the right to receive an exclusive, royalty-free license to use BAXTER ONCOLOGY Improvements developed or acquired by BAXTER ONCOLOGY in the Territory in respect of Licensed Products in the Field in accordance with the provisions of this Agreement, together with the right to grant sub-licenses thereunder in accordance with the terms hereof;

10. Confidentiality

10.1 BAXTER, BAXTER ONCOLOGY and THRESHOLD undertake to each other to keep, and shall procure that their respective Affiliates, Sub-Licensees, employees, directors, officers, consultants and contractors (including those of any Affiliate) shall keep, confidential all information marked "confidential" received from each other during or in anticipation of – but after the effective date of the confidentiality agreement between the parties dated October 4, 2002 – this Agreement however obtained and in whatever form (the "Confidential Information") provided that Confidential Information shall not include the following:

10.1.1 information which at the time of disclosure by one party to the other is in the public domain;

10.1.2 information which after disclosure by one party to the other becomes part of the public domain by publication except by breach of this Agreement;

10.1.3 information which the receiving party can establish by competent proof was already in its possession at the time of its receipt and was not acquired directly or indirectly from the other party; or

10.1.4 information received from third parties who were lawfully entitled to disclose such information.

10.2 Any Confidential Information received from the other party shall not be disclosed or used for any purpose other than as provided or anticipated under this Agreement.

10.3 The confidentiality and non-use obligations contained in this Agreement shall continue for the duration of this Agreement and for a period of ten (10) years after termination or expiry of this Agreement.

10.4 The provisions of this Clause 10 shall in no event prevent THRESHOLD from disclosing any Licensed Know How to regulatory authorities or other governmental agencies in support of any application to conduct Clinical Trials or for regulatory approvals or any amendments thereof for Licensed Products in accordance with the provisions of this Agreement, or to prospective investors or to prospective sub-licensees who are bound by an obligation of confidentiality, or in general whenever required to disclose such information under any applicable law or regulation.

10.4.1 Where one party intends to make any public release of scientific data or other information relating to Licensed Products it shall give the other party thirty (30) days prior notice thereof together with the text of any such release. Prior to making any such release, the party intending the release shall modify the context thereof to take account of any reasonable comments made by the other party. Notwithstanding the foregoing, BAXTER ONCOLOGY shall not make any such release where in the reasonable opinion of THRESHOLD to do so would adversely affect the development of Licensed Product, its commercial value or any intellectual property (including Development Data relating thereto).

11. Termination

11.1 Termination by Either Party

Either Party may terminate this Agreement forthwith by notice in writing given at any time if the other party is in material breach of any of its obligations hereunder except in the case of a material breach capable of remedy within sixty (60) days, where the material breach has been remedied within such sixty (60) days of the defaulting party receiving notice specifying the material breach and requiring its remedy. Notwithstanding the foregoing, Clause 11.2, and not this Clause 11.1, shall govern terminations under the circumstances described therein.

A material breach of this Agreement is (1) a willful act or omission by the party in breach that would deprive the other party of a major part of the value of what it had contracted for and for which damages are not an adequate remedy; or (2) the non-payment of money within thirty (30) days of the date upon which it is due and payable hereunder.

11.2 BAXTER ONCOLOGY shall in addition have the right to terminate this Agreement:

11.2.1 If THRESHOLD materially breaches its obligation to perform its obligations as set forth in Clause 5 and such breach remains uncured for a period of ninety (90) days after the delivery of notice of such breach to THRESHOLD;

11.2.2 THRESHOLD discontinues its development and commercialization activities for a continuous period of twelve (12) months in a manner that is inconsistent with the then current Development Plan, and such breach remains uncured for a period of ninety (90) days after the delivery of notice of such breach to THRESHOLD;

11.2.3 Forthwith by notice in writing given at any time if an order is made or a resolution is passed for the winding up or insolvency of THRESHOLD (other than voluntarily for the purposes of solvent amalgamation or reconstruction) or an order is made for the appointment of an administrator to manage the other party's affairs, business and property or if a receiver (which expression shall include an administrative receiver) is appointed of any of THRESHOLD's assets or undertaking or if circumstances arise which entitle the court or a creditor to appoint a receiver or manager or which entitle the court to make a winding-up order or if a voluntary arrangement is proposed in respect of THRESHOLD or if THRESHOLD takes or suffers any similar or analogous action in consequence of debt, unless any such action is withdrawn or set aside within 60 (sixty) days. The licenses granted pursuant to this Agreement shall be deemed to be licenses of "Intellectual Property" for purposes of Section 365(n) of the U.S. Bankruptcy Code.

11.3 THRESHOLD shall have the right to terminate this Agreement, (and the underlying licenses) by notice in writing given at any time upon 60 (sixty) days notice to BAXTER ONCOLOGY with or without cause.

12. Consequences Of Termination

12.1 Upon termination of this Agreement by BAXTER ONCOLOGY or, without cause, by THRESHOLD:

12.1.1 Licenses Terminated

Subject to other provisions of this Clause the licenses granted under Clause 2 shall terminate automatically and THRESHOLD shall procure that its Affiliates and Sub-Licensees shall immediately stop all activities licensed hereunder except that (i) any Sub-licensee of THRESHOLD that is not in default of its obligations under its sub-license shall be entitled to continue its sub-license in full force and effect subject to the provisions of this Agreement to the benefit of BAXTER and BAXTER ONCOLOGY, and (ii) THRESHOLD, its Affiliates and

Sub-Licensees shall be permitted to offer for sale and sell and supply remaining stocks of Licensed Products in their possession at the date of termination or delivered thereafter as quickly as reasonably possible and complete deliveries on contracts in force at that date subject to the payment of license fees, milestone payments and royalties under and in accordance with the provisions of Clause 3.

12.1.2 Payment Due

THRESHOLD shall make all outstanding license fees, milestone and Royalty payments due hereunder to BAXTER ONCOLOGY.

12.1.3 Continuing Provisions

The following provisions of this Agreement shall continue in full force and effect following termination: this Clause 12 and Clauses 1, 7.2 (but only for pre-termination infringement), 7.3 (but only for pre-termination infringement), 8, 10, 14 and 15. Termination of this Agreement for any reason does not relieve the Parties of any obligation accruing prior to the effective date of the termination, including the obligation to make the payments set forth in Clause 3.

12.1.4 Return of Know-How

Subject to the other provisions of this Clause 12, THRESHOLD shall return to BAXTER ONCOLOGY all Licensed Know-How and documents given to THRESHOLD by BAXTER ONCOLOGY pursuant to this Agreement in its possession or the possession of its Affiliates.

12.1.5 Use of Development Data

Subject to the other provisions of this Clause 12, THRESHOLD grants to BAXTER ONCOLOGY the right to use Development Data (where it is free to do so) and transfer to BAXTER ONCOLOGY or its designee(s) all Product Approvals in its name.

12.1.6 Third Party Agreements

BAXTER ONCOLOGY or BAXTER agrees to recognize THRESHOLD's Sub-Licensees as its direct licensees following a termination of this Agreement by BAXTER ONCOLOGY provided that (i) such Sub-Licensees are in compliance with the terms of their sublicenses, (ii) BAXTER or BAXTER ONCOLOGY would not be required to undertake obligations in excess of those undertaken pursuant to this Agreement, and (iii) such Sub-Licensees agree with having BAXTER or BAXTER ONCOLOGY as direct Licensor. Notwithstanding the foregoing to the contrary and as an alternative thereto, BAXTER

ONCOLOGY shall use reasonable efforts consistent with the terms of this Agreement as reasonable under the circumstances to assist THRESHOLD, at THRESHOLD's request, in discharging THRESHOLD´s obligations in full under all agreements between THRESHOLD and its Sub-Licensees or other third parties until each can be terminated by THRESHOLD in accordance with its terms and without liability to THRESHOLD.

12.2 Rights and Remedies for Breach

Any rights or remedies of either party arising from any breach shall continue to be enforceable unless previously waived in writing, including without limitation either Party's rights to recover damages for breach of this Agreement by the other Party.

13. Force Majeure

13.1 Neither party shall terminate this Agreement or be liable to the other under this Agreement for loss or damages attributable to any act of God, earthquake, flood, fire, explosion, strike, lockout, labor dispute, casualty or accident, war, revolution, civil commotion, terrorism, act of public enemies, blockage or embargo, injunction, law, order, proclamation, regulation, ordinance, demand or requirement of any government or subdivision, authority (including, without limitation, regulatory authorities) or representatives of any such government, or any other cause beyond the reasonable control of such party, if the party affected shall give prompt notice of any such cause to the other party. The party giving such notice shall thereupon be excused from such of its obligations hereunder for so long as it is so disabled during, but no longer than the existence of such cause.

13.2 If such cause continues unabated for a period of at least 90 (ninety) days, the Parties will meet to discuss what, if any, modifications should be made to this Agreement as a consequence of such Force Majeure.

14. Miscellaneous

14.1 Performance by Affiliates, Sub-Licensees and Sub-Contractors

The Parties may perform some or all of their obligations under this Agreement through their Affiliates, Sub-Licensees or Sub-Contractors and third parties provided that each party shall remain solely responsible for and be guarantor of the performance by its Affiliates, Sub-Licensees or Sub-Contractors and third parties and procure that its Affiliates, Sub-Licensees or Sub-Contractors and such third parties comply fully with the provision of this Agreement in connection with such performance.

14.2 Severance

If any provision of this Agreement is held to be invalid or inapplicable by a court of competent jurisdiction the remaining provisions will continue in full force and the Parties will make such amendments to this Agreement by the addition or deletion of wording as appropriate to remove the invalid or unenforceable part of such provision but otherwise achieve, to the maximum extent permissible, the economic, legal and commercial objectives of the original provision.

14.3 Waiver

Failure or delay by either party in exercising or enforcing any right or remedy under this Agreement in whole or in part shall not be deemed a waiver thereof or prevent the subsequent exercise of that or any other rights or remedy.

14.4 Interpretation

The headings in this Agreement are for convenience only and shall not affect its interpretation. References to the singular include the plural and vice versa. References to persons include companies, partnerships and all other forms of body corporate or unincorporated and references to recitals, clauses and schedules are references to Recitals, Clauses or Schedules to this Agreement.

14.5 Language

All documents delivered under this Agreement by BAXTER or BAXTER ONCOLOGY to THRESHOLD, if maintained or prepared in other than the English language, shall be accompanied by English translations thereof. All communications between the parties shall be in English.

14.6 Assignment

14.6.1 Subject to Clauses 14.6.2, 14.6.3 and 14.6.4 neither BAXTER, BAXTER ONCOLOGY nor THRESHOLD shall assign, transfer, sub-license, sub-contract, mortgage, charge or otherwise make over to any third party any of its rights or obligations under this Agreement or the Licensed Patents or BAXTER ONCOLOGY Know-How without the prior written consent of the other party, except to an Affiliate or a party acquiring all or substantially all of the business of the assigning Party to which this Agreement relates or to a party merging with one of the Parties. Prior to any such permitted assignment the Party wishing to effect the transaction shall use reasonable efforts to procure that the third party concerned covenants directly with the other Party to this Agreement to comply with all the provisions of this Agreement, which shall be binding on it as the successor and assign of such Party.

14.6.2 THRESHOLD may grant any sub-license or sub-contract of its rights or obligations hereunder without the prior written consent of BAXTER or BAXTER ONCOLOGY and shall notify BAXTER ONCOLOGY of the grant of any sub-contract or sub-license and provide BAXTER ONCOLOGY with a redacted summary of the terms thereof as soon as reasonably practicable following such grant. Subject to receipt of a confidentiality undertaking THRESHOLD shall grant to an independent accountant (acceptable to BAXTER ONCOLOGY) a right to inspect such agreements for the purpose of verifying the calculation of sums to be paid by THRESHOLD to BAXTER ONCOLOGY hereunder. The grant of any sub-license by THRESHOLD shall not relieve THRESHOLD of any of its obligations hereunder and THRESHOLD shall incorporate within the terms of any such agreement rights and obligations consistent with the rights and obligations granted hereunder and including without limitation those as to confidentiality and THRESHOLD shall procure the performance of any sub-license by its Sub-Licensee. Where royalties are payable by any Sub-Licensee, THRESHOLD shall account for royalties on sales and supply of Licensed Products by Sub-Licensees of THRESHOLD in the same manner and upon the same terms as set forth herein and procure for BAXTER ONCOLOGY rights and access to facilities for verifying such royalties. Where THRESHOLD grants any sub-license the term THRESHOLD used in this license shall be deemed to include a reference to Sub-Licensees of THRESHOLD.

14.6.3 Without derogating from any of THRESHOLD's rights hereunder, in any event that BAXTER ONCOLOGY sub-contracts the Manufacture of Licensed Product, other than to THRESHOLD, it shall not be relieved of its obligations hereunder and BAXTER ONCOLOGY shall procure the performance by its Sub-Contractor of any such agreement and any reference to BAXTER ONCOLOGY herein shall with regard to such Manufacture be deemed to include a reference to such Sub-Contractor. BAXTER ONCOLOGY shall notify THRESHOLD of the appointment of any Sub-Contractor and provide a summary of the terms thereof (other than financial terms) as soon as reasonably practicable following such appointment.

14.7 No Agency

Except as expressly stated in this Agreement, neither party shall act or describe itself as the agent of the other nor shall it make, or represent that it has authority to make, any commitments on the other's behalf.

14.8 Notices

14.8.1 Any notice or other document given under this Agreement shall be in writing in the English language and shall be given by hand or sent by prepaid airmail, by facsimile transmission or e-mail to the address of the receiving party as set out in Clauses 14.8.3 and 14.8.4 below unless a different address or facsimile number has been notified to the other in writing for this purpose.

14.8.2 Each such notice or document shall:

(a) if sent by hand, be deemed to have been given when delivered at the relevant address;

(b) if sent by prepaid airmail, be deemed to have been given 7 (seven) days after posting; and

(c) if sent by facsimile transmission or e-mail be deemed to have been given when transmitted provided that a confirmatory copy of such facsimile transmission or e-mail shall have been sent by prepaid first class mail within 24 (twenty-four) hours of such transmission.

14.8.3 BAXTER and BAXTER ONCOLOGY's address for service of notices and other documents shall be:

BAXTER ONCOLOGY GmbH
Daimlerstrasse 40
60314 Frankfurt
Germany

For the Attention of: Geschaeftsfuehrung

With a copy to:
BAXTER Deutschland GmbH
Legal Department
Edisonstr. 4
D-85716 Unterschleissheim
Germany

14.8.4 THRESHOLD's address for service of notices and other documents shall be:

THRESHOLD PHARMACEUTICALS, INC.
951 Gateway Boulevard, Suite 3A
South San Francisco, CA 94080
United States of America
For the Attention of: The Chief Executive Officer

With a copy to:

Heller Ehrman White & McAuliffe, LLP
275 Middlefield Road
Menlo Park, CA 94025
For the Attention of: Sarah O'Dowd

14.9 Entire Agreement

14.9.1 This Agreement shall constitute the entire agreement and understanding of the Parties relating to the subject matter of this Agreement and shall supersede all prior oral or written agreements, understandings or arrangements between them relating to such subjects.

14.9.2 No change or addition may be made to this Agreement except in writing signed by the duly authorised representatives of the Parties.

14.9.3 Nothing in this Clause 14.9 shall operate to:

(a) exclude any provision implied into this Agreement by law and which may not be excluded by law; or

(b) limit or exclude any liability, right or remedy to a greater extent than is permissible under law.

14.10 Compliance with Local Requirements

If in any country the effect of any provision(s) of this Agreement or the absence from this Agreement of any provision(s) would be to prejudice the Licensed Patents or any remedy under the Licensed Patents, the Parties will make such amendments to this Agreement and execute such further agreements and documents limited to that part of the Territory which falls under such jurisdiction as may be necessary to remove such prejudicial effects.

14.11 Publicity

The Parties may jointly agree to make a press release within three (3) months following the execution of this Agreement. Thereafter, Threshold shall be free, in its sole discretion, and have the exclusive right to originate any publicity, news release, or public announcement concerning Licensed Products, provided Threshold (i) provides BAXTER ONCOLOGY two (2) days' advance written notice of the publicity, news release, or public announcement together with its content and gives due consideration to any comments provided by BAXTER ONCOLOGY within one (1) day thereof; and (ii) does not use the name of BAXTER or BAXTER ONCOLOGY without the express, advance written consent of BAXTER or BAXTER ONCOLOGY, respectively, other than to state that the Licensed Product is "licensed to Threshold Pharmaceuticals, Inc., by Baxter Oncology." Otherwise, in the absence of specific agreement

between the Parties, which agreement shall not be unreasonably withheld or delayed: (i) neither Party shall originate any publicity, news release or public announcement, written or oral, whether to the public or press, relating to financial provisions of this Agreement or to any amendment thereof save only such announcement as in the opinion of counsel for the Party making such announcement is required by law, regulation, or the rules of any stock exchange to be made, (ii) any such announcements shall be factual and as brief as possible, and (iii) if a Party decides to make such announcement, it will give the other Party two (2) days advance written notice of the text of the announcement so that the other Party will have an opportunity to comment upon the announcement. In addition, THRESHOLD may provide information concerning financial provisions to stockholders, executive management, and prospective sublicensees and investors. THRESHOLD may also originate, in its discretion, publicity, news releases, or public announcements concerning Licensed Product other than, except as set forth above, financial information.

14.12 Notification to European Commission and Compliance with Hart Scott Rodino

The Parties shall co-operate fully and shall individually and collectively use all reasonable endeavours to procure any governmental or regulatory approvals with regard to applicable anti-trust and competition law as may be necessary or advisable in connection with the conclusion and/or implementation of this Agreement are obtained as soon as possible. BAXTER ONCOLOGY will pay the costs of any filing fees required to be paid in connection with such submissions or approvals.

15. Arbitration; Governing Law

15.1 The construction, validity and performance of this Agreement shall be governed in all respects by the laws of the State of California without taking into consideration any of its conflict of laws provisions.

15.2 The Parties will attempt in good faith to resolve any dispute, controversy or claim arising out of or relating to the interpretation, performance or enforceability of this Agreement promptly by negotiation between executives of the Parties. In the event that such negotiations do not result in a mutually acceptable resolution, the Parties agree to consider other dispute resolution mechanisms including mediation and arbitration. In the event that the Parties fail to agree on a mutually acceptable solution within a period of thirty (30) business days, any such dispute shall be submitted to binding arbitration.

15.3 Such arbitration shall be conducted in accordance with the American Arbitration Association. Notwithstanding those rules, the following

provisions shall in any event apply to any issue submitted for arbitration hereunder:

15.3.1 The arbitration shall be conducted by a panel of three (3) neutral arbitrators ("Panel"). One (1) arbitrator shall be appointed by each Party and the third member shall be appointed by the two (2) arbitrators appointed by the Parties. Each Party will select an arbitrator within fifteen (15) business days following the demand for arbitration. The two (2) arbitrators selected by the Parties will appoint the third arbitrator within ten (10) days following their appointment. Notwithstanding the above and in the interest of obtaining a judgment within the shortest possible period in connection with certain bona fide disputes or technical or developmental matters that require referral to independent experts, the Parties may agree to appoint only one (1) single neutral arbitrator selected in agreement by both Parties.

15.3.2 The language to be used in the arbitration shall be English.

15.3.3 Any arbitrator selected by the Parties may be of any nationality, and need not be a lawyer or hold any other professional status or membership but will be selected on the basis of his or her qualifications and expertise with respect to the matter under dispute.

15.3.4 The arbitration shall be held in New York, New York.

15.3.5 The specific pleading schedule for each proceeding shall be determined by the Parties in consultation with the Panel within fifteen (15) business days following the selection of the arbitrators.

15.3.6 Unless the Parties otherwise agree at the time a particular issue is submitted for arbitration, the Panel shall be required as a condition to their engagement to agree to render a decision within thirty (30) days of the date on which the record in the proceeding is completed, but in no case more than one hundred and twenty (120) days after the date of their engagement. The time period for cure specified in Clause 11 shall be suspended upon institution of arbitration until completion of such arbitration.

15.3.7 The Parties shall use their best efforts to schedule and make their submissions, and to take all other necessary actions in connection with the proceeding, at a time and in a manner which will permit the Panel to render their decision in accordance with the schedule set forth herein.

15.3.8 All communications with the arbitrator(s) during the proceeding shall be made in writing, with a copy thereof delivered simultaneously to the other Party to the proceeding, or if made

orally, made only in the presence of the other Party to the proceeding or its representative.

15.3.9 All decisions by the Panel shall be rendered by majority vote. The arbitration award or order shall be rendered in writing and shall be final and binding upon the Parties. The arbitrator(s) shall establish and enforce appropriate rules to ensure that the arbitration proceedings, including the decisions, are kept confidential and that all confidential and/or proprietary information of the Parties is kept confidential and is used for no purpose other than for such arbitration proceedings.

15.3.10 Judgment on any order or award shall be entered by any court of competent jurisdiction.

15.3.11 Each Party shall bear its own expenses and attorney's fees in connection with the arbitration.

15.3.12 The fees and expenses of the arbitrator(s) shall be equally shared except that if, in the opinion of the arbitrators, any claim by a Party hereto or any defense or objection thereto by the other Party was unreasonable and frivolous, the arbitrators may in their discretion assess as part of the award all or any part of the arbitration expenses of the other Party (including reasonable attorney's fees) and expenses of the arbitrators against the Party raising such unreasonable and frivolous claim, defense or objection.

In Witness Whereof the duly authorized representatives of the Parties have executed this Agreement the day and year written below

Date: July 29, 2003

/s/ Phillip Saame

/s/ Bernhard Kutscher

Signed by Phillip Saame & Bernhard Kutscher
For and on behalf of
BAXTER ONCOLOGY GmbH

Date: July 31, 2003

/s/ Jan Stern Reed

Signed by Jan Stern Reed
For and on behalf of
BAXTER International Inc.

Date: August 5, 2003

/s/ George F. Tidmarsh

Signed by George F. Tidmarsh
For and on behalf of
THRESHOLD Pharmaceuticals Inc.

Schedules

Schedule 1.4: Licensed Patents:
Part A Baxter Oncology Patents
Part B Manufacturing Patents

Schedule 1.15: License Grant from DKFZ

SCHEDULE 1.4

Part A: Baxter Oncology Patents

Patents based on German Application P 38 35 772.0.

Title: “Antitumor Saccharide Conjugates”, covering molecule, production and medical use

1.	Patent No:	EP 369 182	
2.	Patent No:	AT 369 182	
3.	Patent No:	BE 369 182	
4.	Patent No:	CA 2 001 129	
5.	Patent No:	CH 369 182	
6.	Patent No:	DE 369 182	
7.	Patent No:	DK 170 422	
8.	Applic. No:	DK 1170/93	Notice of allowance received
9.	Patent No:	ES 369 182	
10.	Patent No:	FI 95 268	
11.	Patent No:	FR 369 182	
12.	Patent No:	GB 369 182	
13.	Patent No:	GR 369 182	
14.	Patent No:	HK 1574/1995	
15.	Patent No:	HU 206 124	
16.	Patent No:	IE 67 529	
17.	Patent No:	IT 369 182	
18.	Patent No:	JP 2 518 739	
19.	Patent No:	JP 3 056 408	
20.	Patent No:	LU 369 182	
21.	Patent No:	NL 369 182	
22.	Patent No:	NO 173 548	
23.	Patent No:	PT 92 034	
24.	Patent No:	SE 369 182	
25.	Patent No:	SG 95 913	
26.	Patent No:	US 5 622 936	

Part B. Patent covering production

Title: “Verfahren zur Herstellung von Tetrabenzylglucose” (Procedure for the production of Tetrabenzylglucose)

27. Patent No: DE 195 34 366

Schedule 1.15

Kooperations- und Lizenzvertrag

zwischen

der Firma ASTA Pharma Aktiengesellschaft, Weismüllerstr. 45, D-6000 Frankfurt a. M. 1,

- im folgenden “ASTA Pharna” genannt -

und

dem Deutschen Krebsforschungszentrum, Stiftung des öffentlichen Rechts, Im Neuenheimer Feld 280, D-6900 Heidelberg 1,

- im folgenden “DKFZ” genannt -.

Präambel:

Das DKFZ und ASTA Pharma haben in den letzten drei Jahren erfolgreich auf dem Gebiet der Entwicklung von Substanzen mit tumorhemmender und antimetastatischer Wirkung zusammengearbeitet.

Dabei wurden vom DKFZ durch Prof. Wießler (“Forschungsleiter”) Substanzen entwickelt, die durch die Mitwirkung von ASTA Pharma zu der deutschen Patentanmeldung Nr. P 3835 772.0 sowie der europäischen Patentanmeldung No. 89 119 408.6 und der internationalen Patentanmeldung PCT/EP 89/01251 für bestimmte Länder geführt haben. Das DKFZ ist bemüht, durch den Forschungsleiter und andere Mitarbeiter weitere Substanzen zu entwickeln.

ASTA Pharma ist bereit, die genannten Arbeiten des DKFZ finanziell zu unterstützen. Dafür wird das DKFZ bestehende oder zukünftige Patentanmeldungen bzw. Patente auf ASTA Pharma übertragen.

Zur Regelung der sich aus dieser Kooperation ergebenden Rechte und Pflichten vereinbaren die Vertragspartner folgendes:

§ 1

Definitionen

1.1 Der Begriff "Substanzen" umfaßt sowohl vorhandene wie auch zukünftige Substanzen.

"Vorhandene Substanzen" sind die zwei vom DKFZ synthetisierten Stoffe, die zu der deutschen Patentanmeldung Nr. P 3835 772.0, der europäischen Patentanmeldung No. 89 119 408.6 sowie der internationalen Patentanmeldung PCT/EP 89/01251 für bestimmte Länder gemäß Anlage 2 geführt haben.

"Zukünftige Substanzen" sind die im Rahmen der Forschungsarbeit vom DKFZ synthetisierten Stoffe mit tumorhemmender und antimetastatischer Wirkung.

1.2 Der Begriff "Forschungsarbeit(en)" umfaßt diejenigen von ASTA Pharma nach diesem Vertrag finanzierten oder hiermit im Zusammenhang stehenden, vom DKFZ durch den Forschungsleiter und andere Mitarbeiter durchgeführten Arbeiten nach dem in Anlage 1 beigefügten, fortzuschreibenden Arbeitsprogramm mit Ablaufplan.

1.3 Der Begriff "Ausgangsstoffe" umfaßt alle Stoffe, die zur Herstellung von vorhandenen oder zukünftigen Substanzen erforderlich sind.

1.4 Der Begriff “Vertragsschutzrechte” umfaßt die in Anlage 2 genannten Patentanmeldungen, die darauf zur Erteilung gelangenden Patente sowie künftige Schutzrechte, die sich auf die vorhandenen oder zukünftigen Substanzen beziehen.

1.5 Der Begriff “Vertraqsprodukt(e)” umfaßt alle Produkt

1.6 Der Begriff “Nettowarenerlös” umfaßt den Bruttoerlös ex factory mit einem Vertragsprodukt abzüglich Umsatzsteuer und abzüglich einer Pauschale von 10% zur Abdeckung aller Verkaufskosten.

§ 2

Pflichten des DKFZ

2.1 Das DKFZ wird im Rahmen der Forschungsarbeiten aus Ausgangsstoffen Substanzen synthetisieren, die bei ASTA Pharma auf ihre pharmakologische Wirksamkeit getestet werden sollen.

2.2 Das DKFZ wird zur Herstellung der vorhandenen und zuküftigen Substanzen Ausgangsstoffe von ASTA Pharma beziehen und die bezogenen Ausgangsstoffe ausschließlich für die Herstellung der vorhandenen und zukünftigen Substanzen verwenden. ASTA Pharma ist bereit, die für die Forschungsarbeiten benötigten Ausgangsstoffe kostenlos an das DKFZ zu liefern. Bei Beendigung der Forschungsarbeiten wird das DKFZ die noch vorhandenen und nicht bearbeiteten Ausgangsstoffe an ASTA Pharma zurückgeben.

2.3 Bis zu dem jeweiligen kompletten Abschluß der präklinischen und toxikologischen Arbeiten wird das DKFZ ASTA Pharma mit vorhandenen und zukünftigen Substanzen beliefern. Hierfür stellt das DKFZ die benötigten Laborkapazitäten sowie vorhandene Infrastruktur zur Verfügung.

2.4 Das DKFZ ist für die ordnungsgemäße Lagerung der von ASTA Pharma bezogenen Ausgangsstoffe verantwortlich. Angelieferte fehlerhafte

Ausgangsstoffe sind vom DKFZ unverzüglich zu beanstanden. Für den Fall der Beschädigung oder des Verlustes von Ausgangsstoffen nach deren Anlieferung verplichtet sich das DKFZ, ASTA Pharma den Wert der angelieferten Ausgangsstoffe zum Marktpreis zu erstatten.

2.5 Durch diesen Vertrag werden keine arbeitsrechtlichen Beziehungen zwischen ASTA Pharma und auf Seiten des DKFZ an den Forschungsarbeiten Beteiligten begründet.

§ 3

Kostenbeitrag

Zur Durchführung der in § 2 genannten Arbeiten wird ASTA Pharma dem DKFZ als Optionsgebühr für die Dauer von 2 Jahren eine jährliche finanzielle Unterstützung in Höhe von DM 150.000,— zur Verfügung stellen, die jeweils zur Hälfte am 01.04. und am 01.10. eines jeden Vertragsjahres fällig ist.

§ 4

Vertragsschutzrechte

4.1 Die Parteien werden sich während der Durchführung der Forschungsarbeiten laufend über die Ergebnisse der Forschungsarbeiten informieren. Nach Absprache mit ASTA Pharma wird das DKFZ schriftlich über den Fortgang der Forschungsarbeiten berichten.

4.2 Die wirtschaftliche Verwertung der Ergebnisse von Forschungsarbeiten steht ausschließlich ASTA Pharma zu. Das DKFZ wird die Verfügbarkeit der Ergebnisse von Forschungsarbeiten sicherstellen und alle Rechte an diesen Ergebnissen einschließlich der Erfindungen auf ASTA Pharma übertragen.

4.3 ASTA Phdrma ist berechtigt, für die Ergebnisse der Forschungsarbeiten im eigenen Namen in beliebigen Ländern Schutzrechtsanmeldungen auf eigene

Kosten zu tätigen. Das DKFZ wird ASTA Pharma bei der Erlangung von Vertragsschutzrechten auf Wunsch von ASTA Pharma mit allen verfügbaren Mitteln unterstützen.

4.4 Sollte ASTA Pharma an der Schutzrechtsarmoldung von Ergebnissen der Forschungsarbeiten nicht interessiert sein, werden die Parteien darüber verhandeln, ob das DKFZ das Recht zur Schutzrechtsanrneldung erhält. ASTA Pharma soll sich einem dahingehenden Wunsch des DKFZ nur bei einem erheblichen eigenen Interesse an der Nichtanmeldung widersetzen.

4.5 Das DKFZ überträgt ASTA Pharma alle Rechte an seiner deutschen Patentanmeldung "Tumorhemmende Saccharid-Konjugate" Nr. P 3835 772.0 sowie alle Schutzrechte bzw. Schutzrechtsanmeldungen, die vom DKFZ parallel dazu gemäß Anlage 2 vorgenommen worden sind. Von der Vergütung, die nach dem Gesetz über Arbeitnehmererfindungen für die Inanspruchnahme der den Schutzrechten bzw. Schutzrechtsanmeldungen gemäß Anlage 2 zugrundeliegenden Erfindungen zu zahlen ist, steht den Erfindern von ASTA Pharma ein Anteil von 20% zu. Diesen Anteil darf ASTA Pharma von einer an das DKFZ gemäß § 5.1 zu zahlenden Vergültung vorab in Abzug bringen.

4.6 ASTA Pharma ist nicht verpflichtet, die Vertragsschutzrechte nach der Erteilung von Patenten aufrechtzuerhalten. Falls ASTA Pharma sich gegen eine Aufrechterhaltung entscheidet, erlangt das DKFZ ein Optionsrecht auf die Übertragung dieser Vertragsschutzrechte zu noch näher festzulegenden Bedingungen.

§ 5

Finanzielle Beteiligung an wirtschaftlicher Verwertung

5.1 Als Gegenleistung für die Übertragung der Rechte gemäß § 4 zahlt ASTA Pharma an das DKFZ eine umsatzbezogene Vergütung für den Verkauf von Vertragsprodukten.

a) Diese Vergütung beträgt 3% der Nettowarenerlöse pro Vertragsprodukt in einem Vertriebsland, soweit these Erlöse von ASTA Pharma oder Gesellschaften erzielt werden, an denen ASTA Pharma mit wenigstens 50% des Kapitals beteiligt ist und soweit das Vertragsprodukt in dem jeweiligen VertriebsIand von rechtsbeständigen Vertragsschutzrechten erfaßt wird.

b) Die Vergütung beträgt für eine Dauer von höchstens 10 Jahren ab erstmaliger Ausbietung in dem Vertriebsland 2% der Nettowarenerlöse pro Vertragsprodukt in dem Vertriebsland, soweit these Erlöse von ASTA Pharma oder Gesellschaften erzielt werden, an denen ASTA Pharma mit wenigstens 50% des Kapitals beteiligt ist und soweit das Vertragsprodukt in dem jeweiligen Vertriebsland nicht von rechtsbeständigen Vertragsschutzrechten erfaßt wird, diese aber im Lande der Herstellung bestehen.

c) Die Vergütung beträgt in den Fällen von a) und b)—bei ansonsten gleichen Voraussetzungen—im Falle der Erzielung der Warenerlöse durch sonstige Lizenznehmer von ASTA Pharma 2 Prozentpunkte der durch ASTA Pharma von diesen Lizenznehmern vereinnahmten laufenden Schutzrechtslizenzgebühren.

Die zuvor in § 5.1 genannten Prozentzahlen bzw. Prozentpunkte hinsichtlich der Vergütung gelten für den Fall, daß dem DKFZ an den in Bezug genommenen Vertragsschutzrechten ein Erfinderanteil von 100% zusteht. Ist der Erfinderanteil des DKFZ geringer, so verringern sich die genannten Prozentzahlen bzw. Prozentpunkte entsprechend.

5.2 Mit den unter § 5.1 genannten Vergütungen sind auch alle eventuellen Ansprüche von beteiligten Mitarbeitern des DKFZ, insbesondere im Hinblick auf die Bestimmungen des Arbeitnehmererfindungsgesetzes, abgegolten.

5.3 Die nach § 5.1 zu zahlende Vergütung wird von ASTA Pharma zum 31.03. und zum 30.09. eines jeden Jahres errechnet und innerhalb eines darauffolgenden Zeitraumes von 8 Wochen bezahlt. Die Grundlagen der Berechnung werden dem DKFZ auf Wunsch zur Einsicht überlassen.

§ 6

Vertraulichkeit

6.1 Alle von einer Partei der anderen übergebenen Informationen sind von der anderen Partei streng vertraulich zu behandeln. Die Geheimhaltungspflicht entfällt für jede Partei, soweit ihr die Informationen zum Zeitpunkt der Übermittlung nachweislich schon bekannt sind oder infolge von Publikationen oder sonstigem Bekanntwerden Gemeingut sind bzw. werden oder nachweislich von anderer Seite bekanntgemacht werden, ohne direkt oder indirekt von einer der Parteien zu stanunen. Nicht als Verletzung der Geheimhaltungspflicht angesehen wird die zur amtlichen Offenlegung führende Einreichung von Patentanmeldungen durch ASTA Pharma, die Einreichung von Unterlagen in Zulassungsverfahren und die erforderliche Mitteilung an Angehörige der Heilberufe.

6.2 Eine Veröffentlichung der Ergebnisse von Forschungsarbeiten durch das DKFZ oder seine Mitarbeiter sowie durch Mitarbeiter von ASTA Pharma bedarf der vorherigen Zustimmung beider Vertragsparteien. Die Zustimmung einer Partei zur Veröffentlichung gilt spätestens 45 Tage nach Vorlage der beabsichtigten Veröffentlichung als erteilt, falls diese Partei der Veröffentlichung innerhalb dieses Zeitraumes nicht widerspricht. Widerspricht ASTA Pharma einer Veröffentlichung, so werden die Vertragspatner innerhalb von 3 Monaten eine Einigung über die Veröffentlichung einvernehmlich herbeiführen.

§ 7

Vertragsdauer

7.1 Dieser Vertrag tritt nach ünterzeichnung der Parteien am 01.01.1990 in Kraft.

7.2 Der vertrag endet mit Ablauf des am längsten laufenden Vertragsschutzrechtes.

§ 8

Formerfordernis

Änderungen oder Ergänzungen dieser Vereinbarung bedürfen der Schriftform und der Zustimmung der Parteien.

§ 9

Salvatorische Klausel

Sollten eine oder mehrere Bestimmungen dieses Vertrages ganz oder teilweise unwirksam sein oder ihre Rechtswirksamkeit später verlieren, so soll hierdurch die Gültigkeit der übrigen Bestimmungen nicht berührt werden. Anstelle der unwirksamen Bestimmung soll—soweit rechtlich zulässig—eine andere angemessene Regelung in Kraft treten, die wirtschaftlich dem am nächsten kommt, was die Vertragsparteien gewollt haben oder gewollt hätten, wenn sie die Unwirksamkeit der Regelung oder das Vorliegen einer Regelungslücke bedacht hätten.

§ 10

Erfüllungsort und Gerichtsstand

Erfüllungsort und Gerichtsstand ist Heidelberg.

Frankfurt a. M., den 02.04.1990 Heidelberg, den 06.04.1990

Deutsches Krebsforschungszentrum,
Stiftung des öffentlichen Rechts

/German original signed/ */German original signed/* */German original signed/*

ASTA Pharma Aktiengesellschaft

Dr. Rutz

Prof. Engel

Prof. Dr. Dr. h.c. H. zur Hausen

Wissenschaftlicher Stiftungsvorstand

/German original signed/

Dr. R. Grunwald

Adm. Stiftungsvorstand

Kosten für die Patentanmeldung P 38 35 772.0

Einreichung der deutschen Patentanmeldung	R. v. 31.10.88	DM	4.122,40
Kommentierung des Amtsbescheids (DPA)	R. v. 24.04.89	DM	478,—
Ausarbeitung einer Eingabe (DPA)	R. v. 21.08.89	DM	7.011,—
Einreichung einer PCT-Anmeldung	R. v. 26.10.89	DM	7.011,—
Einreichung einer Europa-Anmeldung	R. v. 26.19.89	DM	8.104,—
Einreichung einer irischen Patentanmeldung	R. v. 27.10.89	DM	5.442,36
Einreichung japan. Patentanmeldung	R. v. 10.11.89	DM	6.024,—
Einreichung einer dänischen Patentanmeldung	R. v. 10.11.89	DM	5.394,48
Einreichung einer kanad. Patentanmeldugn	R. v. 16.11.89	DM	5.507,34
Komnentierung eines Amtsbescheids (DPA)	R. v. 22.12.89	DM	364,80
Komnentierung eines Amtsbescheids (EP-Anm.)	R. v. 05.01.90	DM	1.564,08
Anfertigung geänderter Unterlagen und Zeichnungen für EP- und PCT-Anmeldung	R. v. 30.01.90	DM	929,10
Fristverlängerung (DPA)	R. v. 03.04.90	DM	114,—
Kommentierung Amtsbescheid (PCT)	R. v. 05.04.90	DM	326,04
Kommentierung Amtsbescheid (EPA)	R. v. 05.04.90	DM	326,04
		DM	46.500,84

Zwecks Vereinfachung des Zahlungsverkers schlagen wir vor, daß unser Patentanwalt Ihnen in Zukunft die Rechnungen direkt zuleiten wird. Wir bitten um die Angabe der dafür zuständigen Abteilung.

Translation from the German Language

Cooperation and License Agreement

between

ASTA Pharma Aktiengesellschaft (= *Corporation*), Weismuellerstrasse 45, D-6000 Frankfurt on-the-Main 1,

- hereinafter referred to as “ASTA Pharma” -

and

the German Cancer Research Center, Foundation under Public Law, Im Neuenheimer Feld 280, D—6900 Heidelberg 1,

- hereinafter referred to as “DKFZ”-.

Preamble:

During the last three years, DKFZ and ASTA Pharma have worked together successfully in the field of the development of substances with a cytostatic and antimetastatic effect.

In this framework, DKFZ through Prof. Wiessler (“Research Director”) has developed substances which have led in collaboration with ASTA Pharma to the German Patent Application No. P 3835 772.0 as well as to the European Patent Application No. 89 119 408.6 and, finally, to the international Patent Application PCT/EP 89/01251 for certain countries. DKFZ endeavors to develop further substances through the Research Director and other staff.

ASTA Pharma is willing to provide financial support for the above mentioned projects of DKFZ. In return, DKFZ agrees to assign any existing or future patent applications or patents to ASTA Pharma.

In order to stipulate the rights and obligations arising from this cooperation, the contractual parties agree on the following:

§ 1

Definitions

1.1 The term “Substances” shall include any existing as well as any future substances.

“Existing Substances” shall mean the two substances synthesized by DKFZ which have led to the German Patent Application No. P 3835 772.0, the European Patent Application No. 89 119 408.6 as well as to the international Patent Application PCT/EP 89/01251 for certain countries, as specified in Annex 2.

“Future Substances” shall mean any substances with a cytostatic and antimetastatic effect which will be synthesized by DKFZ in the framework of its research works.

1.2 The term “Research Works” shall include such work as described in the enclosed work program with activity schedule (to be updated, see Annex 1) which is financed by ASTA Pharma under the terms of this Agreement or in relation herewith and which will be performed by DKFZ through the Research Director and other staff members.

1.3 The term “Starting Materials” shall include all such materials which may be required for the production of the existing as well as of any future substances.

1.4 The term “Contractual Protective Rights” shall mean the patent applications as listed in Annex 2, the patents to be granted in this respect as well as any future protective rights related to the existing as well as the future substances.

1.5 The term “Contractual Product(s)” shall mean all such products which will be produced on the basis of the substances.

1.6 The term “Net Sales Revenue” shall mean the gross revenue ex factory obtained for a contractual product minus turnover tax as well as minus a flat rate of 10 percent to cover all sales costs.

§ 2

Duties of DKFZ

2.1 In the scope of the research works, DKFZ undertakes to synthesize substances from the starting materials which then shall be tested at ASTA Pharma for their pharmacological efficacy.

2.2 For the purpose to produce the existing as well as any future substances, DKFZ will be provided with starting materials from ASTA Pharma and undertakes to use these starting materials exclusively for the production of such existing and future substances. ASTA Pharma is willing to supply the starting materials required for research works to DKFZ at no charge. At the completion of research works, DKFZ undertakes to return to ASTA Pharma any unused starting materials that are still available.

2.3 Until the respective ultimate completion of the preclinical and toxicological work, DKFZ shall supply ASTA Pharma with the existing and future substances. For this purpose, DKFZ undertakes to make available the required laboratory capacities as well as the existing infrastructure.

2.4 DKFZ shall be responsible for proper storage of the starting materials obtained from ASTA Pharma. Receipt of defective starting materials shall be reported immediately by DKFZ. In case of damage to or loss of starting materials after their delivery, DKFZ undertakes to reimburse ASTA Pharma for the value of the delivered starting materials on the basis of the market price.

2.5 This Agreement shall not establish any relation under the labor law between ASTA Pharma and any of the employees who are involved in the research works on the side of DKFZ.

§ 3

Contribution

For the purpose to perform the work described under § 2, ASTA Pharma shall make available to DKFZ for the period of two years a yearly financial support in the amount of DM150,000.00 in form of an option fee. One half each of this amount shall be due and payable on April 01 and on October 01, respectively, of each contractual year.

§ 4

Contractual Protective Rights

4.1 For the duration of the research works, the Parties undertake to keep each other' informed about the results of their research works. As per agreement with ASTA Pharma, DKFZ shall inform about the progress of research works in form of written reports.

4.2 Only ASTA Pharma shall have the right to an economic exploitation of the results of these research works. DKFZ shall ensure the availability of the results of the research works and shall assign all rights to these results (including the inventions) to ASTA Pharma.

4.3 ASTA Pharma shall be entitled to apply at its own name and at its own costs in any country for protective rights with regard to the results of the research works. Upon the request of ASTA Pharma, DKFZ shall assist ASTA Pharma concerning the acquisition of contractual protective rights by every available means.

4.4 In a case where ASTA Pharma may not be interested in the application of protective rights for certain results of the research works, the Parties shall negotiate whether DKFZ shall be granted the right to apply for such protective rights. Unless there is a considerable own interest in non-application, ASTA Pharma shall not oppose a relevant request made by DKFZ.

4.5 DKFZ shall assign to ASTA Pharma all rights to its German Patent Application "Cytostatic Saccharide Conjugates" (No. P 3835 772.0) as well as all protective rights or copending applications for protective rights which DKFZ has arranged for according to Annex 2. Of the compensation that has to be paid in compliance with the Law on Employee Inventions for the utilization of inventions which form the basis of the protective rights or applications for protective rights according to Annex 2, the inventors of ASTA Pharma shall be entitled to a share of 20 percent. ASTA Pharma shall have the right to deduct this percentage in advance from a compensation that may become payable to DKFZ pursuant to § 5.1.

4.6 ASTA Pharma shall not be obliged to maintain the Contractual Protective Rights after patents have been granted. In case ASTA Pharma should decide against such maintenance, DKFZ shall acquire an option right to the assignment of these Contractual Protective Rights under conditions that need to be defined in more detail later on.

§ 5

Financial Participation in an Economic Exploitation

5.1 In return for the assignment of the rights pursuant to § 4, ASTA Pharma agrees to pay to DKFZ a sales-related compensation for the sale of contractual products.

a) This compensation shall amount to 3% of the net sales revenues per contractual product in a sales country, provided that these revenues are achieved by ASTA Pharma or by companies in which ASTA Pharma is

holding at least 50% of the capital, and provided that the contractual product is covered by lawful contractual protective rights in the respective sales country.

b) For a period of not more than 10 years after the product has been initially put up for sale in the respective sales country, the compensation shall amount to 3% of the net sales revenues per contractual product in this sales country, provided that these revenues are achieved by ASTA Pharma or by companies in which ASTA Pharma is holding at least 50% of the capital, and as far as the contractual product is not covered by lawful contractual protective rights in the respective sales country, however, where such contractual protective rights exist in the producer country.

c) If the sales revenues are achieved by other licensees of ASTA Pharma, the compensation shall amount in the cases of a) and b)—under the same conditions—to 2 percent points of the current royalty for the protective rights collected by ASTA Pharma from these licensees.

The percentages or percent points mentioned above in § 5.1 in respect to the compensation shall apply in those cases, where DKFZ is entitled to an inventor's share of 100% in the relevant contractual protective rights. Should the inventor's share of DKFZ be less than that, the above mentioned percentages or percent points shall be reduced accordingly.

5.2 By payment of the compensations mentioned in § 5.1, any potential claims of involved staff members of DKFZ (in particular in respect of the stipulations provided by the Law on Employee Inventions) shall be settled as well.

5.3 The compensation payable according to § 5.1 shall be calculated by ASTA Pharma by the 31st of March and by the 30th of September of each calendar year

and shall then be paid within the following 8 weeks. Upon request of DKFZ, the bases of this calculation will be made available for inspection.

§ 6

Secrecy

6.1 All information provided by one Party to the other one shall be treated strictly confidential by the receiving party. This obligation to maintain secrecy shall not apply in such case where the information provided is evidently known already to the receiving Party at the moment it is communicated, or if it has entered the public domain already through publications or other announcement, or if it has been evidently announced by third party without originating directly or indirectly from one of the Parties to this Agreement. Filing of patent applications by ASTA Pharma, submission of documents in the course of registration procedures as well as required notification to health professionals which will lead to an official disclosure shall not be considered as a breach of the obligation to maintain secrecy.

6.2 Any publication of the results of the research works by DKFZ or its employees as well as by employees of ASTA Pharma shall require the prior approval of the two Parties to this Agreement. Such approval of one Party to the publication shall be deemed as granted at the latest 45 days after the intended publication has been submitted, unless this Party does not oppose such publication within this period. In case ASTA Pharma should oppose such publication, the Parties to this Agreement herewith undertake to bring about mutual consent concerning the publication within three months.

§ 7

Term of this Agreement

7.1 This Agreement shall become effective after being signed by the Parties on January 01, 1990.

7.2 This Agreement shall end when the contractual protective right with the longest term will expire.

§ 8

Requirement of Form

Any modifications of or amendments to this Agreement shall be made out in written form and require the approval of the Parties.

§ 9

Severability

Should any individual provision or any part of this Agreement be or become void or unenforceable, the validity of the remaining provisions hereof shall in no way be affected. In such case the void and/or unenforceable provision or provisions shall be replaced (if permissible by the law) by relative provisions coming economically as close as possible to the sense and purpose of this Agreement as intended by the Parties, if they would have been aware of such invalidity of the provision or of the presence of such a loophole.

§ 10

Place of Jurisdiction and Fulfillment

Heidelberg will be the place of jurisdiction and fulfillment.

Frankfurt on-the-Main, this 2nd day of April 1990

//German original signed/

ASTA Pharma Aktiengesellschaft
Dr. Rutz

/German original signed

Prof. Engel

Heidelberg, this 6th day of April 1990

German Cancer Research Center,
Foundation under Public Law

/German original signed/

Prof. Dr. Dr. h.c. H. zur Hausen
Scientific Director of the Foundation

/German original signed/

Dr. R. Grunwald
Administrative Director of the Foundation

ANNEX 1)

Costs incurred for patent application P 38 35 772.0

Filing of the German patent application	Invoice dtd. 10/31/88	DM	4,122.40
Commentary on the official letter (DPA)*	Invoice dtd. 04/24/89	DM	478.00
Preparation of a response/motion (DPA)	Invoice dtd. 08/21/89	DM	7,011.00
Filing of a PTC* application	Invoice dtd. 10/26/89	DM	7,011.00
Filing of a patent application for Europe	Invoice dtd. 10/26/89	DM	8,104.00
Filing of a patent application for Ireland	Invoice dtd. 10/27/89	DM	5,442.36
Filing of a patent application for Japan	Invoice dtd. 11/10/89	DM	6,024.00
Filing of a patent application for Denmark	Invoice dtd. 11/10/89	DM	5,394.48
Filing of a patent application for Canada	Invoice dtd. 11/10/89	DM	5,507.34
Commentary on an official letter (DPA)	Invoice dtd. 12/22/89	DM	364.80
Commentary on an official letter (Appl. EP)	Invoice dtd. 01/05/90	DM	1,564.08
Preparation of amended documents and drawings for the EP and PCT application	Invoice dtd. 01/30/90	DM	929.10
Extension of time (DPA)	Invoice dtd. 04/03/90	DM	114.00
Commentary on an official letter (PCT)	Invoice dtd. 04/05/90	DM	326.04
Commentary on an official letter (DPA)	Invoice dtd. 04/05/90	DM	326.04
		DM	46,500.84

* DPA = German Patent Office

PTC = Patent Cooperation Treaty

In order to facilitate payment transactions, we would like to propose that in the future our Patent Attorney will send you the invoices directly. For this purpose, please, let us know to which department they should be addressed to.

Letter of Assignment

The **German Cancer Research Center**, Foundation under Public Law, Im Neuenheimer Feld 280, 69120 Heidelberg, represented by Prof. Dr. med. Dr. H.c. mult. H. zur Hausen and by Dr. rer. pol. J. Puchta, the Foundation Directors,

herewith assigns all rights and obligations in full arising from the German patent application “Cytostatic Saccharide Conjugates”, No. P 38 35 772.0, as well as the foreign protective rights based on this, i.e.

European patent No. 0369 182 (AT, BE, CH, DE, ES, FR, GB, GR, IT, LU, NL, SE, Hongkong, Singapore),

Irish patent application 3360/89
Portuguese patent 92 034
Hungarian patent 206 124
Norwegian patent 173 548
Danish patent 170422
US patent application 499 522
Canadian patent application 2 001 129.7
Japanese patent 2 518 739

to the company

ASTA MEDICA
An der Picardie 10
01277 Dresden

Heidelberg, this *3rd day of November 1997*

German Cancer Research Center

Foundation under Public Law

/German original signed/

Prof. Dr. Dr. h.c. H. zur Hausen
Scientific Director of the Foundation

/German original signed/

Dr. rer. pol. J. Puchta
Administrative Director of the Foundation

Letter of Assignment

The company ASTA MEDICA, An der Picardie 10, 01277 Dresden,

herewith agrees to the assignment of the patent application No. 38 32 772.0 (“Saccharide Conjugates”) and of the resulting foreign protective rights as specified in the foregoing Letter of Assignment.

Dresden, this 25th day of February 1998

ASTA MEDICA AG

/German original signed/	*/German original signed/*
By proxy: Geissler	By proxy: Decker

Certification of Signatures

The foregoing signatures of

1. Prof. Dr. Dr. h.c. Harald **zur Hausen**
   President of the Foundation Board

2. Dr. Josef **Puchta**,
   Administrative Member of the Foundation Board,

both known to me in person and having their registered office at Im Neuenheimer Feld 280 in 69120 Heidelberg,

both acting in their above mentioned functions for the **German Cancer Research Center, Foundation under Public Law,** having its registered office in Heidelberg, Im Neuenheimer Feld 280,

have been signed today in my presence, are herewith authenticated by myself and are hereby publicly attested to be true.

The original of the enclosed notarially authenticated copy of the official confirmation made out by the Ministry for Science, Research and Art of the Land Baden-Wurttemberg (Stuttgart) in its function of the competent Foundation Authority, dated August 16, 1996, was presented to me.

Heidelberg, this 13th day of November 1997 Notary's Office 2, Heidelberg

/Official Seal:
Notary's Office, Heidelberg/

/German original signed/
Tzschaschel, Notary

Register entry: 2 UR *6127 / 97*
Free of charge according to § 7, LJKG
/German original signed/

Ruppert, Financial Clerk

EXHIBIT 10.9

INDEMNIFICATION AGREEMENT

AGREEMENT, made this __ day of _____, 2004, between Threshold Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and_____ (the "Indemnitee").

W I T N E S S E T H:

WHEREAS, the Indemnitee is a director and/or officer of the Company.

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation.

WHEREAS, in recognition of Indemnitee's need for substantial protection against personal liability in order to enhance Indemnitee's continued service to the Company in an effective manner and Indemnitee's reliance on the provisions of the Company's Certificate of Incorporation ("Certificate of Incorporation") and the Company's Bylaws (the "Bylaws") requiring indemnification of the Indemnitee to the fullest extent permitted by law, and in part to provide Indemnitee with specific contractual assurance that the protection promised by such Certificate of Incorporation and Bylaws will be available to Indemnitee (regardless of, among other things, any amendment to or revocation of such Certificate of Incorporation or Bylaws or any change in the composition of the Company's Board of Directors or acquisition transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement.

WHEREAS, the Certificate of Incorporation, the Bylaws and the General Corporation Law of the State of Delaware ("DGCL") expressly provide that the indemnification provisions set forth therein are not exclusive and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification.

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified.

WHEREAS, this Agreement is a supplement to and in furtherance of the Certificate of Incorporation and Bylaws and any resolutions adopted pursuant thereto and shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

NOW, THEREFORE, in consideration of the premises and of Indemnitee agreeing to serve or continuing to serve the Company directly or, at its request, with another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

Section 1. Basic Indemnification Agreement. (a) In the event Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim (as defined in Section 9(b) herein)by reason of (or arising in part out of) an Indemnifiable Event (as defined in Section 9(d) herein), the Company shall indemnify Indemnitee to the fullest extent permitted by law as soon as practicable but in any event no later than 30 days after written demand is presented to the Company, against any and all Expenses (as defined in Section 9(c) herein), judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection therewith) of such Claim actually and reasonably incurred by or on behalf of Indemnitee in connection with such Claim and any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement. If requested by Indemnitee in writing, the Company shall advance (within ten business days of such written request) any and all Expenses to Indemnitee (an "Expense Advance"). Notwithstanding anything in this Agreement to the contrary, and except as provided in Section 3, prior to a Change of Control (as defined in Section 9(a) herein), Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim (i) initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Claim; or (ii) made on account of Indemnitee's conduct which constitutes a breach of Indemnitee's duty of loyalty to the Company or its stockholders or is an act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law.

(b) Notwithstanding the foregoing, (i) the indemnification obligations of the Company under Section 1(a) shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the special independent counsel referred to in Section 2 hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to Section 1(a) shall be subject to the condition that the Company receives an undertaking that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced legal proceedings in the Court of Chancery of the State of Delaware (the "Delaware Court") to secure a determination that Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). Indemnitee's obligation to reimburse the Company for Expense Advances shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control, the Reviewing Party shall be selected by the Board of Directors, and if there has been such a Change in Control, the

Reviewing Party shall be the special independent counsel referred to in Section 2 hereof. If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, Indemnitee shall have the right to commence litigation in the Delaware Court seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and Indemnitee.

Section 2. Change in Control. The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by two- thirds or more of the Company's Board of Directors who were directors immediately prior to such Change in Control) then with respect to all matters thereafter arising concerning the rights of Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement, the Bylaws or Certificate of Incorporation now or hereafter in effect relating to Claims for Indemnifiable Events, the Company shall seek legal advice only from special independent counsel selected by Indemnitee and approved by the Company (which approval shall not be unreasonably withheld or delayed) and who has not otherwise performed services for the Company within the last five years (other than in connection with such matters) or for Indemnitee. In the event that Indemnitee and the Company are unable to agree on the selection of the special independent counsel, such special independent counsel shall be selected by lot from among at least five law firms with offices in the State of Delaware having more than fifty attorneys, having a rating of "av" or better in the then current Martindale Hubbell Law Directory and having attorneys which specialize in corporate law. Such selection shall be made in the presence of Indemnitee (and his legal counsel or either of them, as Indemnitee may elect). Such counsel, among other things, shall, within 90 days of its retention, render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the special independent counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities, and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

Section 3. Indemnification for Additional Expenses. The Company shall indemnify Indemnitee against any and all expenses (including attorneys' fees) and, if requested by Indemnitee in writing, shall (within ten business days of such written request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any Claim asserted against or action brought by Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement, the Bylaws or Certificate of Incorporation now or hereafter in effect relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be. The Indemnitee shall qualify for advances solely upon the execution and delivery to the Company of an undertaking providing that the Indemnitee undertakes to repay the advance to the extent that it is ultimately determined that the Indemnitee is not entitled to be indemnified by the Company.

Section 4. Partial Indemnity, Etc. If Indemnitee is entitled under any provisions of this Agreement to indemnification by the Company of some or a portion of the Expenses, liabilities, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against all Expenses incurred in connection therewith. In connection with any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that Indemnitee is not so entitled.

Section 5. No Presumption. For purposes of this Agreement, the termination of any action, suit or proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that Indemnitee did not meet any particular standard of conduct or have any particular belief.

Section 6. Notification and Defense of Claim. Within 30 days after receipt by Indemnitee of notice of the commencement of a Claim which may involve an Indemnifiable Event, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, submit to the Company a written notice identifying the proceeding, but the omission so to notify the Company will not relieve it from any liability which it may have to Indemnitee under this Agreement unless the Company is materially prejudiced by such lack of notice. With respect to any such Claim as to which Indemnitee notifies the Company of the commencement thereof:

(a) the Company will be entitled to participate therein at its own expense;

(b) except as otherwise provided below, to the extent that it may wish, the Company jointly with any other indemnifying party similarly notified will be entitled to assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ its own counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of such action, or (iii) the Company shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company. The

Company shall not be entitled to assume the defense of any claim brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in clause (ii) above; and

(c) the Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay their consent to any proposed settlement.

Section 7. Non-exclusivity, Etc. The rights of Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Certificate of Incorporation, the Bylaws, the DGCL, any agreement, a vote of the stockholders, a resolution of directors or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee acting on behalf of the Company and at the request of the Company prior to such amendment, alteration or repeal. To the extent that a change in the DGCL (whether by statute or judicial decision), the Certificate of Incorporation or the Bylaws permits greater indemnification by agreement than would be afforded currently under the Certificate of Incorporation, the Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

Section 8. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any Company director or officer. If, at the time the Company receives notice from any source of a Claim as to which Indemnitee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such Claim in accordance with the terms of such policies.

Section 9. Certain Definitions.

(a) Change in Control: shall be deemed to have occurred if:

(i) before the Company has a class of securities registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"):

(A) the Company, or any material subsidiary of the Company, is merged, consolidated or reorganized into or with another corporation or other legal person (an "Acquiring Person") or securities of the Company are exchanged for securities of an Acquiring Person, and as a result of such merger, consolidation, reorganization or exchange less than a majority of the combined voting power of the then outstanding securities of the Acquiring Person immediately after such transaction are held, directly or indirectly, in the aggregate by the holders of Voting Securities immediately prior to such transaction;

(B) the Company, or any material subsidiary of the Company, in any transaction or series of related transactions, sells or otherwise transfers all or substantially all of its assets to an Acquiring Person, and less than a majority of the combined voting power of the then outstanding securities of the Acquiring Person immediately after such sale or transfer are held, directly or indirectly, in the aggregate by the holders of Voting Securities immediately prior to such sale or transfer;

(C) during any period of two consecutive years, individuals who at the beginning of any such period constitute the directors of the Company cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's stockholders, of each director of the Company first elected during such period was approved by a unanimous vote of the directors of the Company then still in office who were directors of the Company at the beginning of any such period;

(D) the Company and its subsidiaries, in any transaction or series of related transactions, sells or otherwise transfers business operations that generated two thirds or more of the consolidated revenues (determined on the basis of the Company's four most recently completed fiscal quarters) of the Company and its subsidiaries immediately prior thereto; or

(E) any other transaction or series of related transactions occur that have substantially the effect of the transactions specified in any of the preceding clauses in this paragraph (i); or

(ii) after the Company has a class of securities registered under Section 12 of the Exchange Act:

(A) any person, as that term is used in Section 13(d) and Section 14(d)(2) of the Exchange Act, becomes, is discovered to be, or files a report on Schedule 13D or 14D-1 (or any successor schedule, form or report) disclosing that such person is a beneficial owner (as defined in Rule 13d-3 under the Exchange Act or any successor rule or regulation), directly or indirectly, of securities of the Company representing 20% or more of the total voting power of the Company's then outstanding Voting Securities (unless such person becomes such a beneficial owner in connection with the initial public offering of the Company);

(B) individuals who, as of the consummation date of the Company's initial public offering, constitute the Board of Directors of the Company cease for any reason to constitute at least a majority of the Board of Directors of the Company, unless any such change is approved by a unanimous vote of the members of the Board of Directors of the Company in office immediately prior to such cessation;

(C) the Company, or any material subsidiary of the Company, is merged, consolidated or reorganized into or with an Acquiring Person or securities of the Company are exchanged for securities of an Acquiring Person, and immediately after such merger, consolidation, reorganization or exchange less than a majority of the combined voting power of the then outstanding securities of the Acquiring Person immediately after such transaction are held, directly or indirectly, in the aggregate by the holders of Voting Securities immediately prior to such transaction;

(D) the Company, or any material subsidiary of the Company, in any transaction or series of related transactions, sells or otherwise transfers all or substantially all of its assets to an Acquiring Person, and less than a majority of the combined voting power of the then outstanding securities of the Acquiring Person immediately after such sale or transfer is held, directly or indirectly, in the aggregate by the holders of Voting Securities immediately prior to such sale or transfer;

(E) the Company and its subsidiaries, in any transaction or series of related transactions, sells or otherwise transfers business operations that generated two thirds or more of the consolidated revenues (determined on the basis of the Company's four most recently completed fiscal quarters) of the Company and its subsidiaries immediately prior thereto;

(F) the Company files a report or proxy statement with the Securities and Exchange Commission pursuant to the Exchange Act disclosing that a change in control of the Company has or may have occurred or will or may occur in the future pursuant to any then existing contract or transaction; or

(G) any other transaction or series of related transactions occur that have substantially the effect of the transactions specified in any of the preceding clauses in this paragraph (ii).

Notwithstanding the provisions of Section 9(a)(ii)(A) or 9(a)(ii)(D), unless otherwise determined in a specific case by majority vote of the Board of Directors of the Company, a Change of Control shall not be deemed to have occurred for purposes of this Agreement solely because (i) the Company, (ii) an entity in which the Company directly or indirectly beneficially owns 50% or more of the voting securities or (iii) any Company sponsored employee stock ownership plan, or any other employee benefit plan of the Company, either files or becomes obligated to file a report or a proxy statement under or in response to Schedule 13D, Schedule 14D-1, Form 8-K or Schedule 14A (or any successor schedule, form or report or item therein) under the Exchange Act, disclosing beneficial ownership by it of shares of stock of the Company, or because the Company reports that a Change in Control of the Company has or may have occurred or will or may occur in the future by reason of such beneficial ownership.

(b) Claim: any threatened, pending or completed action, suit, proceeding or alternative dispute resolution mechanism, or any inquiry, hearing or investigation whether conducted by the Company or any other party, whether civil, criminal, administrative, investigative or other.

(c) Expenses: include attorneys' fees and all other costs, fees, expenses and obligations of any nature whatsoever paid or incurred in connection with investigating, defending, being a witness in or participating in (including appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event.

(d) Indemnifiable Event: any event or occurrence (whether before or after the date hereof) related to the fact that Indemnitee is or was a director, officer, employee, consultant, agent or fiduciary of or to the Company, or is or was serving at the request of the Board of Directors as a director, officer, employee, trustee, agent or fiduciary of another corporation, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by Indemnitee in any such capacity.

(e) Reviewing Party: (i) the Company's Board of Directors (provided that a majority of directors are not parties to the particular Claim for which Indemnitee is seeking indemnification) or (ii) any other person or body appointed by the Company's Board of Directors, who is not a party to the particular Claim for which Indemnitee is seeking indemnification, or (iii) if there has been a Change in Control, the special independent counsel referred to in Section 2 hereof.

(f) Voting Securities: any securities of the Company which vote generally in the election of directors.

Section 10. Amendments, Termination and Waiver. No supplement, modification, amendment or termination of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 11. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

Section 12. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against Indemnitee to the extent Indemnitee has otherwise actually received payment (under insurance policy, Certificate of Incorporation or otherwise) of the amounts otherwise indemnifiable hereunder.

Section 13. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouse, heirs, and personal and legal representatives. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as a director or officer (or in one of the capacities enumerated in Section 9(d) hereof) of the Company or of any other enterprise at the Board of Director's request.

Section 14. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable, and the remaining provisions shall remain enforceable to the fullest extent permitted by law.

Section 15. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. The Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States of America or any

court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) appoint, irrevocably, to the extent such party is not a resident of the State of Delaware, National Corporate Research, Ltd., 615 South DuPont Highway, City of Dover, County of Kent, Delaware 19901 as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 16. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

[Signature Page Follows]

This Indemnification Agreement is effective as of the date first set forth above.

THRESHOLD PHARMACEUTICALS, INC.

By: _____

Acknowledged and Agreed:

By: _____

Indemnitee

EXHIBIT 10.10

***CERTAIN INFORMATION IN THIS EXHIBIT HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.**

Agreement

between

Aziende Chimiche Riunite Angelini Francesco – Acraf S.p.a., having its registered office in Viale Amelia, 70—00181 Rome Italy c.f.01312320680, p.Iva 049290810000 a company incorporated under the laws of Italy (hereinafter referred to as **"Acraf"**)

and

Threshold Pharmaceuticals, Inc., having its registered office at 951 Gateway Blvd., Ste. 3A, South San Francisco, CA 94080, USA, a company incorporated under the laws of the State of Delaware of the United States (hereinafter referred to as **"TH"**)

Effective on the date of the last signature of this Agreement (hereinafter referred to as **"Effective Date"**).

Whereas

— Acraf and TH are companies involved in the research, development and commercialization of pharmaceutical products;
— Acraf owns the rights to the dossier for a tableted product containing 30 tablets per package, as previously approved in Italy, Austria, and Portugal for use as a single agent in the treatment of brain, breast, prostate, and lung cancer (hereinafter referred to as the **"Product"**), each tablet containing 150 mg of the active ingredient Lonidamina (hereinafter referred to as the **"Active Ingredient"**), such dossier including but not limited to all documents that have been or may in the future be filed or submitted to any regulatory authority anywhere in the world and communications to or from such Authorities in connection with the Active Ingredient or Product, and information pertaining to the pre-clinical and clinical development of the Active Ingredient and Product, manufacturing processes for the Active Ingredient and finished Product, specifications, and analytical and validation methods used by Acraf to manufacture the Active Ingredient and the Product (such documents and information collectively hereinafter referred to as the **"Dossier"**);
— Acraf declares it has the sole and exclusive right to dispose of all the rights regarding the Dossier;
— TH is willing to be granted by Acraf the right to use the Dossier as provided in Art.1.1 below for the purpose of facilitating TH's efforts to develop and market products equivalent to the Product as well as new unit dosage forms and other products containing the Active Ingredient ("TH Products");
— TH is willing to purchase a certain amount of Active Ingredient manufactured by Acraf to carry out one or more of the clinical studies required for the approval of TH Products, which clinical studies include but are not limited to those studies contemplated by the development plan (hereinafter referred to as **"Development Plan"** or **"DP"**) as described in the Annex **A** to this Agreement and those studies mentioned in the following

Now, therefore, in consideration of the premises and
of the mutual covenants herein contained and of other good and valuable
consideration, the parties hereto agree as follows:

1. Subject

1.1 Acraf does hereby grant to TH, and TH does hereby accept:

i) the co-exclusive rights of utilising the Dossier and its contents for obtaining marketing authorisations in the territory described in Annex **C** (hereinafter referred to as **"Acraf Territory"**) for a TH Product equivalent to the Product previously marketed by Acraf in Italy and of conducting any additional studies TH determines in its sole discretion to undertake for modifying the Dossier if such studies are requested by the Italian Health Authority or another health authority where the Dossier is now filed, such additional studies to be conducted only as TH deems appropriate and at its own costs and granting to Acraf the right to use any such additional studies free of any charge solely in connection with obtaining additional regulatory approvals for use of the Product in Italy to treat the existing approved, and any new, cancer indications (hereinafter referred to as **"THL1"**); for THL1, semi-exclusive rights means that in addition to TH, Acraf will have the right – with no limitation – to use and/or to grant to any third parties the same rights granted by Acraf to TH for THL1; THL1 also includes Acraf's agreement to provide TH such licenses or other documentation to enable TH to market as soon as possible after the expiry of the remaining stocks of Product on the market (which expiry occurs in [***]) a TH Product equivalent to the Product or the Product itself;

ii) the exclusive rights of utilising the Dossier and its contents for obtaining marketing authorisations of a TH Product equivalent to the Product in the territory described in Annex **B** (hereinafter referred to as **"TH Territory"**) and of conducting any additional studies TH determines in its sole discretion to undertake for modifying or otherwise using the Dossier if requested by the relevant health authority, such additional studies to be conducted at its own costs and granting to Acraf the right to use the results of such additional studies free of any charge only as necessary for compliance with the regulatory requirements to maintain the marketing authorization to use the Product in Italy to treat cancer indications (hereinafter referred to as **"THL2"**); for THL2, exclusive rights means that in addition to TH no other company will have granted by Acraf any of the rights granted to TH in respect of THL2;

iii) the exclusive right of utilising the Dossier and its contents for carrying out clinical studies related to the anti-cancer activity of the Active Ingredient as set forth in the **DP** (hereinafter referred to as **"THL3"**);
for THL3, exclusive rights means that in addition to TH no other company will have granted by Acraf any of the rights granted to TH

in respect of THL3; and

iv) the exclusive right of utilising the Dossier and its contents in the TH Territory and the Acraf Territory for

1) writing a new registration dossier of one or more TH Products (hereinafter referred to as **"New Dossier"**);

2) filing the New Dossier to obtain the relevant marketing authorisations in the TH Territory and the Acraf Territory (hereinafter referred to as **"THL4"**);

for THL4, exclusive rights means that in addition to TH no other company will have granted by Acraf any of the rights granted to TH in respect of THL4, such THL4 being subject to Acraf's semi-exclusive rights set forth in Art.1.2.A, below;

(THL1, 2, 3, and 4 hereinafter jointly referred to as **"TH Licence"**).

1.2 In consideration of the THL3 and 4 granted by Acraf to TH, TH does hereby:

A grant to Acraf, and Acraf does hereby accept:

i) the exclusive right, subject only to those held by TH and its sublicensees, which have co-extensive rights, to use the Results, as defined in the following Art.5.2, at the end of the DP in the Acraf Territory for

1) writing a dossier relating to the use of the Product or an equivalent TH Product for a cancer indication other than the indications for which the Product was approved prior to the Effective Date;

2) filing the resulting dossier to obtain any relevant marketing authorisations in the Acraf Territory;

ii) in the event that the Results as defined in the following Art.5.2, shall be patentable, the exclusive right – free of any charge—to use the relevant Patent, as described in the following Art.5.1.—in the Acraf Territory for the same purposes described in the previous Art.1.2.A.i) (hereinafter referred to as **"Acraf Licence"**);

Parties agree that:

— for the licence described in the previous Art.1.2.A.i), exclusive rights means that in addition to Acraf, only TH and its sublicensees will have the right to use the Results in Acraf Territory according to the rights granted to TH by Acraf with respect to THL4;

— for the licence described in the previous Art.1.2.A.ii), exclusive rights means that in addition to Acraf, in Acraf Territory no company other than TH and its sublicensees will have the same rights granted pursuant to the licence described in the previous Art.1.2.A.ii);

B undertakes to offer to Acraf—for a period starting on the second anniversary of the Effective Date and lasting until 10 (ten) years after the date of the first launch of the first TH Product—the right to provide [***] of all the Active Ingredient needed by TH at a price equal to or lower than the price which TH would otherwise be required to pay to a third party Active Ingredient manufacturer, as notified in writing by TH to Acraf; provided, however, that if Acraf does not agree to the same price, timelines, terms and conditions offered by the third party manufacturer within [***] ([***]) days of receipt of the price,

timelines, terms and conditions from TH, then this right shall lapse and TH shall be free, in its sole discretion, to purchase its Active Ingredient requirements from such third party manufacturer or any other manufacturer without further notice to Acraf (hereinafter referred to as **"Supply Right"**) (Acraf Licence and Supply Right hereinafter jointly referred to as **"Acraf Rights"**).

1.3 Parties agree that each shall have the right to sublicense their respective rights described in the previous Art.1.1 and 1.2 to third parties except as otherwise prohibited in this Agreement.

1.4 Parties agree that the name of each sublicensee will have to be disclosed to the other Party and Parties declare and warrant that each sublicensee will satisfy any obligations applicable to such sublicensee described in this Agreement.

1.5 Parties agree that the THL3 and 4 are considered as fair consideration for Acraf Rights, and Acraf Rights are considered as fair consideration for THL3 and 4, and that no other payments shall be made by Acraf to TH or by TH to Acraf to use without limitation the rights granted each other pursuant to the above mentioned licences.

1.6 For having granted the THL 1 and 2, TH shall pay the following amount to Acraf upon the occurrence of the events specified below:

a) a one-time payment of €300.000,00 (three-hundred thousand Euro) to be paid within [***] days of the Effective Date;

b) a [***] payment of €[***] ([***] Euro) to be paid within [***] ([***]) days from the date of publishing of the Marketing Authorisation for the first TH Product authorized for sale in the Acraf Territory;

c) a [***] payment of €[***] ([***] Euro) to be paid within [***] ([***]) days from the date of publishing of the Marketing Authorisation for the first TH Product authorized for sale in the TH Territory;

d) a [***] payment of €[***] ([***] Euro) if and when the TH Net Sales **("TH Net Sales"** means the sales of TH Products made by TH – directly or through its sublicensees—at the prices invoiced to the customers less taxes relating to such sales, returns, cash and quantity discount granted to customers, such cash and quantity discounts limited to [***]% ([***] per cent) made in the TH Territory) exceeds €50.000.000,00 (fifty million Euro)), to be paid within [***] ([***]) days after the date of notification of the relevant sales report as described in Art.1.7.b).

e) other than the payments required by Art.1.6.a, and the payments that may be required if the conditions of Art1.6.b-d are met, and the payment due upon Acraf's fulfilment of its obligation under Art.3, this Agreement does not impose any additional payment obligations on TH; thus, TH shall have no obligation under this Agreement to pay any amount in excess of [***] ([***] Euros) to Acraf during the term of this Agreement or thereafter.

1.7 TH undertakes to report to Acraf:

a) the date on which all the marketing authorisation applications have been made and the date on which all the relevant Marketing Authorisations have been obtained in Acraf Territory and in TH Territory according to what is provided in the previous Art.1.1. within 30 (thirty) days from the application date and from the date on which the above mentioned Marketing Authorisation have been

obtained;

b) within 30 (thirty) days from the end of each year period starting from January 1, 2005, the report of TH Net Sales for the calendar year then ended, such reporting obligation to terminate upon the payment, if any, of the one-time payment described in Art.1.6.d.

2. Development Plan

2.1 TH undertakes to use reasonable business efforts to complete the DP within sixty (60) months from the Effective Date of this Agreement (hereinafter referred to as **"DPTerm"**).

2.2 TH shall be free to use the Dossier in connection with the TH Licence after TH makes the payment described in the Art.1.6.a).

2.3 After TH makes the payment described in the Art. 1.6.a), Acraf shall deliver to TH a copy of the Dossier in its possession.

2.4 TH shall keep Acraf informed on a regular and continual basis concerning the activities conducted by it pursuant to the DP.

2.5 Within twelve (12) months from the end of the DP, TH undertakes to notify Acraf in writing – with a registered letter – of the Results (hereinafter referred to as **"Notification"**).

2.6 Any and all fees in conjunction with the assignment of the right to use the Dossier and with the carrying out of the DP shall be borne by TH.

2.7 The DP may be modified by TH only by written notification to Acraf and after written approval, which shall not be unreasonably withheld, by Acraf.

3. Active Ingredient

3.1 Acraf undertakes to sell to TH an amount of Kg 22 (twenty-two] of Active Ingredient manufactured on [***] – with an expiry date on [***]—suitable for use in TH Products as better described in the analytical document to be delivered as provided in the following Art.3.2 (hereinafter referred to as **"Amount"**).

3.2 The Amount shall be supplied by Acraf in bulk with all the relevant analytical documents updated to the Effective Date.

3.3 The delivery time from Acraf to TH shall not exceed 60 (sixty) days starting from the Effective Date of this Agreement.

3.4 Acraf undertakes to deliver the Amount ex works Acraf's plant of Via Guardapasso 1, 04011 Aprilia (Latina).

3.5 The price of the Amount will be €75.000,00 (seventy five thousand/00) euros (hereinafter referred to as **"Payment"**) to be paid within 30 (thirty) days from the invoice date.

4. Duration

4.1 Parties agree that:

a) the Acraf Licence shall commence on the Effective Date of this Agreement and shall extend for a term of 15 (fifteen) years after the date of first launch – directly by Acraf or through any third party appointed as sublicensee by Acraf—of any Product that expires after November, 2004, in the Acraf Territory;

b) the Supply Right shall commence on the second anniversary of the Effective Date and shall extend for a term of 10 (ten) years after the date of first launch – made directly by TH or through any third party appointed as sublicensee by TH—of the first TH Product in the TH Territory and as provided in Art. 1.2B and

c) the TH Licence shall commence on the Effective Date and shall extend for a term of 15 (fifteen) years after the date of first launch – directly by TH or through any third party appointed as sublicensee by TH—of the first TH Product in the TH Territory.

4.2 Parties agree that at the end of the Acraf Licence and of the TH Licence, Acraf will remain owner and holder of all the marketing authorisations for the Product obtained by Acraf in the Acraf Territory and TH will remain owner and holder of all the marketing authorisations for TH Products obtained by TH in the TH Territory and in the Acraf Territory. Any termination or expiration of this Agreement shall not act to divest a Party of any interest in any regulatory filing or authorization made prior to the effective date of such termination or expiration.

5. Results and Intellectual Property Rights

5.1 It is expressly agreed between the Parties that TH shall not acquire any intellectual property rights with respect to the Dossier other than the right described in the previous Art.1.1 and elsewhere in this Agreement, and that TH shall have the ownership of the Results as defined in the following Art.5.2 and any patents relating to such Results (hereinafter referred to as **"Patent"**).

5.2 Parties agree to define as **"Results"** all technical information, formulations, processes, know-how, data, specifications, characterization methods and results, and other proprietary information, whether or not patented or patentable, only and exclusively related to the anti-cancer activity of the Active Ingredient obtained by TH in the clinical trials carried out pursuant to the DP.

6. Confidentiality

6.1 Parties agree to define as **"Confidential Information"** all information exchanged by the parties relating to the Dossier, any modification thereof, any New Dossier, DP, or otherwise provided to a Party under this Agreement. Parties agree that documents and information contained in the Dossier will be used by TH in seeking regulatory approval of TH Products and by Acraf in seeking additional regulatory approvals of Product and so may enter the public domain as such additional indication is, or such TH Products are, approved.

6.2 Each of the Parties shall hold in confidence any and all Confidential Information disclosed to it by the other party before and during the term of this Agreement and shall not use such Confidential Information except in accordance with the terms of this Agreement.

6.3 Neither party shall, without the prior written consent of the other party, disclose to any third party (except to regulatory authorities to obtain and maintain patents, product registrations or other disclosures required by

law) or use for its own purposes any Confidential Information of the other party except in connection with the development and registration of the Product and TH Products.

6.4 The provisions of this Art.6 shall survive the expiry or termination of the Agreement until all of the Confidential Information has fallen within one of the exceptions set forth in this Art.6.

6.5 The obligation of confidentiality under this Art.6 shall not apply to any data or information disclosed by one party to the other which:

6.5.1 at the time of the disclosure or thereafter is in or comes into the public domain by publication or otherwise, through no fault of either party;

6.5.2 is disclosed to the recipient by a third party having legal right to make such disclosure;

6.5.3 is previously known to the recipient at the date of disclosure; or

6.5.4 is required by law to be disclosed, provided that, except in connection with seeking regulatory approval for the Product and TH Products, the disclosing party furnishes the other party with written notice that the data or information is proposed to be disclosed sufficiently in advance of the proposed disclosure so as to provide the other party with reasonable opportunity to seek to prevent the disclosure of or to obtain a protective order for the data or information.

6.6 Further, each party shall be entitled to disclose any Confidential Information received by its responsible employees and officers, including any such employees and officers of any of their Affiliates, on a "need-to-know-basis" for the proper performance of this Agreement and for the negotiation and performance of any licenses and sublicenses hereunder.

6.7 The parties shall impose at least the same degree of confidentiality on each such employee and officer or other recipient as is imposed upon the parties under this Agreement with respect to confidential information, and shall be responsible to the disclosing party for any breaches of confidentiality made by such persons.

7. Amendment

This Agreement may be amended only by a written instrument signed by both Parties.

8. Good Faith

8.1 Any provision of this Agreement that is held to be inoperative, unenforceable or invalid in any jurisdiction shall be inoperative, unenforceable or invalid in that jurisdiction without affecting any other provision hereof in that jurisdiction or the operation, enforceability or validity of that provision in any other jurisdiction, and to this end the provisions hereof are declared to be severable.

8.2 Subject to this, such provision will be renegotiated by the parties in such a way as to render the same lawful and to achieve, to the extent possible, the economic, business and other intent of the original provisions.

8.3 Each party has considered this Agreement and it is the good faith belief of each party that the Agreement is in accordance with the national and

supranational treaties, laws, rules and regulations applicable hereto.

9. Force Majeure

9.1 In this Agreement, **"Force Majeure"** means an event or occurrence beyond the reasonable control of a party which by the exercise of reasonable diligence could not be overcome, including, but not limited to, strikes, lock-outs, labour disruptions, acts of God, changes in the law, restraints of governments, riots, arrests of people, act of war, civil disturbances, rebellion or sabotage, fire, flood, lightning, earthquake, epidemic, not caused by the act or omission of the party, any delay or failure by a governmental authority to issue any relevant permit or order not caused by the act or omission of the party.

9.2 A party shall be deemed not to be in default with respect to non-performance of any of its obligations under this Agreement, if and so long as such non-performance is due in whole or in some material way to an event of Force Majeure and that party has used its commercially reasonable efforts to remove the event of Force Majeure and to perform its obligations under the Agreement. If an event of Force Majeure occurs, the party affected shall promptly notify the other party of the occurrence of the event, its extent and probable duration and will use its best endeavors to overcome the difficulties created thereby and to resume performance of its obligations as soon as practicable.

9.3 If a party's failure to perform any of its obligations due to a Force Majeure has continued for thirty (30) days, unless within such period the non-performing party has begun to substantially remedy its inability to perform, and will be in a position to fully resume its performance obligations within a further thirty (30) days thereafter, the other party may, if itself not in default under the Agreement, terminate this Agreement by providing written notice to the non-performing party. In the event of such termination, both parties' respective rights and obligations under this Agreement shall terminate except for vested rights and any amounts previously due and owing by one party to the other and except for any other obligations which this Agreement expressly provides shall survive termination, or which should, by their nature, so survive.

10. Communication

Any notice or request with reference to this Agreement shall be made by registered mail; return receipt requested and shall be directed by one party to the other at its respective following address:

—Acraf: Attn.to Maria Rita Luparini
P.le della Stazione snc, 00040 S.Palomba, Pomezia,
Rome, Italy

—TH: Attn. to Dr. George Tidmarsh, President
Threshold Pharmaceuticals, Inc.
951 Gateway Blvd., Suite 3A
South San Francisco, CA 94080 USA

11. Applicable Law and Jurisdiction

11.1 This Agreement shall be governed and construed in accordance with the laws of Delaware, U.S.A

11.2 In case the dispute cannot be settled amicably, the place of performance and venue for all disputes arising out of this contract will be London, England.

12. Relationship of the Parties

12.1 The relationship between the parties created pursuant to this Agreement is intended to and shall be solely that of independent contractors.

12.2 Neither party, nor its employees, agents or representatives shall under any circumstances be considered employees, agents, partners, joint venturers or representatives of the other party.

12.3 Neither party, nor their employees, agents or representatives shall act or attempt to act, or represent itself, directly or by implication, as an employee, agent, joint venturer, partner or representative of the other party or in any manner assume or create, or attempt to assume or create, any obligation or liability of any kind, express or implied, on behalf of or in the name of the other party.

13. Further Assurances

Each party will at any time and from time to time, upon the request of the other party, execute and deliver such further documents and do such further acts and things as the other party may reasonably request to evidence, carry out and give full effect to the terms, conditions, intent and meaning of this Agreement.

14. Entire Agreement, Waiver, Amendment.

14.1 This Agreement, together with Annexes A, B and C hereto, supersedes any prior agreements between the parties as to the subject matter of the Agreement, whether oral or in writing, and contains the entire understanding between the parties as to the subject matter of the Agreement.

14.2 Any Confidential Information previously disclosed by the parties in respect of such subject matter shall now be subject to the confidentiality provisions hereof.

14.3 No delay or failure on the part of a party in exercising any rights under this Agreement shall affect any of such party's other rights.

14.4 This Agreement may not be modified or amended except by further instrument duly executed by the authorized representatives of both parties.

14.5 The preamble to this Agreement shall form an integral part of this Agreement and be binding on the parties hereto.

15. Other provisions

15.1 Amendments and supplements to this Agreement must be made in writing in order to take effect.

15.2 Should a provision of this Agreement be or become legally ineffective or should a gap in the Agreement be ascertained, this shall not have an effect on the validity of the remaining provisions.

15.3 A reasonable provision shall become valid which comes closest to the commercial aim of this Agreement and the intention of the parties as far as legally possible instead of the ineffective provision or in order to fill in the gap.

Aziende Chimiche Riunite Angelini Francesco Acraf S.p.a.	Threshold Pharmaceuticals, Inc.
/s/ Walter Frosecchi	/s/ George Tidmarsh
Date, 6/24/2004	Date, 6/24/2004

Annex **A**
Development Plan

[***] trial
TH provided clinical trial funding to a recently completed trial of Product in combination with other anti-cancer agents at a site in Italy. Over the next six months, this data will be analyzed to determine if the results warrant further clinical development for this indication. The Results will be shared under confidentiality with Acraf.

If an [***] trial is not pursued, TH contemplates undertaking either a trial in [***], a trial in [***] and [***] or [***], as described below.

[***] trial
TH is evaluating whether to initiate clinical development of the Product or a TH Product in certain [***] indications, including for [***] in [***] or [***]. The trial would be a [***] trial of no more than [***] patients [***], start in [***], and have a [***] duration.
TH could use the Product or an equivalent TH Product in such a trial.

[***] trial
TH is evaluating whether to initiate clinical development in [***] and [***] in [***], including for [***] and [***] in [***] with [***] or for [***] in [***]. The trial would be similar in timelines, size, and duration as described above. TH could use the Product or an equivalent TH Product in such a trial.

Annex **B**
TH Territory

TH Territory means all the countries of the world that are not in the Acraf Territory

Annex **C**
Acraf Territory

EU Members
Austria,
Belgium,
Cyprus,
Czech Republic,
Denmark,
Estonia,
Finland,
France,
Germany,
Greece,
Hungary,
Ireland,
Italy,
Latvia,
Lithuania,
Luxembourg,
Malta,
Netherlands,
Poland,
Portugal
Slovakia,
Slovenia,
Spain,
Sweden,
United Kingdom

EEA Members
Iceland,
Liechtenstein,
Norway

Others
Bosnia-Herzegovina
Bulgaria
Croatia
Rep. of Macedonia
Romania
San Marino
Vatican
Yugoslavia
Armenia
Azerbajan
Belorussia
Georgia
Kazakhstan
Kirghizistan
Rep. of Moldova
Tadjikistan
Ukraina
Uzbekistan

Exhibit 10.11

SUBLEASE

between

ARQULE, INC.

as

SUBLESSOR

and

THRESHOLD PHARMACEUTICALS INC.
as

SUBLESSEE

for

PREMISES

at

Pacific Shores Center
Fifth Floor, Building 8
1300 Seaport Boulevard
Redwood City, California 94063

SUBLEASE

Sublease (this "Sublease") made as of this 31st day of August 2004, by and between ArQule, Inc., a Delaware corporation (the "Sublessor"), and Threshold Pharmaceuticals Inc., a Delaware corporation (the "Sublessee").

The parties to this instrument hereby agree with each other as follows:

ARTICLE I
SUMMARY OF BASIC SUBLEASE PROVISIONS

1.1 Basic Data

ALL CAPITALIZED TERMS USED HEREIN SHALL HAVE THE SAME RESPECTIVE MEANINGS ASCRIBED TO THEM IN THE PRIME LEASE (HEREINAFTER DEFINED) UNLESS OTHERWISE DEFINED HEREIN.

Sublessor:	ArQule, Inc.
Present Mailing Address of Sublessor:	19 Presidential Way Woburn, Massachusetts 01801-5140
Sublessee:	Threshold Pharmaceuticals Inc.
Present Mailing Address of Sublessee:	951 Gateway Boulevard South San Francisco, CA 94080-7024
Prime Lessor:	PACIFIC SHORES CENTER LLC, a Delaware limited liability company
Present Mailing Address of Prime Lessor:	c/o Jay Paul Company 350 California Street, Suite 1905 San Francisco, California 94104-1432
Commencement Date:	The Commencement Date will be October 1, 2004.
Rent Commencement Date:	The Rent Commencement Date shall be the Commencement Date.
Expiration Date:	February 28, 2010 unless earlier terminated as provided for herein.
Sublease Term:	The period beginning on the Commencement Date and expiring, unless sooner terminated by Prime Lessor or Sublessor as provided herein, on the Expiration Date.
Permitted Uses:	Office, research and development, including non-animal biological and chemical research,

	together with such ancillary uses which do not cause excessive wear of the Subleased Premises or materially increase the potential liability of Prime Lessor or Sublessor. The use of the Subleased Premises may be modified with the written consent of Prime Lessor, Pacific Shores Development LLC, provided the modified use does not increase Sublessor's liability in relation to the Premises.
Subleased Premises:	Thirty-three thousand, six hundred ninety nine (33,699) rentable square feet (as determined by the "dripline" method referred to in the Prime Lease and including an allocation of the first floor entry and elevator lobby) which Subleased Premises comprise the entire fifth floor of that certain Building, commonly known as 1300 Seaport Boulevard, Redwood City, California 94063 ("Building 8") which is one of ten free standing, office and research and development buildings ("Buildings") on real property situated in Redwood City, County of San Mateo, State of California and commonly known as Pacific Shores Center. Building 8 consists of an agreed one hundred sixty four thousand seven hundred thirty two (164,732) rentable square feet. The Subleased Premises include restrooms, and janitor, telephone and electrical closets on the fifth floor and Sublessee shall have the exclusive use thereof, provided that Prime Lessor reserves the right to access and use the same (as well as the space above any dropped ceilings) for cabling, wiring, pipes and other Building system elements. The Subleased Premises are more particularly described and depicted in Exhibit "A" to the Prime Lease. The Subleased Premises demised under this Sublease consist of all of the "Premises" leased by Sublessor from Prime Lessor under the Prime Lease.
Prime Lease:	That certain Lease dated March 26, 2002, including exhibits and supplements thereto, a copy of which Prime Lease is attached hereto as Exhibit 1.
Sublease Base Rent:	The Base Sublease Rent per square foot shall be:

Months:	Base Rental Rate:
10/01/04-11/30/04	$0.00 NNN
12/01/04-12/31/05	$0.95 NNN
01/01/06-12/31/06	$0.99 NNN
01/01/07-12/31/07	$1.03 NNN
01/01/08-12/31/08	$1.28 NNN
01/01/09-02/28/2010	$1.32 NNN

Sublease Additional Rent:	In addition to the Sublease Base Rent, Sublessee shall pay to Sublessor, beginning on the Commencement Date and continuing throughout the Lease Term as Sublease Additional Rent (i) 100% as to amounts applicable solely to the Subleased Premises and Sublessee's Share (as defined below) as to amounts applicable to Building 8, the Project and the Common Area of all taxes, assessments, fees and other impositions payable by Sublessor in accordance with the provisions of Article IX of the Prime Lease and insurance premiums payable by Sublessor in accordance with the provisions of Article VII of the Prime Lease, (ii) Sublessee's Share of Operating Expenses as defined below, (iii) any other charges, costs and expenses (including appropriate reserves therefor) whether or not contemplated which may arise under any provision of the Prime Lease during the Sublease Term and are payable by Sublessor as "Lessee" thereunder, and (iv) a management fee equal to 3% of the Base Rent payable by Sublessor under the Prime Lease which management fee will be paid over to Prime Lessor. The management fee shall be due and payable, in advance, with each installment of Sublease Base Rent. All of such charges, costs, expenses, management fees and all other

	amounts payable by Sublessee hereunder, shall constitute Sublease Additional Rent, and upon the failure of Sublessee to pay any of such charges, costs or expenses, Sublessor shall have the same rights and remedies as otherwise provided in this Sublease for the failure of Sublessee to pay Sublease Base Rent.
Sublessee's Share:	Sublessee's Share shall be equal to "Lessee's Share" determined under Section 4.07 (c) of the Prime Lease and subject to adjustment as provided therein. As of the Commencement Date, Sublessee's Share of Building items shall be twenty and five tenths percent (20.5%) and Sublessee's Share of Project items shall be two percent (2 %).
Operating Expenses:	The term shall have the same meaning as that ascribed to it in Section 4.07 (a) of the Prime Lease.
Sublessee's Share of Operating Expenses:	As of the Commencement Date, Sublessee's Share of Operating Expenses attributable to Building 8 items shall be twenty and five tenths percent (20.5%) and Sublessee's Share of Operating Expenses attributable to Project items shall be two percent (2 %).
Security Deposit:	(6) months rent or One Hundred Ninety-Two Thousand Eighty-Four and 30/100 Dollars, ($192,084.30). See Article IV, Section 4.5 hereof.
Sublessor's FF&E:	All furnishings, fixtures and equipment listed in Exhibit 2 hereto.
Broker(s):	Randy Scott Cornish & Carey Commercial 245 Lytton Avenue, Suite 150 Palo Alto, CA 94301 Steven Battcher BT Commercial Real Estate 2445 Faber Place, Suite 250 Palo Alto, CA 94303

ARTICLE II
PRIME LEASE

2.1 Warranties, Representation and Acknowledgment. Sublessor hereby represents and warrants that: (i) Sublessor is lessee under the Prime Lease; (ii) the Prime Lease is in full force and effect, Sublessor has submitted to Sublessee a true and complete copy of the Prime Lease, and the Prime Lease has not been modified; and (iii) Sublessor has not received any notice of default on the part of Sublessor as lessee under the Prime Lease which has not been cured, nor has Sublessor given Prime Lessor notice of any default on the part of Prime Lessor as Lessor under the Prime Lease which has not been cured, nor does Sublessor have any knowledge of any default by either party under the Prime Lease. Sublessee warrants and acknowledges that it has reviewed the Prime Lease and is satisfied with the arrangements therein reflected. Sublessee takes the Subleased Premises "as is" without any representation or warranty by Sublessor regarding the condition of the Subleased Premises or the fitness of the Subleased Premises for any particular use except as provided herein. Sublessor shall indemnify and hold Sublessee, its agents, employees and lenders, harmless from any liabilities, losses, claims, damages, penalties, fines, attorney fees, expert fees, court costs, remediation costs, investigation costs, or other expenses resulting from or arising out of the use, storage, treatment, transportation, release, presence, generation, or disposal of Hazardous Materials on, from or about the Project (as defined in the Prime Lease), and/or subsurface or ground water, from an act or omission of Sublessor (or Sublessor's successor), its agents, employees, invitees, vendors or contractors. Sublessee agrees to indemnify and hold Sublessor, its agents, employees and lenders, harmless from any liabilities, losses, claims, damages, penalties, fines, attorney fees, expert fees, court costs, remediation costs, investigation costs, or other expenses resulting from or arising out of the use, storage, treatment, transportation, release, presence, generation, or disposal of Hazardous Materials (as defined in Section 17.22 of the Prime Lease or, from or about the Project (as defined in Section 2.01 the Prime Lease), and/or subsurface or ground water, after the Commencement Date from an act or omission of Sublessee (or Sublessee's successor), its agents, employees, invitees, vendors or contractors. Sublessor's and Sublessee's obligations under this provision shall survive the expiration of early termination of the Sublease. To the extent

Sublessor is indemnified by Prime Lessor for other environmental matters, Sublessor shall similarly indemnify Sublessee.

2.2 Incorporation by Reference. As described below certain provisions of the Prime Lease are hereby deemed to be wholly or partially incorporated into and made a part hereof and others wholly or partially excluded.

2.2.1 Unless otherwise indicated, all references to the "Commencement Date" in the following Sections as incorporated shall be deemed to refer to the Commencement Date of the Sublease, and all references in the following sections of the Prime Lease to "Base Rent," "Additional Rent," "Lease," "Lease Term" "Lessor", "Lessee", "Lessee's Share," and "Premises", respectively, shall be deemed to refer herein to "Sublease Base Rent," "Sublease Additional Rent," "Sublease," "Sublease Term," "Sublessor", "Sublessee", "Sublessee's Share," and the "Subleased Premises", respectively and references to "Articles", "Sections" and "Exhibits" shall indicate Articles, Sections and Exhibits of the Prime Lease:

(a) Section 4.05. Additional Rent.

(b) Section 12.01. Defaults (Except that the references therein to "rent" shall be deemed to mean Sublease Base Rent and Sublease Additional Rent and the reference in clause (c) (i) to Section 4.06 shall be deemed to refer to Section 4.7 of this Sublease).
(c) Section 12.02. Remedies (Except that the references therein to "rent" shall mean Sublease Base Rent and Sublease Additional Rent).
(d) Section 12.04. Late Charges.
(e) Section 12.05. Lessor's Right to Perform Lessee's Obligations (Except that the references therein to "Lessor" shall mean Prime Lessor or Sublessor and the reference to "rent" shall mean Sublease Base Rent and Sublease Additional Rent).
(f) Section 15.01. Estoppel Certificate (Except that the references therein to "Lessor" shall be deemed to mean Prime Lessor and Sublessor and the reference to "rent" shall mean Sublease Base Rent and Sublease Additional Rent).
(g) Section 16.01. Limitations on Lessor's Liability (Except that the references therein to "Lessor" shall mean Prime Lessor and Sublessor).
(h) Section 17.01. Severability.
(i) Section 17.03. Time of Essence.
(j) Section 17.04. Additional Rent.
(k) Section 17.09. Surrender of Possession; Holding Over.
(l) Section 17.10. Cumulative Remedies (Except that the references therein to "Lessor" shall mean Prime Lessor and Sublessor, the reference to "rent" shall mean Sublease Base Rent and Sublease Additional Rent). (m) Section 17.11. Covenants and Conditions.
(n) Section 17.12. Binding Effect; Choice of Law.
(o) Section 17.13. Lease to be Subordinate.
(p) Section 17.14. Attorneys' Fees.
(q) Section 17.18. Quiet Possession.
(r) Section 17.20. Authority.
(s) Section 17.21. Force Majeure Delays.
(t) Section 17.22. Hazardous Materials (Except that the references therein to "Lessor" shall mean Prime Lessor and Sublessor).
(u) Section 17.26. Acknowledgment of Notices (Except that the references therein to "Lessor" shall be deemed to mean Prime Lessor and Sublessor and all references to "Commencement Date" shall mean the Commencement Date of the Sublease).
(v) Section 17.27. List of Exhibits.

2.2.2 Unless otherwise indicated, all references in the following sections and/or provisions of the Prime Lease to "Lessor", "Lessee", "Lease", and "Premises", respectively, shall be deemed to refer to Prime Lessor, Sublessee, this Sublease and the Subleased Premises, respectively and references to "Articles", "Sections" and "Exhibits" shall indicate Articles, Sections and Exhibits of the Prime Lease [i.e., it is the intention of the parties that Prime Lessor shall retain all of its rights

and obligations under such sections and/or provisions; that Sublessor shall not be entitled during the Sublease Term to exercise any of Prime Lessor's rights, nor shall be bound by any of Prime Lessor's obligations, under such sections and/or provisions; and that Sublessee shall be entitled to exercise all of Lessee's rights, and shall be bound by all of Lessee's obligations, under such

sections and/or provisions:

(a) Section 2.02. Common Areas.
(b) Section 2.03. Parking.
(c) Section 4.07. Operating Expenses.
(d) Section 4.08. Lessee's Right to Review Supporting Data (except that the references to "Additional Rent" shall be deemed to mean Sublease Additional Rent).
(e) Section 5.01. Permitted Use and Limitations on Use.
(f) Section 5.02. Compliance with Law (a), (b) and (c).
(g) Section 5.05. Building Security.
(h) Section 5.06. Rules and Regulations.
(i) Section 6.01. Maintenance of Premises and Building.
(j) Section 6.02. Maintenance of Project Common Areas.
(k) Section 6.03. Alterations, Additions and Improvements (Except that Sublessee, if so required by Prime Lessor or Sublessor at the expiration or earlier termination of the Sublease Term, shall remove the Alterations installed by Sublessee (not such Alterations installed by Sublessor))
(l) Section 6.04. Covenant Against Liens.
(m) Section 6.05 Reimbursable Capital Expenditures (Except that the reference to "Base Rent" shall mean Sublease Base Rent).
(n) Section 7.01. Property/Rental Insurance for Premises.
(o) Section 7.02. Property Insurance for Fixtures and Inventory.
(p) Section 7.03. Lessor's Liability Insurance.
(q) Section 7.04. Liability Insurance Carried by Lessee (Except that the references therein to "Lessor" shall be deemed to mean Prime Lessor and Sublessor).
(r) Section 7.05. Proof of Insurance (Except that the references therein to "Lessor" shall be deemed to mean Prime Lessor and Sublessor).
(s) Section 7.06. Mutual Waiver of Claims and Subrogation Rights.
(t) Section 7.07. Indemnification and Exculpation (Except that the references to "Lessor" in Section 7.07(b) shall be deemed to mean Prime Lessor and Sublessor).
(u) Section 9.01. Payment of Taxes.
(v) Section 9.02. Pro Ration for Partial Years.
(w) Section 9.03. Personal Property Taxes (Except that the reference in clause (c) to "Lessor" shall be deemed to mean Prime Lessor or Sublessor).
(x) Section 10.01. Lessee to Pay.

(y) Section 12.03. Default by Lessor (Except that the references therein to "Lessor" shall be deemed to mean Prime Lessor and Sublessor).
(z) Section 14.01. Entry by Lessor Permitted.
(aa) Section 17.15. Signs.
(bb) Section 17.19. Easements.
(cc) Section 17.23. Modifications Required by Lessor's Lender.

2.2.3 The following sections and/or provisions of the Prime Lease are expressly excluded from this Sublease (i.e., they shall not be deemed to be incorporated into this Sublease) either because they are inapplicable, or they are superseded by specific provisions hereof:

(a) Section 1.01. Parties
(b) Section 2.01. Premises
(c) Section 2.04 Construction.
(d) Section 3.01. Lease Term.
(e) Section 3.02. Option to Extend.
(f) Section 4.01. Base Rent.
(g) Section 4.02. Rent Adjustment.
(h) Section 4.03. First Payment of Base Rent.
(i) Section 4.04. Absolute Triple Net Lease.
(j) Section 4.06. Security Deposit.
(k) Section 8.01. Destruction of the Premises.
(l) Section 8.02. Waiver of Civil Code Remedies.
(m) Section 8.03. No Abatement of Rentals
(n) Section 8.04. No Liability for Lessee's Tenant Improvements, Alterations or Personal Property.
(o) Section 11.01. Lessor's Consent Required.
(p) Section 11.02. Lessee Affiliates.
(q) Section 11.03. No Release of Lessee.
(r) Section 11.04. Excess Rent.
(s) Section 11.05. Information to be Provided.
(t) Section 11.06. Lessor's Recapture Rights.
(u) Section 13.01. Total Condemnation.
(v) Section 13.02. Partial Condemnation.
(w) Section 13.03. Award to Lessee.
(x) Section 17.02. Agreed Rate Interest on Past-Due Obligations.
(y) Section 17.06. Notices

(z) Section 17.07. Waivers.
(aa) Section 17.08. Recording.
(bb) Section 17.16. Merger.
(cc) Section 17.17. [Intentionally Omitted]
(dd) Section 17.24. Brokers
(ee) Section 17.25. [Intentionally Omitted] and Exhibits B, C, D, E, F and H

2.5 Subordination to Prime Lease. Except as otherwise expressly set forth in the written Sublease Consent entered into on or about the date hereof by and among Prime Lessor, Sublessor and Sublessee, this Sublease is and shall remain subject and subordinate in all respects to the Prime Lease, and to all renewals, modifications, consolidations, replacements and extensions thereof. In the event of termination or cancellation of the Prime Lease for any reason whatsoever with respect to all or any portion of the Subleased Premises, this Sublease shall automatically terminate with respect to all or such portion of the Subleased Premises.

2.6 Limited Obligations of Sublessor. Notwithstanding anything contained in this Sublease to the contrary, Sublessor shall have no obligation during the term of this Sublease to provide any services of any nature whatsoever to Sublessee or to, in, or for the benefit of the Subleased Premises or to expend any money for the preservation or repair of the Subleased Premises, or to observe or perform any obligations of Sublessor under this Sublease in any case where such services, expenditures or obligations are required under the Prime Lease to be provided, performed or observed by Prime Lessor for the benefit of Sublessor with respect to the Subleased Premises, and Sublessee agrees to look solely and directly to Prime Lessor for the furnishing of any such services, expenditure of any such sums, or observance or performance of any such obligations to which, or the benefit of which, Sublessee may be entitled under this Sublease, but nothing in the foregoing shall be deemed to exculpate or otherwise release Sublessor from, or prevent Sublessee from looking directly to Sublessor for, any liability arising out of Sublessor's negligence or the failure of Sublessor to perform its express obligations hereunder; nor shall the foregoing relieve Sublessor of its express obligations set forth in this Sublease. Sublessor shall, however, upon the request of Sublessee, use due diligence and reasonable efforts to cause Prime Lessor to furnish such services, expend such sums, and observe and perform such obligations. Sublessor's only obligations under the Prime Lease with respect to the Subleased Premises are to use the aforesaid due diligence and reasonable efforts, make those payments of all rent and other charges due to Prime Lessor thereunder, which payments Sublessor hereby agrees to make, provided, however, that Sublessee makes timely payment to Sublessor of all rent and other charges payable under this Sublease. It is the intention of the parties that Sublessee comply with all of Sublessor's obligations as Lessee under the Prime Lease (not excluded under Section 2.2.3 above) with respect to the Subleased Premises to the same extent and with the same force and effect as if Sublessee were tenant thereunder, and Sublessee hereby agrees to so comply with all of Sublessor's such obligations under the Prime Lease with respect to the Subleased Premises. Sublessee shall have no claim against Sublessor for any default by Prime Lessor under Prime Lease unless such default is caused by the negligence or willful misconduct of Sublessor or breach of any obligation of Sublessor under this Sublease. If as a result of any default by Prime Lessor as landlord under the Prime Lease, Sublessor as tenant under the Prime Lease is entitled to any offset or similar rights against Prime Lessor, Sublessee shall be entitled to such offset or similar rights. So long as Sublessee is not in default under this Sublease beyond any applicable notice, grace or cure period, Sublessee shall have the right, subject to the prior written consent of Sublessor, which consent shall not be unreasonably withheld and shall be given or withheld by Sublessor five (5) business days after receipt of the request therefor, to maintain, in the name of Sublessor but at Sublessee's sole cost and expense, an action or actions to compel Prime Lessor to discharge the responsibilities of Lessor under the Prime Lease. Sublessor shall cooperate with Sublessee, at Sublessee's expense, in bringing such actions. Sublessor shall not unreasonably

withhold its consent to the bringing of any such action or actions by Sublessee, provided, in each instance, that Sublessee shall not sue if Sublessor has itself commenced an action or actions for the same purpose; and provided, further, that Sublessor may withhold its consent if, in Sublessor's judgment, such action would result in an increase in rent or additional rent under the Prime Lease. No default by Prime Lessor under the Prime Lease shall excuse Sublessee from the performance of any of its obligations to be performed under this Sublease or to any reduction in or abatement of any of the rent provided for in this Sublease, unless and only to the extent that Sublessor shall be excused from the performance of a corresponding obligation as the " Lessee" under the Prime Lease.

2.7 Prohibited Actions. Sublessee shall neither do, nor permit anyone else to do, nor permit to be done anything that would increase Sublessor's obligations to Prime Lessor under the Prime Lease (unless Sublessee shall indemnify Sublessor from such increased obligation), or that would cause the Prime Lease to be cancelled, terminated or forfeited. Sublessor shall not amend or modify (nor agree to amend or modify) the Prime Lease in any way that would increase

Sublessee's obligations or diminish Sublessee's rights under this Sublease, nor shall Sublessor do, nor permit to do or be done, anything that would cause the Prime Lease to be cancelled, terminated or forfeited.

2.8 Copy of Notice. Sublessor shall copy Sublessee on any notice of default, termination or otherwise affecting the existence or validity of the Sublease, given by Sublessor or Prime Lessor to the other.

ARTICLE III
PREMISES

3.1 Lease Of Subleased Premises. Sublessor hereby leases to Sublessee, and Sublessee hereby accepts and leases from Sublessor, upon and subject to the terms and provisions of this Sublease (except as may otherwise be expressly set forth in the written Sublease Consent entered into on or about the date hereof by and among Prime Lessor, Sublessor and Sublessee), all of Sublessor's right, title and interest in and to the Subleased Premises for the Permitted Uses.

ARTICLE IV
RENT AND UTILITIES

4.1 Sublease Base Rent And Sublease Additional Rent. The Sublease Base Rent and Sublease Additional Rent specified in Section 1.1 hereof, and any other charges payable pursuant to this Sublease, shall be payable by Sublessee to Sublessor at Sublessor's mailing address (or to such other place as Sublessor may from time to time designate by written notice to Sublessee).
Such rent shall be due and payable, in advance on the first day of each and every calendar month during the Sublease Term.

4.2 Adjustments to Payments. During the term of this Sublease, Sublessee shall pay to Sublessor, monthly in advance, prorata monthly installments on account of the projected Sublease Additional Rent payable by Sublessee for the coming calendar year. Sublessor may adjust such estimated monthly installments from time to time if Sublessor determines that the

annual amount of Sublease Additional Rent will increase above Sublessor's initial estimate due to increases in additional rents due by Sublessor under the Prime Lease, but monthly installments at any such adjusted amount shall not be due and payable until thirty (30) days after receipt by Sublessee of a written invoice, in reasonable detail, calculating such adjusted monthly installment amount. Sublessor will base its estimate of Sublease Additional Rent on Lessor's estimate of Additional Rent payable under the Prime Lease. As soon as the necessary information is available from Lessor, Sublessor shall furnish to Sublessee a statement of the actual amount of Sublessee's Share of such Sublease Additional Rent for such period. The statement will provide in reasonable detail, the actual amount of Sublease Additional Rent for the preceding calendar year, the actual amount of monthly installments paid by Sublessee for such year and the amount of the adjustment, if any, between Sublessor and Sublessee on account of Sublease Additional Rent for each calendar year. If the total of such monthly installments in any calendar year is greater than the actual amount of Sublease Additional Rent for such year, Sublessee shall be entitled to a credit against Sublessee's rental obligations hereunder in the amount of such excess (or if after the expiration of the Sublease Term, such excess shall be paid to Sublessee within thirty (30) days after such excess has been calculated). If the total of such monthly installments is less than the actual amount of Sublease Additional Rent for such calendar year, Sublessee shall pay to Sublessor the amount of such deficiency within thirty (30) days after receipt of an invoice thereafter.

4.3 No Demand Necessary. All Sublease Base Rent, Sublease Additional Rent and other amounts due under this Sublease shall be paid without demand (except as otherwise expressly provided herein to the contrary) offset or deduction. Sublessee shall be entitled to a fair and equitable share of all rent abatements set forth in the Prime Lease which may be granted to Sublessor during the Sublease Term with respect to the Subleased Premises. In the event that Sublessee is required hereunder or under the Prime Lease to pay Sublease Base Rent or Sublease Additional Rent to Prime Lessor, each such payment shall be an offset to Sublessee's obligations to make the corresponding equivalent payment to Sublessor under this Sublease.

4.4 Net Lease. This Sublease is what is commonly called an "Absolute Triple Net Sublease," it being understood that Sublessor shall receive the Sublease Base Rent and Sublease Additional Rent free and clear of any and all expenses, costs, impositions, taxes, assessments, liens or charges of any nature whatsoever. Sublessee shall pay all rent in lawful money of the United States of America to Sublessor at the notice address stated herein or to such other persons or at such other places as Sublessor may designate in writing on or before the due date specified for same without prior demand, set-off or deduction of any nature whatsoever. It is the intention of the parties hereto that this Sublease shall not be terminable for any reason by Sublessee and that Sublessee shall in no event be entitled to any abatement of or reduction in rent payable under this Sublease, except as expressly provided herein or in any incorporated provisions of the Prime Lease. Any present or future law to the contrary shall not alter this agreement of the parties.

4.5 First Month's Rent Security Deposit. On the Commencement Date, Sublessee shall deposit with Sublessor the first month's payable rent. Upon Sublease execution, Sublessee shall post an irrevocable letter of credit (the "L/C") in the amount of the Security Deposit specified in Section 1.1 above, the same to be held as security for the performance by Sublessee of all obligations imposed upon Sublessee under this Sublease. The L/C shall be generally in the form of an

unconditional, irrevocable letter of credit without documents and otherwise in form and substance reasonably satisfactory to Sublessor, shall be drawn on a domestic commercial bank with a letter of credit paying office located in Boston, Massachusetts, and shall be addressed to, and payable upon simple written demand by, Sublessor, which demand shall be accompanied by a statement of an authorized officer or agent of Sublessor stating that the drawing represents amounts due to Sublessor from Sublessee under this Sublease. If Sublessee defaults with respect to this Sublease beyond any applicable cure or grace periods, Sublessor shall be entitled to draw sums under the L/C and apply such sums, pro tanto, against any damages which Sublessor may sustain by reason of Sublessee's failure to perform such obligations, but such application shall not preclude Sublessor from recovering greater damages if the same can be established. If Sublessor draws any sums under the L/C as aforesaid, Sublessee shall, within five (5) business days of demand, restore the amount available under the L/C to the original face amount thereof. If Sublessor conveys Sublessor's interest under this Sublease, the L/C may be assigned by Sublessor to Sublessor's grantee, and, if so assigned, Sublessee agrees to look solely to such assignee for the proper application and return thereof in accordance with the terms of this Section 4.5. If Sublessee shall faithfully perform all such obligations, then the L/C shall be returned to Sublessee upon expiration of the Sublease Term and after Sublessee has vacated the Subleased Premises. Sublessee agrees that Sublessee will not assign, encumber or pledge, attempt to assign, encumber or pledge the L/C deposited herein as security, and that neither Sublessor, nor its successors and assigns, shall be bound by any such assignment, encumbrance or pledge, attempted assignment, attempted pledge, or attempted encumbrance. The L/C shall provide for multiple draws and multiple successor or co-beneficiaries. If, after notice and beyond the expiration of any applicable grace period (or, if Sublessor is prevented from giving notice by the automatic stay of a bankruptcy court or by any other legal prohibition, without notice) Sublessee fails to timely perform or observe any obligation of Sublessee under this Sublease, including, but not limited to, obligations of Sublessor under the Prime Lease assumed by Sublessee or restoration of the condition of the Subleased Premises upon Sublease termination in conformance with the provisions of this Sublease, Sublessor may (but shall not be required to) use, apply or retain all or any part of the Security Deposit for the payment of any amount which Sublessor may spend by reason of Sublessee's default or for compensation to Sublessor for any loss or damage which Sublessor may suffer or be entitled to by reason of Sublessee's failure to timely perform or observe any obligation of Sublessee under this Sublease, including, without limitation, damages which Sublessor would be entitled to under California Civil Code Sections 1951.2 or 1951.4. The rights of Sublessor pursuant to this Section 4.6 are in addition to any rights which Prime Lessor may have hereunder. Failure of Sublessee to deliver a replacement L/C to Sublessor at least forty-five (45) business days prior to the expiration date of any current L/C shall constitute a separate event entitling Sublessor to draw down immediately and entirely on the current L/C and the proceeds shall constitute a cash Security Deposit. Sublessor shall not be required to keep any cash Security Deposit separate from Sublessor's general funds or be deemed to be a trustee of same. Sublessee shall pay when due all fees, charges and costs imposed by the issuing bank for the issuance, transfer or amendment of the L/C and/or any supplemental L/C.

4.6 No Offset for Utilities. The disruption, failure, lack or shortage of any service or utility with respect to the Subleased Premises, Building or Project due to any cause whatsoever shall not affect any obligation of Sublessee hereunder, and Sublessee shall faithfully keep and observe all

the terms, conditions and covenants of this Sublease and pay all rent due hereunder, all without diminution, credit or deduction. To the extent the cause is the failure of Prime Lessor to observe or perform an obligation of Prime Lessor under the Prime Lease, Sublessor shall, after receipt from Sublessee of notice of the failure, exercise its rights under the Prime Lease to cause Prime Lessor to initiate the cure of such failure.

ARTICLE V
PREMISES

5.1 Condition Of Subleased Premises. Except as provided herein, Sublessee agrees to accept the Subleased Premises and Sublessor's FF&E in their condition existing as of the Commencement Date, "AS-IS" and "WITH ALL FAULTS", without any representation or warranty and subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use and condition of the Subleased Premises, and any covenants or restrictions, liens, encumbrances and title exceptions of record, and accepts this Sublease subject thereto and to all matters disclosed hereby and by any exhibits attached hereto or to the Prime Lease. Sublessee acknowledges that neither Sublessor nor

Lessor nor any agent of Sublessor or Lessor has made any representation or warranty as to the present or future suitability of the Subleased Premises for the conduct of Sublessee's business. Not limiting the generality of the foregoing, Sublessor represents and warrants to Sublessee that as of the date first set forth above, (i) there are no Hazardous Materials present in the portion of the Subleased Premises (not including Common Areas) as a result of Sublessor's occupancy or use of the Subleased Premises, and (ii) all lab benches are clean, and (iv) the existing fume hoods are in good operating condition.

5.2 Furnishings, Fixtures and Equipment. Sublessee shall have the right to use all of Sublessor's FF&E for the Sublease Term at no additional expense. So long as Sublessee is not in default hereunder and Sublessor is not in default under the Prime Lease beyond any applicable cure period, Sublessee shall have the right to remove the office furniture and laboratory facilities ("Laboratory Facilities") portion of the Tenant Improvements made by Sublessor (and any Alterations consisting of additions to or replacement of same) upon the expiration of the Prime Lease provided that Sublessee, at its sole cost and expense, repairs and restores the Subleased Premises to their condition prior to the installation of said Laboratory Facilities. Laboratory Facilities shall mean furnishings, fixtures and equipment (to the extent the same may be considered Tenant Improvements the primary function of which is the conduct or support of non-animal biological and chemical research including, without limitation, wastewater treatment systems, chemical hoods, biosafety cabinets, casework, benches, analytical and automation equipment and associated enclosures, support equipment, cold rooms, nitrogen generators, vacuum pumps, air compressors, water systems, nuclear magnetic resonance equipment, ovens, ice makers, freezers and refrigerators, centrifuges, glass washers, process chillers, security systems, steam sterilizers/autoclaves, gas manifolds and environmental control systems.

5.3 Alterations to Subleased Premises. Sublessee shall make no improvements, alterations, renovations, or additions in or to the Subleased Premises, or any portion thereof without the prior written consent of Sublessor, which consent shall not be unreasonably withheld or delayed. In

any event Sublessee, except as permitted by Section 2.2.2 (k) hereof, shall also obtain such consent from Prime Lessor. Sublessor shall cooperate with Sublessee to the extent of requesting the consent of Prime Lessor in accordance with the terms of the Prime Lease. Sublessor shall not be responsible for the failure or refusal of Prime Lessor to consent to any such improvements, alterations, renovations or additions; Sublessor hereby agrees that it shall not withhold or delay its consent to any improvements, alterations, renovations or additions to which Prime Lessor consents, so long as Sublessee agrees, upon the expiration or earlier termination of this Sublease, to remove if required by Prime Lessor, the same and restore the Subleased Premises to substantially the condition they were in prior to such improvements, alterations, renovations or additions. Any such approved improvements, alterations, renovations or additions shall be constructed by Sublessee, at the sole cost and expense of Sublessee in accordance with plans and specifications therefor reasonably approved in advance by Sublessor and Prime Lessor and shall be done in conformance with the applicable provisions of the Prime Lease, in a good and workmanlike manner, and in compliance with all applicable laws, Project Standards, rules and regulations.

5.4 Access, Entry and Inspection. Sublessee shall have access to the Subleased Premises for the purposes of architectural review and planning only, starting September 1, 2004. Sublessee shall not commence any interior alterations before October 1, 2004, and then only after providing evidence to the Sublessor of appropriate insurance required in the Sublease, e.g. coverages substantially similar to those required of Sublessor under Section 4.2.2.4 of the Work Letter executed by SubLessor and Prime Lessor pursuant to, and substantially in the form of, Exhibit C to the Prime Lease. At reasonable times, and upon reasonable advance written notice to Sublessee, Sublessee shall permit Sublessor, its agents and invitees to enter and inspect the Subleased Premises or any portion thereof during Sublessee's regular business hours, subject in all events to Sublessee's reasonable confidentiality and security needs. Sublessor shall have such right of entry without any rebate of rent to Sublessee for any loss of occupancy or quiet enjoyment of the Subleased Premises hereby occasioned unless Sublessor materially interferes with Sublessee's use and enjoyment of the Subleased Premises.

5.5 Emergency Access. Notwithstanding any other provision hereof, in the event Prime Lessor or Sublessor reasonably determine that an emergency situation exists, either or both of them may enter the Subleased Premises at any time without notice and take reasonable measures to deal with the emergency.

5.6 Surrender. Sublessee shall surrender the Subleased Premises to Sublessor at the end of the Sublease Term in accordance with Section 17.09 of the Prime Lease. Notwithstanding any other provision hereof, Sublessee will not be required to remove tenant improvements made by Sublessor to the Subleased Premises.

ARTICLE VI
USES; ASSIGNMENT AND SUBLETTING

6.1 Permitted Uses. Sublessee agrees that the Subleased Premises shall be used and occupied for the Permitted Uses only, and in compliance with all applicable laws, rules and regulations now or hereafter in effect.

6.2 Assignment And Subletting By Sublessee. Sublessee shall not, by operation of law or otherwise, assign, sub-sublet, mortgage, pledge, encumber or in any manner transfer this Sublease or any interest of Sublessee hereunder, or sublet or permit the Subleased Premises or any part thereof to be used or occupied by others, without the prior consent of Sublessor, which consent shall not be unreasonably withheld or delayed, except, that, Sublessee may, without the necessity of obtaining the consent of Sublessor, assign or sublet the Subleased Premises, or any portion thereof, to any corporation which controls, is controlled by, or is under common control with Sublessee, or to any corporation resulting from the merger or consolidation with Sublessee, or to any person or entity which acquires all of Sublessee's stock or all, or substantially all of the assets of Sublessee as a going concern of the business that is being conducted on the Subleased Premises ("Affiliate"), provided that said assignee or sublessee assumes, in full, the obligations of Sublessee under this Sublease and provided further that the use to which the Subleased Premises will be put does not materially change. Any rent resulting from a further sublease of the Subleased Premises (other than to an Affiliate (as defined below)) which is in excess of Sublessee's Rent under this Sublease which Sublessor is entitled to shall be split 50/50 between Sublessor and Sublessee after deducting customary broker commissions and attorneys' fees. Any such assignment shall not, in any way, affect or limit the liability of Sublessee under the terms of this Sublease. Sublessee acknowledges, however, that, notwithstanding the foregoing, any such assignment or sub-sublet (including, without limitation, any assignment or sub-sublet to an Affiliate of Sublessee) shall also be subject to approval of the Prime Lessor in accordance with the Prime Lease. Sublessor shall not be responsible for the failure or refusal of Prime Lessor to consent to any such assignment or sub-sublet.

ARTICLE VII
INSURANCE

7.1 Insurance Coverage. Sublessee shall carry and maintain, throughout the Term hereof, at its own cost and expense, (a) a commercial general liability insurance policy insuring against any claim involving bodily injury (including death) or damage to property and (b) a fire and other casualty policy insuring (i) the full replacement value of Sublessee's improvements, fixtures, furnishings, equipment and personal property located in the Subleased Premises or any portion thereof, and (ii) the full replacement value of Sublessor's FF&E against loss or damage by fire, theft, sprinkler leakage and such other risks or hazards as are insurable under present and future forms of "All Risk" insurance policies, and (c) during any period that construction or renovations are being performed at any portion of the Subleased Premises, the insurance required in (b) above shall be written on a builder's risk, completed value, non-reporting form, meeting all of the terms in (b) above, cover the total value of the work performed, materials, equipment, machinery and supplies furnished, and contain soft cash (loss of rents) coverage and permission to occupy endorsements. Said casualty policy shall also insure against physical damage to the Subleased Premises arising out of an accident covered thereunder. Coverage amounts under the

commercial, general liability, insurance policy for each occurrence and in the aggregate shall be the same as those required of Sublessor by Prime Lessor pursuant to the Primary Lease. The limits of said insurance required by this Sublease as carried by Sublessee shall not, however limit the liability of Sublessee (except as stated in Section 7.07(a) of the Prime Lease incorporated herein pursuant to Section 2.2.2 hereof) nor relieve Sublessee of any obligation hereunder. All insurance to be carried by Sublessee shall be primary to and not contributory with, any similar insurance carried by Sublessor or Prime Lessor whose insurance shall be considered excess insurance only.

7.2 Rated Companies. All insurance policies required under Section 7.1 above, are to be written by good and solvent insurance companies licensed or authorized to do business in the State of California with a minimum Best's Rating of A-VI; shall be for such limits and with such maximum deductibles as commercially reasonable (Sublessee hereby agreeing that Sublessor shall in no event be responsible for payment of any such deductibles); and shall name Sublessor, and Prime Lessor and any lender(s) of Prime Lessor whose names are provided to Lessee as additional insureds and loss payees against claims and liability for bodily injury, personal injury and property damage based upon involving or arising out of ownership, use, occupancy or maintenance of the Subleased Premises and all areas appurtenant thereto, as applicable (provided, however, that the casualty policy insuring Sublessor's FF&E shall name Sublessor as the insured). Sublessor expressly reserves the right to increase limits and require adjustments to coverage commensurate with any increases required by Prime Lessor of Sublessor pursuant to the terms of the Prime Lease.

7.3 Evidence Of Insurance. Prior to the time insurance is first required to be carried by Sublessee under Section 7.1, above (e.g on the Commencement Date of this Sublease), and thereafter at least fifteen (15) days prior to the

expiration date of any such policy, Sublessee agrees to deliver to Sublessor a certificate of insurance (or other evidence of such insurance satisfactory to Sublessor) upon which both Sublessor and Prime Lessor are entitled to rely, which shall contain an endorsement that any such insurance policy may not be cancelled without at least ten (10) days' prior written notice to each insured. Sublessee's failure to provide and keep in force the aforementioned insurance or to make the aforementioned payments to Sublessor shall be regarded as a default hereunder, entitling Sublessor to exercise any or all of the remedies provided in this Sublease in the event of Sublessee's default. All insurance policies carried by Sublessee shall be written as primary coverage policies not contributing with or secondary to coverage which Sublessor carries.

7.4 Subrogation and Waiver. Each of Sublessor and Sublessee hereby releases and relieves the other, and waives its entire claim of recovery for loss or damage to property arising out of or incident to fire, lightning, and the other perils included in a standard "all risk" insurance policy of a type described in Section 7.1 and above, when such property constitutes the Subleased Premises, or is in, on or about the Subleased Premises, whether or not such loss or damage is due to the negligence of Sublessor or Sublessee, or their respective agents, employees, guests, licensees, invitees, or contractors. Each of Sublessor and Sublessee hereby waives all rights of subrogation against the other on behalf of, and shall obtain a waiver of all subrogation rights from, all property and casualty insurers referenced above.

ARTICLE VIII
CASUALTY AND TAKING

8.1 General. If the Subleased Premises or any portion thereof is damaged by fire or other casualty, or taken by eminent domain, Sublessee shall promptly notify Prime Lessor and Sublessor. Pursuant to Sections 8.01 and 13.01 of the Prime Lease, Prime Lessor may, under certain circumstances, terminate the Prime Lease. If Prime Lessor elects to terminate the Prime Lease pursuant to such Sections, the Prime Lease shall cease and come to an end, and this Sublease shall similarly terminate. In addition, if Sublessor elects to terminate the Prime Lease pursuant to such Sections, the Prime Lease shall cease and come to an end, and this Sublease shall similarly terminate. All rent shall be paid up to the date of termination, and Sublessee shall have no claim against Sublessor for the value of the unexpired portion of the Sublease Term. In any event, Sublessee shall perform the obligations and assume the liabilities of Sublessor under Sections 8.01 and 13.01. Sublessee acknowledges that Sublessor shall, in no event, have any obligation whatsoever to reconstruct or restore the Subleased Premises or any portion thereof damaged by fire or other casualty or taken by eminent domain.

8.2 Partial Condemnation. If any portion of the Subleased Premises is taken by condemnation during the Sublease Term, whether by exercise of governmental power or the sale for transfer by Lessor to an condemnor under threat of condemnation or while proceedings for condemnation are pending, this Sublease shall remain in full force and effect except that in the event a partial taking (i) is more than thirty-three percent (33%) of the total square footage of the Subleased Premises; or (ii) leaves the Subleased Premises unfit for the conduct of the business of Sublessee, then Sublessee shall have the right to terminate this Lease effective upon the date transfer of possession is required. Moreover, Sublessor and Prime Lessor have the right to terminate the Prime Lease effective on the date transfer of possession is required if more than thirty-three percent (33%) of the total square footage of the Subleased Premises is taken by condemnation. If Sublessor or Prime Lessor elects to terminate the Prime Lease in such event, the Prime Lease shall cease and come to an end and this Sublease shall similarly terminate. Sublessee may elect to exercise its right to terminate this Sublease pursuant to this Section by serving written notice to Sublessor within fifteen (15) days after receipt of notice of condemnation. All rent shall be paid up to the date of termination, and Sublessee shall have no claim against Sublessor for the value of any unexpired portion of the Sublease Term. If this Sublease shall not be terminated, the rent after such partial taking shall be that percentage of the adjusted Sublease Base Rent specified herein, equal to the percentage which the square footage of the untaken part of the Subleased Premises, immediately after the taking, bears to the square footage of the entire Subleased Premises immediately before the taking. If Sublessee's continued use of the Subleased Premises requires alterations and repair by reason of a partial taking, all such alterations and repair shall be made by Sublessee at Prime Lessor's expense. Sublessee waives all rights it may have under California Code of Civil Procedure Section 1265.130 or otherwise, to terminate this Sublease based on partial condemnation.

8.3 Award to Sublessor. In the event of any condemnation, whether total or partial, any condemnation award shall belong to Sublessee or Prime Lessor as their respective interests may

appear (including, without limitation, any amount attributable to any excess of the market value of the Subleased Premises for the remainder of the Sublease Term over the then present value of the rent payable for the remainder of the Sublease Term) and Sublessee shall have no further right to recover from Sublessor or Prime Lessor or the condemning authority for any claims arising out

of such taking.

8.4 Waiver of Civil Code Remedies. Sublessee hereby expressly waives any rights to terminate this Sublease upon damage or destruction to the Subleased Premises, including without limitation any rights pursuant to the provisions of Section 1932, Subdivisions 1 and 2 and Section 1933, Subdivision 4, of the California Civil Code, as amended from time-to-time, and the provisions of any similar law hereinafter enacted.

8.5 No Abatement of Rentals. The Base Rent, Additional Rent and other charges due under this Sublease shall not be reduced or abated by reason of any damage or destruction to the Subleased Premises (but will be subject to credit as provided herein with respect to rental loss insurance proceeds received or which would have been paid but for Prime Lessor's failure to carry same in contravention of its duty to do so under Section 7.06 of the Prime Lease), and Sublessee shall be entitled to all proceeds of the insurance maintained pursuant to Section 7.1 above during any period of rebuilding, or if this Sublease is terminated pursuant to Section 8.1 or 8.2 above (unless Sublessee is entitled to rent abatement under the Prime Lease). Sublessee shall not have any claim against Sublessor, including, without limitation, any claim for compensation for inconvenience or loss of business, profits or goodwill during any period of repair or reconstruction.

8.6 No Liability for Tenant Improvements or Lessee's, Alterations or Personal Property. In no event shall Sublessor have any liability for, nor shall it be required to repair or restore, any injury or damage to Alterations made by Sublessee or personal property of Sublessee or to any other personal property of Sublessee in or upon the Subleased Premises, Building 8 or the Project.

ARTICLE IX
MISCELLANEOUS PROVISIONS

9.1 Sublessee's Risk. Except as provided herein, Sublessee agrees to use and occupy the Subleased Premises at Sublessee's own risk; and to the fullest extent permitted by law, Sublessor shall have no responsibility or liability for any loss of or damage to fixtures or other personal property of Sublessee, or of those claiming by, through or under Sublessee, including without limitation, any loss or damage from the breaking, bursting, crossing, stopping or leaking of electric cables and wires, and water, gas, sewer or steam pipes or like matters, except to the extent caused by Sublessor's gross negligence or willful misconduct. In the event of such loss or damage to Sublessee's property resulting from the gross negligence or willful misconduct of Sublessor, its agents, contractors or employees, subject, however, to the waiver of subrogation provision contained herein, Sublessor shall bear only the loss of or damage to laboratory equipment, furniture, computer hardware and other small items of tangible personal property of

the kind which may customarily be expected to be found on the premises of a business conducting activities substantially similar to those conducted by Sublessee, provided, however, that Sublessor shall have no responsibility or liability for any such loss or damage relating directly or indirectly to loss of business, lost profits or other indirect or consequential damages, loss of data (including, without limitation, data contained in computer tapes, disks, other storage media and similar property) or unusually valuable, rare or exotic materials, works of art, and the like. In the event of such loss or damage to Sublessee's property resulting from the negligence or willful misconduct of Prime Lessor, its agents, contractors or employees, subject, however, to the limitations contained herein and in the Prime Lease, Sublessor shall cooperate with Sublessee in a commercially reasonable manner in seeking compensation from Prime Lessor for such loss or damage, to the extent requested by Sublessee and at Sublessee's expense.

9.2 Waiver. Failure on the part of either party to complain of any action or non-action on the part of the other, no matter how long the same may continue, shall never be deemed to be a waiver by such party of any of its rights hereunder. Further, it is agreed that no waiver of any of the provisions hereof by either party shall be construed as a waiver of any of the other provisions hereof and that a waiver at any time of any of the provisions hereof shall not be construed as a waiver at any subsequent time of the same provisions. The consent to or approval of any action by either party requiring such consent or approval shall not be deemed to waive or render unnecessary such consent to or approval of any subsequent similar act by such party.

9.3 No Brokerage. The parties represent that they have dealt with no real estate broker or agent in connection with this Sublease or with anyone who would otherwise be entitled to a brokerage commission or other compensation with respect to this Sublease except for the Brokers named herein. Each of Sublessor and Sublessee agrees to defend and indemnify the other against any claims, losses, damages, liabilities or expenses (including reasonable attorneys' fees) arising out of the breach of any of its respective foregoing representations.

9.4 Notices. Whenever by the terms of this Sublease (including terms of the Prime Lease incorporated herein) notice, demand or other communication shall or may be given, either to Sublessor, Sublessee or Prime Lessor, the same shall be

adequately given if in writing and delivered in the manner specified in Section 17.06 (b) of the Prime Lease:

If intended for Sublessor, addressed to it at the Present Mailing Address of Sublessor, with a copy to Sublessor's General Counsel at the Present Mailing Address of Sublessor (or to such other address or addresses as may from time to time hereafter be designated by Sublessor by like notice).

If intended for Sublessee, addressed to it at the Subleased Premises (or to such other address or addresses as may from time to time hereafter be designated by Sublessee by like notice).

If intended for Prime Lessor, addressed to it at the Present Mailing Address of Prime Lessor (or to such other address or addresses as may from time to time hereafter be designated by Prime Lessor by like notice).

All such notices shall be effective upon receipt. Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified shall be considered to be effective as of the first date that the notice was refused, unclaimed, or considered undeliverable by the postal authorities, messenger, or overnight delivery service.

9.5 Effectiveness Of Sublease. This Sublease shall not be effective until and unless Prime Lessor has given its consent hereto, which consent shall be in form and substance reasonably satisfactory to Sublessee and Sublessor; Sublessee shall be responsible for paying all costs and expenses payable to Prime Lessor under the Prime Lease in connection with obtaining such consent. Sublessor shall use reasonable efforts to obtain Prime Lessor's consent, but shall not be responsible for the failure or refusal of Prime Lessor to consent to this Sublease

9.6 Provisions Binding, Etc. Except as herein otherwise expressly provided, the terms hereof shall be binding upon and shall inure to the benefit of the heirs, legal representatives, successors and assigns, respectively, of Sublessor and Sublessee. Each term and each provision of this Sublease to be performed by Sublessee shall be construed to be both a covenant and a condition. The reference contained to the successors and assigns of Sublessee is not intended to constitute a consent to assignment by Sublessee, but has reference only to those instances in which Sublessor shall have given its consent to a particular assignment if such consent is required by the provisions of this Sublease. Each person executing this Sublease on behalf of Sublessor warrants that Sublessor is a duly existing and valid Delaware corporation qualified to do business in Massachusetts, that Sublessor has duly executed and delivered this Sublease, that the execution and delivery of, and the performance by Sublessor of its obligations under this Sublease are within the powers of Sublessor and have been duly authorized by all requisite corporate action, and that this Sublease is a valid and binding obligation of Sublessor in accordance with its terms. Each of the persons executing this instrument on behalf of Sublessee hereby covenant and warrant that Sublessee is a duly existing and valid Delaware corporation qualified to do business in California, that Sublessee has duly executed and delivered this Sublease, that the execution and delivery of, and the performance by Sublessee of its obligations under this Sublease are within the powers of Sublessee and have been duly authorized by all requisite corporate action, and that the Sublease is a valid and binding obligation of Sublessee in accordance with its terms.

9.7 Sole Agreement. This Sublease (including Exhibits hereto and provisions of and Exhibits to the Prime Lease incorporated herein) contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Sublease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Sublease, Sublessee hereby acknowledges that neither Sublessor nor Prime Lessor nor any of their respective employees or agents has made any oral or written warranty or representation to Sublessee relative to the condition or use by Sublessee of the Subleased Premises and Sublessee acknowledges that it assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Subleased Premises and the compliance thereof with all applicable laws and regulations in effect during the Sublease Term except as otherwise specifically stated in this

Sublease. Neither party has been induced to enter into this Sublease by, and neither party is relying on, any representation or warranty outside those expressly set forth in this Sublease.

9.8 No Recording. Sublessee agrees not to record this Sublease or any notice thereof.

9.9 Counterparts. This Sublease may be signed in any number of counterparts, and in such event each shall act as an original for all purposes, so long as each party has signed at least one counterpart.

EACH OF SUBLESSOR AND SUBLESSEE HAS CAREFULLY READ AND HAS REVIEWED THIS SUBLEASE AND BEEN ADVISED BY LEGAL COUNSEL OF ITS OWN CHOOSING AS TO EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS SUBLEASE, SHOWS ITS INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES ACKNOWLEDGE THAT, AT THE TIME THIS SUBLEASE IS EXECUTED, THE TERMS AND CONDITIONS OF THIS SUBLEASE ARE COMMERCIALLY REASONABLE AND GIVE EFFECT TO THE INTENT AND PURPOSE OF SUBLESSOR AND SUBLESSEE WITH RESPECT TO THE SUBLEASED PREMISES.

Executed under seal as of the date first written above.

Sublessor: ArQule, Inc.

By: /s/ Stephen A. Hill

Its CEO
hereunto duly authorized

Sublessee: Threshold Pharmaceuticals Inc.

By: /s/ Janet I. Swearson

Its CFO, VP Finance & Ops
hereunto duly authorized

Exhibits:
- --------
Exhibit A: Location of Subleased Premises
Exhibit B: Sublessor's FF&E

BROKER CERTIFICATION

Each of the undersigned represents to the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Sublease, except for the real estate brokers or agents executing this certification ("Brokers") and that each knows of no other real estate broker or agent who is entitled to a commission or finder's fee in connection with this Sublease. By signing below, Brokers are not being made a party to the Sublease.

SUBLESSOR'S BROKER: ADDRESS:

By:

(Type or print name)

Its:

Its:

SUBLESSEE'S BROKER: ADDRESS:

By:

(Type or print name)

Its:

Exhibit I

TRIPLE NET SPACE LEASE

between

PACIFIC SHORES DEVELOPMENT LLC,

as
LESSOR

and

ARQULE, INC.,
A DELAWARE CORPORATION
as
LESSEE

for

PREMISES
at
PACIFIC SHORES CENTER

FIFTH FLOOR, BUILDING 8
1300 SEAPORT BOULEVARD
REDWOOD CITY, CALIFORNIA 94063

ARTICLE I
PARTIES

SECTION 1.01. PARTIES. This Lease, dated for reference purposes, and effective as of March 26, 2002, is made by and between PACIFIC SHORES CENTER LLC, or assignee, ("LESSOR") and ARQULE, Inc., a Delaware corporation ("LESSEE").

ARTICLE II
PREMISES

SECTION 2.01. DEMISE OF PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the terms and conditions set forth herein, certain space consisting of an agreed thirty-three thousand, six hundred ninety nine rentable square feet (33,699) ("PREMISES") which Premises comprise the entire fifth floor of that certain Building, sometimes known as "Building 8" and commonly known as 1300 Seaport Boulevard, Redwood City, California 94063 ("BUILDING 8") which is one of ten free standing, office and research and development buildings ("BUILDINGS") on real property situated in Redwood City, County of San Mateo, State of California and commonly known as Pacific Shores Center. Building 8 consists of an agreed one hundred sixty four thousand seven hundred thirty two (164,732) rentable square feet. The Premises are more particularly described and depicted herein in Exhibit "A." The Premises include restrooms, and janitor, telephone and electrical closets on the fifth floor and Lessee shall have the exclusive use thereof, provided that Lessor reserves the right to access and use the same (as well as the space above any dropped ceilings) for cabling, wiring, pipes and other Building system elements. The rentable square footage of the Premises, Building 8 and other Buildings (the "RENTABLE AREA") has been determined and certified by Lessor's architect by a method described as "dripline," whereby the measurement encompasses the outermost perimeter of the constructed building, including every projection thereof and all area beneath each such projection, whether or not enclosed, with no deduction for any inward deviation of structure and with the measurement being made floor by floor, but beginning from the top of the Building; the Rentable Area of the Premises also includes an allocation of the first floor entry and elevator lobby. The Premises, the Buildings and appurtenances described herein, including Common Area (defined below), and all other improvements at Pacific Shores Center together with the land on which the same are located are together designated as the project ("PROJECT").

SECTION 2.02. COMMON AREA. During the Lease Term, Lessee shall have the non-exclusive right to use the Common Area defined herein. Lessor reserves the right to modify the Common Area, including increasing or reducing the size, adding additional buildings, structures or other improvements or changing the use, configuration and elements thereof in its sole discretion and to close or restrict access from time to time for repair, maintenance or construction or to prevent a dedication thereof, provided that Lessee nonetheless (i) shall have reasonable access to parking and the Premises during such activities; (ii) such modifications, when completed, shall not unreasonably interfere with or restrict Lessee's possession and use of the

Premises; and (iii) no such modification shall unreasonably and materially increase Lessee's Share of Operating Expenses. Lessor further reserves the right to establish, repeal and amend from time to time rules and regulations for the use of the Common Area and to grant reciprocal easements or other rights to use the Common Area to owners of other property provided that no amendment to the rules and regulations shall unreasonably interfere with or restrict Lessee's use of the Premises or unreasonably and materially increase Lessee's Share of Operating Expenses and provided further, to the extent of any conflict between an express provision of this Lease (other than the attached Rules and Regulations) and such amended Common Area rules and regulations, this Lease controls. "Common Area" means both (i) Project Common Area which includes all portions of the Project other than the Buildings, including landscaping, sidewalks, walkways, driveways, curbs, parking lots (including striping), roadways within the Project, sprinkler systems, lighting, surface water drainage systems, an athletic facility to be available for use by Lessee's employees (the "ATHLETIC FACILITY"), as well as baseball and soccer fields, a water front park, and a perimeter walking/biking trial, and, to the extent required by government authorities having jurisdiction over Lessor's development of the Project, amphitheater, marine life resource center, retreat and conference center, child care center and such further portions of the Project or additional or different facilities as Lessor may from time to time designate or install or make available for the use by Lessee in common with others and (ii) Building 8 Common Area which includes the total area on the fifth floor consisting of mechanical areas, public stairs, elevator shafts and pipe, cabling and wiring shafts, together with their enclosing walls, plus the first floor entrance and elevator lobby and on each other floor of Building 8, the same and, to the extent not

leased to an occupant, public corridors, elevator lobbies, restrooms and janitor, telephone and electrical closets.

SECTION 2.03. PARKING. Lessor shall provide Lessee with parking spaces within the Common Area as required by law, which is three (3) spaces per one thousand (1,000) square feet of interior space within the Premises. In the event Lessor elects or is required by any law to limit or control parking at the Premises, whether by validation of parking tickets or any other method of assessment, Lessee agrees to participate in such validation or assessment program under such reasonable rules and regulations as are from time to time established by Lessor. Lessor agrees that Lessee's access to parking shall not be unreasonably limited beyond any requirement of law by any such rules and regulations. All costs associated with parking shall be an element of Common Area costs payable hereunder in Article VI for reimbursement of repair, replacement and maintenance costs and expenses, and in Article IX for payment or reimbursement of any real property taxes including governmental or public authority charges, fees or impositions of any nature hereafter imposed.

SECTION 2.04. CONSTRUCTION.

(a) CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee shall have the right to construct certain improvements ("TENANT IMPROVEMENTS") within the Premises pursuant to the Work Letter Agreement attached hereto as Exhibit "C." Notwithstanding any other provisions hereof, Lessee will not be required to remove the Tenant Improvements at the expiration of the Lease Term. Lessor has approved Lessee's use of Integrated Office Solutions, Inc. as construction

manager for Tenant Improvements to Building 8 and WHL as Lessee's architect. Lessee will have reasonable access to the floor beneath the Premises for any necessary reinforcement of the Premises, if Lessor consents to Tenant Improvements which require such reinforcement.

(b) PAYMENT FOR TENANT IMPROVEMENTS. Lessee shall pay when due, to all third parties involved in the design, permitting, engineering and construction of same, the entire cost of the Tenant Improvements so that construction shall be complete pursuant to the approved construction schedule described in the Work Letter Agreement.

(c) LESSOR WORK. Lessor will demise the Premises from the floor beneath by closing the existing stairwell and constructing a floor over the existing stairwell opening. With respect to any work required to be performed by Lessor hereunder, Lessor warrants that; (i) all materials and equipment used for or incorporated into such work by Lessor, will be of first quality and new; (ii) such work will be free from material defects not inherent in the quality so required or permitted. Work not so conforming with these requirements shall be considered defective and Lessor shall remedy any defects promptly and within a reasonable time. Except as provided in Section 12.03, Lessee shall have no further rights or remedies and Lessor shall have no other obligation or liability with respect to such defective work. Lessee acknowledges that the above-described work will be performed by Lessor during Lessor's buildout period, i.e., months one through five of the Lease Term.

(d) REMOVAL OF LABORATORY FACILITIES PORTION OF TENANT IMPROVEMENTS. So long as Lessee is not in default beyond any applicable cure period, Lessee shall have the right to remove the laboratory facilities ("LABORATORY FACILITIES") portion of the Tenant Improvements (and any Alterations consisting of additions to or replacement of same) upon the expiration or earlier termination of the Lease provided that Lessee, at its sole cost and expense, repairs and restores the Premises to the condition it was in prior to the installation of said Laboratory Facilities. Laboratory Facilities shall mean furnishings, fixtures and equipment (to the extent the same may be considered Tenant Improvements the primary function of which is the conduct or support of non-animal biological and chemical research, including, without limitation, wastewater treatment systems, chemical hoods, biosafety cabinets, casework, benches, analytical and automation equipment and associated enclosures, support equipment, cold rooms, nitrogen generators, vacuum pumps, air compressors, water systems, nuclear magnetic resonance equipment, ovens, icemakers, freezers and refrigerators, centrifuges, glass washers, process chillers, specialized security systems related to the Laboratory Facilities (but not general security systems guarding access to the Premises or any part thereof), steam sterilizers/autoclaves, gas manifolds and environmental control systems.

ARTICLE III
TERM

SECTION 3.01. LEASE TERM.

(a) COMMENCEMENT DATE. The term of this Lease ("LEASE TERM") shall be for eight (8) years beginning on March 1, 2002 (the "COMMENCEMENT DATE") and

expiring, unless sooner terminated as provided for herein, on February 28, 2010 ("EXPIRATION DATE"). The parties shall execute a "Memorandum of Commencement of Lease Term" on the Commencement Date and shall be substantially in the form attached hereto as Exhibit "E."

(b) TERMINATION IN EVENT OF DELAY. If for any Force Majeure delay excused under Section 17.21 Lessor is unable to tender possession of the Premises (subject to Lessor's retained right of entry to perform Lessor's work described in Section 2.04(c), above), on or before the date which is sixty (60) days after the Commencement Date, Lessee, at its sole election, may terminate this Lease upon giving notice within ten (10) business days thereafter. Failure to give such notice within said time period constitutes an irrevocable waiver of the foregoing right to terminate under this Section 3.01(b). If Lessee terminates this Lease in accordance with this paragraph, neither party shall have any further rights or obligations hereunder. If possession is so delayed and this Lease is not terminated the date on which payment of Base Rent is to commence shall be postponed by the same number of days as tender of possession is delayed.

SECTION 3.02. OPTION TO EXTEND.

(a) EXERCISE. Lessee is given two (2) options to extend the Lease Term (each an "OPTION TO EXTEND") each for a three (3) year period ("EXTENDED TERM") following the date on which the initial Lease Term or preceding Extended Term would otherwise expire, which option may be exercised only by written notice ("OPTION NOTICE") from Lessee to Lessor given not less than twelve (12) months prior to the end of the initial Lease Term or the preceding Extended Term as the case may be ("OPTION EXERCISE DATE"); provided, however, if Lessee is in material default under this Lease (after notice and beyond the expiration of any applicable grace period) on the Option Exercise Date or on any day thereafter on or before the last day of the initial Lease Term or the preceding Extended Term as the case may be, the Option Notice shall be totally ineffective, and this Lease shall expire on the last day of the initial Lease Term or the last day of the preceding Extended Term as the case may be, if not sooner terminated. The right of Lessee to exercise an Option to Extend shall not be affected by any sublease or assignment of this Lease previously entered into by Lessee pursuant to the provisions of this Lease. If Lessee fails to timely exercise the first Option to Extend or if the first Extended Term either fails to commence or terminates prior to its expiration, the second Option to Extend shall automatically terminate and be null and void.

(b) EXTENDED TERM RENT. In the event Lessee exercises one or both of its Option to Extend set forth herein, all the terms and conditions of this Lease shall continue to apply to the Extended Term, except that the Base Rent payable by Lessee during the Extended Term shall be equal to one hundred percent (100%) of Fair Market Rent (defined below), as determined under subparagraph (c) below. "FAIR MARKET RENT" shall mean the greater of (i) the effective rate being charged (including periodic adjustments thereto as applicable during the period of the Extended Term), for comparable space in similar buildings in the vicinity, i.e., of a similar age and quality considering any recent renovations or modernization, and floor plate size or, if such

comparable space is not available, adjustments shall be made in the determination of Fair Market Rent to reflect the age and quality of the Building and Premises as contrasted to other buildings used for comparison purposes, with similar amenities, taking into consideration: size, location, floor level, leasehold improvements or allowances provided or to be provided, term of the lease, extent of services to be provided, the time that the particular rate under consideration became or is to become effective, and any other relevant terms or conditions applicable to both new and renewing tenants or (ii) the Base Rent payable during the last year of the initial Lease Term. "Comparable space" shall not include space which is subleased or subject to expansion rights of other tenants or builtout entirely or primarily as laboratory space but shall include space which is builtout entirely as office or office research and development space (or with less than half as laboratory space) notwithstanding that the Premises have been builtout to include a large portion of laboratory space.

(c) DETERMINATION OF FAIR MARKET RENT.

(i) NEGOTIATION. If Lessee so exercises one or both of its Option to Extend in a timely manner, the parties shall then meet in good faith to negotiate the Base Rent for the Premises for the Extended Term, during the first thirty (30) days after the date of the delivery by Lessee of the Option Notice (the "NEGOTIATION PERIOD"). If, during the Negotiation Period, the parties agree on the Base Rent applicable to the Premises for the corresponding Extended Term, then such agreed amount shall be the Base Rent payable by Lessee during such Extended Term.

(ii) ARBITRATION. In the event that the parties are unable to agree on the Base Rent for the Premises within the Negotiation Period, then within ten (10) business days after the expiration of the Negotiation Period, each party

shall separately designate to the other in writing an appraiser to make this determination. Each appraiser designated shall be a member of MAI and shall have at least ten (10) years experience in appraising commercial real property, of similar quality and use as the Premises, in San Mateo County. The failure of either party to appoint an appraiser within the time allowed shall be deemed equivalent to appointing the appraiser appointed by the other party, who shall then determine the Fair Market Rent for the Premises for the Extended Term. Within five (5) business days of their appointment, the two designated appraisers shall jointly designate a third similarly qualified appraiser. Within thirty (30) days after their appointment, each of the two appointed appraisers shall submit to the third appraiser a sealed envelope containing such appointed appraiser's good faith determination of the Fair Market Rent for the Premises for the Extended Term in accordance with the procedures and guidelines set forth herein; concurrently with such delivery, each such appraiser shall deliver a copy of his or her determination to the other appraiser. The third appraiser shall within ten (10) days following receipt of such submissions, then determine which of the two appraisers' determinations most closely reflects Fair Market Rent as defined above. The determination most closely reflecting the third appraiser's determination shall be deemed to be the Fair Market Rent for the Premises during the Extended Term; the third appraiser shall have no rights to adjust, amend or otherwise alter the determinations made by the appraiser selected by the parties, but must select one or the other of such appraisers' submissions. The determination by such third appraiser shall be final and binding upon the parties. Said third appraiser shall, upon selecting

the determination which most closely reflects Fair Market Rent, concurrently notify both parties hereto. The Base Rent for the Extended Term shall be the greater of (i) the determination so selected or (ii) the Base Rent payable during the last year of the initial Lease Term or the last year of the preceding Extended Term as the case may be. The parties shall share the appraisal expenses equally. If the Extended Term begins prior to the determination of Fair Market Rent, Lessee shall pay monthly installments of Base Rent equal to one hundred ten percent (110%) of the monthly installment of Base Rent in effect for the last year of the initial Lease Term (in lieu of "holdover rent" payable under Section 17.09(b)). Once a determination is made, any over payment or under payment shall be reimbursed as a credit against, or paid by adding to, the monthly installment of Base Rent next falling due.

ARTICLE IV
RENT: TRIPLE NET LEASE

SECTION 4.01. BASE RENT. Lessee shall pay to Lessor as Base Rent an initial monthly installment of Two Dollars and Twenty Five Cents ($2.25) per square foot of Rentable Area as defined in Section 2.01, in advance, on the first day of each calendar month of the Lease Term, commencing on the Commencement Date, subject to the advance payment of the first month of Base Rent pursuant to Section 4.03, provided that so long as Lessee is not in default hereunder, Lessee shall not be required to pay Base Rent for March, April, May, June and July, 2002 and the advance payment shall be applied to the August installment of Base Rent. Base Rent for any period during the Lease Term which is for less than one month shall be a pro rata portion of the monthly installment (based on the actual days in that month).

SECTION 4.02. RENT ADJUSTMENT. The Base Rent set forth in Section 4.01 above shall be adjusted upward by an annual compounded increase of four percent (4%), as of each anniversary of the Commencement Date during the initial Lease Term, as shown on Exhibit "E" attached hereto.

SECTION 4.03. FIRST PAYMENT OF BASE RENT. Lessee shall pay in advance the first payment of Base Rent in the amount of Seventy Five Thousand, Eight Hundred Twenty Two Dollars and seventy-five cents ($75,822.75) at the time of Lessee's execution of this Lease. Subject to the provisions of Section 4.01, Lessee's obligation for Base Rent shall resume on the first day of the calendar month immediately succeeding the Commencement Date.

SECTION 4.04. ABSOLUTE TRIPLE NET LEASE. This Lease is what is commonly called a "Absolute Triple Net Lease," it being understood that Lessor shall receive the Base Rent set forth in Section 4.01 free and clear of any and all expenses, costs, impositions, taxes, assessments, liens or charges of any nature whatsoever. Lessee shall pay all rent in lawful money of the United States of America to Lessor at the notice address stated herein or to such other persons or at such other places as Lessor may designate in writing on or before the due date specified for same without prior demand, set-off or deduction of any nature whatsoever. It is the intention of the parties hereto that this Lease shall not be terminable for any reason by Lessee and that Lessee shall in no event be entitled to any abatement of or reduction in rent payable under this Lease,

except as herein expressly provided in Articles III, VIII and XIII, concerning delay, destruction and condemnation. Any present or future law to the contrary

shall not alter this agreement of the parties.

SECTION 4.05. ADDITIONAL RENT. In addition to the Base Rent reserved by Section 4.01, Lessee shall pay, beginning on the Commencement Date and continuing throughout the Lease Term (and notwithstanding the waiver of Base Rent payments as provided in Section 4.01) as Additional Rent (i) 100% as to amounts applicable solely to the Premises and Lessee's Share (as defined in Section 4.07(c) below) as to amounts applicable to Building 8, the Project and the Common Area of all taxes, assessments, fees and other impositions payable by Lessee in accordance with the provisions of Article IX and insurance premiums in accordance with the provisions of Article VII, (ii) Lessee's Share of Operating Expenses defined below, and (iii) any other charges, costs and expenses (including appropriate reserves therefor) whether or not contemplated which may arise under any provision of this Lease during the Lease Term, plus a Management Fee to Lessor equal to 3% of the Base Rent. The Management Fee is due and payable, in advance, with each installment of Base Rent and is waived to the same extent as payments of Base Rent pursuant to Section 4.01. All of such charges, costs, expenses, Management Fee and all other amounts payable by Lessee hereunder, shall constitute Additional Rent, and upon the failure of Lessee to pay any of such charges, costs or expenses, Lessor shall have the same rights and remedies as otherwise provided in this Lease for the failure of Lessee to pay Base Rent.

SECTION 4.06. SECURITY DEPOSIT. Upon the date this Lease is executed by Lessee, Lessee shall deposit with Lessor a Security Deposit equal to three (3) months of Base Rent and estimated Additional Rent in the total amount of Two Hundred Eighty Four, Fifty Two Dollars and seventy-five cents ($284,052.75) in the form of an unconditional, irrevocable letter of credit without documents, with Lessor as beneficiary, in whole or in part, and providing for payment in San Francisco ("SECURITY DEPOSIT"). The letter of credit shall be in form and substance reasonably satisfactory to Lessor, shall be drawn on a domestic commercial money center bank with a letter of credit paying office located in San Francisco reasonably satisfactory to Lessor and shall be addressed to, and payable upon simple demand by, Lessor and Lessor's Lenders (i.e., lenders whose loans are secured by all or any portion of Project) as co-beneficiaries, which demand shall be accompanied by a statement of an authorized officer or agent of Lessor stating that the drawing represents amounts due to Lessor from Lessee under this Lease. The letter of credit shall provide for multiple draws and multiple successors or co-beneficiaries. The Security Deposit shall be held by Lessor as security for the faithful performance by Lessee of all of the terms, covenants, and conditions of this Lease applicable to Lessee. If, after notice and beyond the expiration of any applicable grace period (or, if Lessor is prevented from giving notice by the automatic stay of a Bankruptcy court or by any other legal prohibition, without notice) Lessee fails to the payment of rent or other money due hereunder, timely perform or observe any obligation of Lessee under this Lease, including, but not limited to, the construction of Tenant Improvements or Alterations, the maintenance and repair of the Premises, or restoration of the condition of the Premises upon Lease Termination in conformance with the provisions of this Lease, Lessor may (but shall not be required to) use, apply or retain all or any part of the Security

Deposit for the payment of any amount which Lessor may spend by reason of Lessee's default or for compensation to Lessor for any loss or damage which Lessor may suffer or be entitled to by reason of Lessee's failure to timely perform or observe any obligation of Lessee under this Lease, including, without limitation, damages which Lessor would be entitled to under California Civil Code Sections 1951.2 or 1951.4. If any portion of the Security Deposit is so used or applied, Lessee shall, within ten (10) days after written demand therefor, deposit with Lessor a supplemental letter of credit in an amount sufficient to restore the Security Deposit to its original amount and otherwise in form and substance as required for the original letter of credit. The rights of Lessor pursuant to this Section 4.06 are in addition to any rights which Lessor may have pursuant to Article 12 below. If Lessee fully and faithfully performs every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned (without interest) to Lessee (or, at Lessor's option, to the last assignee of Lessee's interests hereunder) at Lease expiration or termination and after Lessee has vacated the Premises. Failure of Lessee to deliver a replacement letter of credit to Lessor at least forty-five (45) business days prior to the expiration date of any current letter of credit shall constitute a separate event entitling Lessor to draw down immediately and entirely on the current letter of credit and the proceeds shall constitute a cash Security Deposit. Lessor shall not be required to keep the cash Security Deposit separate from Lessor's general funds or be deemed to be a trustee of same. Lessee shall pay when due all fees, charges and costs imposed by the issuing bank for the issuance, transfer or amendment of the letter of credit and/or any supplemental letter of credit.

SECTION 4.07. OPERATING EXPENSES.

(a) DEFINITION. "OPERATING EXPENSES" shall mean and include, those actual costs or expenses of the Premises, Building or Project described in to Articles VI, VII or IX, as well as all actual costs and expenses of every kind and nature

paid or incurred by Lessor (whether obligated to do so or undertaken at Lessor's discretion) in the ownership, operation, maintenance, repair and replacement of the Common Areas, including Common Area buildings and improvements located within the Project and Building Common Areas provided, that, Lessor agrees to use commercially reasonable efforts to obtain competitive rates. Such cost and expenses shall include, but not be limited to, costs of cleaning; lighting; maintaining, repairing and replacing all Common Area improvements and elements (replacing shall be deemed to include but not be limited to the replacement of light poles and fixtures, storm and sanitary sewers, parking lots, driveways and roads as well as Building elevators, stairways, floors and walls in Common Areas, roof, roof membrane and other Building elements which are the responsibility of Lessor to maintain, repair and replace under this Lease), repairs to and maintenance of the structural and non-structural portions of the amenity/athletic facility; supplies, tools, equipment and materials used in the operation and maintenance of the Project; snow removal; parking lot striping; removal of trash, rubbish, garbage and other refuse; painting; removal of graffiti; painting of exterior walls; landscaping; providing security to the extent Lessor determines in its sole discretion to do so (including security systems and/or systems designed to safeguard life or property against acts of God and/or criminal and/or negligent acts, and the costs of maintaining of same); personal property taxes; fire protection and fire hydrant charges (including fire protection system signaling devices, now or hereafter required, and the costs of maintaining of

same); water and sewer charges; utility charges; license and permit fees necessary to operate and maintain the Project; the initial cost or the reasonable depreciation of equipment used in operating and maintaining the Common Areas which is expensed or amortized, respectively by Lessor in its good faith discretion using accounting practices commonly utilized in the commercial real estate industry, consistently applied and rent paid for leasing any such equipment; reasonable cost of on or off site storage space of any and all items used in conjunction with the operation, maintenance and management of the Project, including but not limited to tools, machinery, records, decorations, tables, benches, supplies and meters; the cost of and installation cost of any and all items which are installed for the purpose of reducing Operating Expenses, increasing building or public safety or which may be then required by governmental authority, laws, statutes, ordinances and/or regulations, a use privilege consisting of Base Rent and Operating Expenses allocated to the Athletic Facility and all costs and expenses arising from the operation of same (net of any fees paid by individual users) ("CATEGORY 1 COSTS"); and (ii) total compensation and benefits (including premiums for workers' compensation and other insurance) paid to or on behalf of Lessor's employees, including but not limited to full or part time on-site management or maintenance personnel ("CATEGORY 2 COSTS"). Notwithstanding anything to the contrary contained herein, after December 31, 2002 the amount of Category 2 Costs used in calculating Lessee's actual Share of Operating Expenses shall be the lower of: (i) actual Category 2 Costs; and (ii) one hundred and four percent (104%) of the prior year's Category 2 Costs. Any revenues received by Lessor in respect of Common Area amenities from individual users thereof (as opposed to Lessee or other tenants of the Project) shall be applied first to reduction of any increase in Operating Expenses arising from such use, with any balance to be retained by Lessor.

(b) PAYMENT. Lessee shall pay Lessee's Share of Additional Rent in monthly installments on the first day of each month in an amount set forth in a written estimate by Lessor. Lessor agrees that it will base its estimate on Lessor's experience in managing the Project and in a reasonable manner. As soon as available and not later than ninety (90) days following the end of the period used by Lessor in estimating Lessor's cost (e.g., calendar year), Lessor shall furnish to Lessee a statement (hereinafter referred to as "Lessor's Statement") of the actual amount of Lessee's Share of such Additional Rent for such period. Within thirty (30) days thereafter, Lessee shall pay to Lessor, as Additional Rent, or Lessor shall apply as a credit to Additional Rent next falling due (or if the Lease Term has expired or terminated and there remains no money due to Lessor, remit to Lessee), as the case may be, the difference between the estimated amounts paid by Lessee and the actual amount of Lessee's Share of Additional Rent for such period as shown by such Statement. Lessee's Share of Additional Rent for the ensuing estimation period shall be adjusted upward or downward based upon Lessor's Statement.

(c) LESSEE'S SHARE. For purposes hereof, "Lessee's Share" shall mean (i) as to amounts allocable solely to Building 8 (and with respect to real property tax, also to the legal parcel in which Building 8 is located), the Rentable Area of the Premises divided by the Rentable Area of Building 8, and (ii) as to amounts allocable to the Project or Common Area, the Rentable Area of the Premises divided by the Rentable Area of all Buildings at the Project (irrespective of whether they are rented), in each case measured (at the time in question) on a dripline basis.

Subject to being increased or decreased (in an amount Lessor shall, in good faith, determine), upon the increase or reduction in the Rentable Area of the Building and Project, respectively, Lessee's Share of Building items shall be twenty and one-half percent (20.5%) and Lessee's Share of Project items shall be two percent (2%). Rentable Area of Building 8 and of all Buildings at the Project shall not be reduced for vacancies in the ordinary course of business.

(d) EXCLUSIONS. For purposes of this Lease, the term Operating Expenses shall not include (and Lessee shall have no liability for) any of the following: initial construction of any Common Area improvements; legal fees, permit fees, architectural and engineering fees related to the initial development and construction of the Project, marketing costs, costs of leasing commissions, attorneys' fees and other costs and expenses incurred in connection with negotiations or disputes with prospective tenants or other occupants of the Project; costs (including permit, license and inspection costs) incurred in renovating or otherwise improving, decorating or redecorating rentable space for prospective tenants or vacant rentable space; any bad debt loss, rent loss, or reserves for bad debts or rent loss; interest, charges and fees incurred on debt, payments on mortgages and amounts paid as ground rental for the real property underlying the Project by the Lessor; any costs covered by any warranty, rebate, guarantee or service contract which are actually collected by Lessor (which shall not prohibit Lessor from passing through the costs of any such service contract if otherwise includable in Operating Expenses); interest, late charges and tax penalties incurred as a result of Lessor's gross negligence or unwillingness to make payments or file returns when due as well as certain taxes expressly extended pursuant to Section 9.01(a) and (b), and any costs representing an amount paid to a person, firm, corporation or other entity related to Lessor which is in excess of the amount which would have been paid in the absence of such relationship(s). Nothing contained in this Section 4.07(d) shall be deemed to affect Lessee's obligation to pay Lessee's Share of the real estate tax payments due pursuant to Section 9.01(a), below, related to the Community Facility District Bond referenced therein or to exclude from Operating Expenses any costs or expenses related to the repair, maintenance and replacement of such initial development and construction of the Project as provided in Article VI.

SECTION 4.08. LESSEE'S RIGHT TO REVIEW SUPPORTING DATA.

(a) EXERCISE OF RIGHT BY LESSEE. Provided that Lessee is not in default under this Lease and provided further that Lessee strictly complies with the provisions of this Section, Lessee, or its legal counsel and public accounting firm, shall have the right upon reasonable notice and at reasonable times to audit all books and records of Lessor used in calculating Operating Expenses, Common Area charges, taxes and other Additional Rent hereunder. Lessor will cooperate reasonably with Lessee in such audit on the terms and conditions set forth below. In order for Lessee to exercise its right under this Section, Lessee shall, within thirty (30) days after any Lessor's Statement, deliver a written notice to Lessor exercising its rights hereunder with regard to such Lessor's Statement, and Lessee shall simultaneously pay to Lessor all amounts due from Lessee to Lessor as specified in the Lessor's Statement. Except as expressly set forth in subparagraph (c) below, in no event shall Lessee be entitled to withhold, deduct, or offset any monetary obligation of Lessee to Lessor under the Lease including, without limitation, Lessee's obligation to make all Base

Rent payments and all payments for Additional Rent pending the completion of, and regardless of the results of, any review under this Section 4.08. The right to review granted to Lessee under this Section 4.08 may only be exercised once for any Lessor's Statement, and if Lessee fails to meet any of the above conditions as a prerequisite to the exercise of such right, the right of Lessee under this Section 4.08 for a particular Lessor's Statement shall be deemed waived.

(b) PROCEDURES FOR REVIEW. Lessee acknowledges that Lessor maintains its books and records for the Building and Project at its offices in San Francisco, and Lessee therefore agrees that any review and audit of the same and supporting data under this Section shall occur at such location. Any review to be conducted by Lessee under this Section shall be at the sole expense of Lessee and shall be conducted by a firm of certified public accountants of national standing (which may be Lessee's outside auditing firm) on a non-contingency fee basis. Lessee acknowledges and agrees that any supporting data reviewed under this Section shall constitute confidential information of Lessor, which shall not be disclosed to anyone other than the accountants performing the review and the principals of Lessee who receive the results of the review. The disclosure of such information or results of the review to any other person, by Lessee or its agents, shall result in a forfeiture, the right to any credit otherwise due with respect to said review but not to any subsequent review.

(c) FINDING OF ERROR. Any errors disclosed by the audit of books and records or review of supporting data under this Section shall be promptly corrected, provided that Lessor shall have the right to cause another review of the supporting data to be made by a firm of certified public accountants of

Lessor's choice. In the event of a disagreement between the two accounting firms, the two accounting firms shall agree on an independent accountant who shall decide each item of disagreement and whose decision shall be deemed to be correct, final and binding on both Lessor and Lessee. If the two accounting firms fail to so agree within thirty (30) days after Lessor's accounting firm completes its review, Lessor or Lessee may apply to the presiding judge of the Superior Court to appoint such independent accountant, whose decision shall be final and binding. If the audit and review process described above results in a determination that Lessee has overpaid obligations for a preceding period, the amount of such overpayment shall be credited against Lessee's subsequent installment obligations to pay its share of Additional Rent or, if the Lease has terminated or expired paid in cash to Lessee within thirty (30) days after the determination of overpayment is delivered to Lessor. In the event that such results show that Lessee has underpaid its obligations for a preceding period, the amount of such underpayment shall be paid by Lessee to Lessor with the next succeeding installment obligation of Additional Rent or, if the Lease has terminated or expired, in cash within thirty (30) days after the determination of underpayment is delivered to Lessee. Each party shall pay all the costs, and expenses of its chosen accounting firm and one half of the costs and expenses of the independent accountant, if any.

(d) EFFECT OF LESSEE'S DEFAULT. In the event that Lessee fails to timely observe or perform any of its obligations under this Lease and fails to cure such failure after notice and within any applicable cure period provided in Article XII at any time during the pendency of a review of records under this Section, said right to review shall immediately cease.

ARTICLE V
USE

SECTION 5.01. PERMITTED USE AND LIMITATIONS ON USE. The Premises shall be used and occupied only for office, research and development, including non-animal biological and chemical research, together with such ancillary uses which do not cause excessive wear of the Premises or materially increase the potential liability of Lessor, and for no other use, without Lessor's prior written consent which shall not be unreasonably withheld, conditioned or delayed so long as such use is lawful and does not conflict with any other provision of this Lease including without limitation the restrictions set forth in the following provisions of this Section. Lessee shall not use, suffer or permit the use of the Premises in any manner that will tend to constitute waste, nuisance or unlawful acts provided, that biological and chemical and other waste generated and disposed of in the ordinary course of business for the permitted uses in full and timely compliance with all applicable laws shall not be deemed a violation of this Section 5.01. In no event shall it be unreasonable for Lessor to withhold its consent as to uses other than those expressly permitted above which it determines would tend to increase materially the wear of the Premises or any part thereof or increase the potential liability of Lessor or decrease the marketability, financability, leasability or value of the Premises or Project. Lessee shall not do anything in or about the Premises which will (i) cause structural injury to the Building or Premises, or (ii) cause damage to any part of the Building or Premises except to the extent reasonably necessary for the installation of Tenant Improvements, Lessee's trade fixtures and Lessee's Alterations, and then only in a manner and to the extent consistent with this Lease. Lessee shall not operate any equipment within the Building or Premises which will (i) materially damage the Building or the Common Area, (ii) overload existing electrical systems or other mechanical equipment servicing the Building, (iii) impair the efficient operation of the sprinkler system or the heating, ventilating or air conditioning ("HVAC") equipment within or servicing the Building, (iv) damage, overload or corrode the sanitary sewer system, or (v) damage the Common Area or any other part of the Project. Lessee shall not attach, hang or suspend anything from the ceiling, roof, walls or columns of the Building or set any load on the floor in excess of the load limits for which such items are designed nor operate hard wheel forklifts within the Premises. Any dust, fumes, or waste products generated by Lessee's use of the Premises shall be contained and disposed so that they do not (i) create an unreasonable fire or health hazard, (ii) damage the Premises, or (iii) result in the violation of any law. Except as approved by Lessor, Lessee shall not change the exterior of the Building, or the outside area of the Premises, or install any equipment or antennas on or make any penetrations of the exterior or roof of the Building. Lessee shall not conduct on any portion of the Premises any sale of any kind (but nothing herein is meant to prohibit sales and marketing activities of Lessee's products and services in the normal course of business consistent with the permitted uses), including any public or private auction, fire sale, going-out-of-business sale, distress sale or other liquidation sale. No materials, supplies, tanks or containers, equipment, finished products or semifinished products, raw materials, inoperable vehicles or articles of any nature shall be stored upon or permitted to remain within the outside areas of the Premises except in fully fenced and screened areas outside

the Building which have been designed for such purpose and have been approved in writing by Lessor for such use by Lessee.

SECTION 5.02. COMPLIANCE WITH LAW.

(a) Lessor shall deliver the Premises to Lessee on the Commencement Date (without regard to the use for which Lessee will use the Premises) free of violations of any covenants or restrictions of record, or any applicable law, building code, regulation or ordinance in effect on such Commencement Date, including without limitation, the Americans with Disability Act. Lessor hereby represents and warrants that it has no actual (as opposed to constructive) knowledge, as of the Commencement Date, of any covenant, restriction, law, building code, regulation or ordinance which would be violated by the permitted use of the Premises in accordance with the terms hereof.

(b) Except as provided in paragraph 5.02(a), Lessee shall, at Lessee's cost and expense, comply promptly with all statutes, ordinances, codes, rules, regulations, orders, covenants and restrictions of record, and requirements applicable to the Premises and Lessee's use and occupancy of same in effect during any part of the Lease Term, whether the same are presently foreseeable or not, and without regard to the cost or expense of compliance provided that any Alteration(s) required for compliance shall be subject to the provisions of this Lease.

(c) By executing this Lease, Lessee acknowledges that it has reviewed and satisfied itself as to its compliance, or intended compliance with the applicable zoning and permit laws, hazardous materials and waste requirements, and all other statutes, laws, or ordinances relevant to the uses stated in Section 5.01, above.

SECTION 5.03. CONDITION OF PREMISES AT COMMENCEMENT DATE. Lessor shall deliver the Premises to Lessee on the Commencement Date with the Building plumbing, lighting, heating, ventilating, air conditioning, gas, electrical, and sprinkler systems in good operating condition. Subject only to the foregoing sentence, Section 5.02(a) above and Sections 5.04 and 6.01(b) below, and having made such inspection of the Premises, Building and Project as it deemed prudent and appropriate (including, without limitation, testing for the presence of mold), Lessee hereby accepts the Premises in their condition existing as of the Commencement Date, "AS-IS" and "WITH ALL FAULTS" subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use and condition of the Premises, and any covenants or restrictions, liens, encumbrances and title exceptions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Except as otherwise expressly provided in Section 5.02(a) above as to the condition of the Premises on the Commencement Date, Lessee acknowledges that neither Lessor nor any agent of Lessor has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

SECTION 5.04. DEFECTIVE CONDITION AT COMMENCEMENT DATE. In the event that Lessee determines, and Lessee notifies Lessor in writing within one year after the Commencement Date,

that any of the obligations of Lessor set forth in Section 5.02(a) or Section 5.03 were not performed, then it shall be the obligation of Lessor (and together with its rights under Section 12.03 the sole right and remedy of Lessee), after receipt of written notice from Lessee setting forth with specificity the nature of the failed performance, to promptly, within a reasonable time and at Lessor's sole cost, correct same. Except as to certain defects which remain Lessor's responsibility under Section 6.01(b) Lessee's failure to give such written notice to Lessor within one year after the Commencement Date shall constitute a conclusive presumption that Lessor has complied with all of Lessor's obligations under the foregoing Section 5.02(a), and any required correction after that date shall be performed by Lessee, at its sole cost and expense. At the end of the first year of the Lease Term, Lessor shall promptly assign to Lessee all of Lessor's contractor's, and/or manufacturer's guarantees, warranties, and causes of action which do not relate to Lessor's obligations under Section 6.01(b).

SECTION 5.05. BUILDING SECURITY. Lessee acknowledges and agrees that it assumes sole responsibility for security at the Premises for its agents, employees, invitees, licensees, contractors, guests and visitors and will provide such systems and personnel for same including, without limitation, while such person(s) are using the Common Area, as it deems necessary or appropriate and at its sole cost and expense. Lessee acknowledges and agrees that Lessor does not intend to provide any security system or security personnel at the Premises or Project, including, without limitation, at the Common Areas, provided, however, that nothing herein shall be deemed to prevent Lessor from providing such system or personnel in the future, the cost of which will be included in those items for which Lessee pays additional rent.

SECTION 5.06. RULES AND REGULATIONS. Lessor may from time to time promulgate reasonable and nondiscriminatory rules and regulations applicable for

the care and orderly management of the Premises, the Project and/or its Common Area. Such rules and regulations shall be binding upon Lessee upon delivery of a copy thereof to Lessee, and Lessee agrees to abide by such rules and regulations. A copy of the initial Rules and Regulations is attached hereto as Exhibit "L." If there is a conflict between the rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Lessor shall not be responsible for the violation of any such rules and regulations by any person, including, without limitation, Lessee or its employees, agents, invitees, licensees, guests, visitors or contractors.

ARTICLE VI
MAINTENANCE, REPAIRS AND ALTERATIONS

SECTION 6.01. MAINTENANCE OF PREMISES AND BUILDING.

(a) Throughout the Lease Term, Lessee, at its sole cost and expense, shall keep, maintain, repair and replace the Premises and every part thereof (except as provided in 6.01(b) and also except for uninsured maintenance, repairs or replacement costs caused solely by an act of gross negligence or intentional misconduct by Lessor during the Lease Term) and all improvements and appurtenances in the Premises, including, without limitation, all interior walls, all doors and windows, all wall surfaces and floor coverings, all Tenant Improvements and Alterations, additions and improvements installed by or on behalf of Lessee during the Lease Term, all sewer, plumbing, electrical, lighting, heating, ventilation and cooling systems and fixtures, fire sprinklers, fire safety and security systems and fixtures and all wiring and glazing, in the same good order, condition and repair as they are in on the Commencement Date, or may be improved during the Lease Term, reasonable wear excepted, provided that wear which could be prevented by first class maintenance shall not be deemed reasonable provided that Lessee shall not be obligated to keep, maintain, repair and replace cabling, wiring, pipes and other systems or elements in the Premises which Lessor has installed (or subsequently installs pursuant to its reserved rights under Section 2.01) and which do not service Lessee or the Premises in whole or in part.

(b) Lessor, at its sole cost and expense, (and in addition to its obligations set forth in Section 5.04) shall repair defects in the exterior walls (including all exterior glass which is damaged by structural defects in such exterior walls), supporting pillars, structural walls, roof structure and foundations of the Building and sewer and plumbing systems outside the Building, provided that the need for repair is not caused by Lessee, in which event Lessor shall, at Lessee's sole cost and expense, repair same. Lessor, subject to recovering the cost and expense of same as Operating Expense (except for damage, other than normal wear and tear, caused by Lessee or its employees, agents, contractors, invitees or visitors, the cost and expense of which shall be paid by Lessee within ten (10) days after presentation of Lessor's bill for same), shall maintain, repair and replace the Building Common Area elements (including lobbies, stairs, hallways and elevators) as well as portions of the Building systems not located within the Premises or other leased space and the exterior walls, structural, roof, walls and other elements and roof membrane of the Building; provided, however, that Lessor's obligation under this Section 6.01(b) in any instance where the damage, other than normal wear and tear, was caused by Lessor or its employees, agents or contractors shall not be recovered by Lessor from Lessee as Operating Expenses or in any other manner. Lessee shall give Lessor written notice of any needed repairs which are the obligation of Lessor hereunder. It shall then be the obligation of Lessor, after receipt of such notice, to perform the same within ten (10) business days after such notice; provided, however, that if the nature of the repairs is such that more than ten (10) business days are reasonably required for performance, then Lessor shall not be deemed to be in default hereunder if Lessor commences such repairs within said ten (10) business day period and thereafter diligently completes them and provided further, that for purposes of this sentence "commences" includes any steps taken by Lessor to investigate, design, consult, bid or seek permit or other governmental approval in connection with such repair.. Should Lessor default as provided in Section 12.03 with respect to its obligation to make any of the repairs assumed by it hereunder with respect to the Premises or Building, Lessee shall have the right to perform such repairs and Lessor agrees that within thirty (30) days after written demand accompanied by

detailed invoice(s), it shall pay to Lessee the cost of any such repairs together with accrued interest from the date of Lessee's payment at the Agreed Rate. Lessor shall not be liable to Lessee for any damage to person or property as a result of any failure to timely perform any of its obligations with respect to the repair, maintenance or replacement of the Premises, Buildings or Project or any part thereof, and Lessee's sole right and remedy (together with its rights under Section 12.03 below) shall be the performance of said repairs by Lessee with right of reimbursement from Lessor of the reasonable fair market cost of said repairs, not exceeding the out-of-pocket sums actually expended by Lessee, together with accrued interest from the date of Lessee's payment at the

Agreed Rate, provided that nothing herein shall be deemed to create a right of setoff or withholding by Lessee of Base Rent or Additional Rent or any other amounts due herein. Lessee hereby expressly waives all rights under and benefits of Sections 1941 and 1942 of the California Civil Code or under any similar law, statute or ordinance now or hereafter in effect to make repairs and offset the cost of same against rent or to withhold or delay any payment of rent or any other of its obligations hereunder as a result of any default by Lessor under this Section 6.01(b).

(c) Lessee agrees to keep the Premises, both inside and out, clean and in sanitary condition as required by the health, sanitary and police ordinances and regulations of any political subdivision having jurisdiction and to remove all trash and debris which may be found in or around the Premises. Lessee further agrees to keep the interior surfaces of the Premises, including, without limitation, windows, floors, walls, doors, showcases and fixtures clean and neat in appearance.

(d) If Lessee refused or neglects to commence such repairs and/or maintenance for which Lessee is responsible under this Article VI within a ten (10) day period (or as soon as practical and in no event later than five (5) days, if the failure to initiate the repair threatens to cause further damage to the Premises) after written notice from Lessor and thereafter diligently prosecute the same to completion, then Lessor may (i) enter the Premises (except in an emergency, upon at least 24 hours advance written notice) during Lessor's business hours and cause such repairs and/or maintenance to be made and shall not be responsible to Lessee for any loss or damage occasioned thereby other than physical damage to the Premises caused by the negligence of Lessor which damage Lessor shall repair at its sole cost as Lessor's sole obligation and Lessee's sole right and remedy with respect to such damages, and Lessee agrees that upon demand, it shall pay to Lessor the reasonable cost of any such repairs, not exceeding the amount of out-of-pocket expenses actually expended by Lessor, together with accrued interest from the date of Lessor's payment at the Agreed Rate, and (ii) if Lessor becomes entitled to enter the Premises as aforesaid more than once in any twelve (12) calendar months or more than twice during the Lease Term, elect to enter into a maintenance contract at a market rate for first-rate maintenance with a third party for the performance of all or a part of Lessee's maintenance obligations, whereupon, Lessee shall be relieved from its obligations to perform only those maintenance obligations covered by such maintenance contract, and Lessee shall bear the entire cost of such maintenance contract which shall be paid in advance, as Additional Rent, on a monthly basis with Lessee's Base Rent payments.

SECTION 6.02. MAINTENANCE OF PROJECT COMMON AREAS. Lessor shall maintain, repair and replace all landscape, hardscape and other improvements within the Project Common Area and shall operate and manage the Athletic Facility and other Project Common Area features and facilities described in Section 2.02 including, without limitation, all landscape, hardscape and other improvements within the outside areas of Building 8 and the other Buildings located within the Project, including without limitation, landscaping, curbs, walkways, driveways, roadways, parking areas and lighting, sprinkler, drainage, sewer, plumbing systems, except for damage, other than normal wear, caused by Lessee or its employees, agents, contractors, invitees or visitors which shall be repaired by Lessor and the cost of which shall be paid by Lessee within ten (10) days after presentation of Lessor's bill for same. The cost and expense of Lessor's obligations hereunder shall be Operating Expenses as to which Lessee shall pay Lessee's Share pursuant to Section 4.05; provided, however, that Lessor's obligation under this Section 6.02(b) in any instance where the damage, other than normal wear and tear, was caused by Lessor or its employees, agents or contractors shall not be recovered by Lessor from Lessee as Operating Expense or in any other manner.

SECTION 6.03. ALTERATIONS, ADDITIONS AND IMPROVEMENTS. No alterations, additions, or improvements ("ALTERATIONS") shall be made to the Premises by Lessee without the prior written consent of Lessor which Lessor will not unreasonably withhold, condition or delay, provided, however, that Lessee may make Alterations (including removal and rearrangement of Tenant Improvements and prior Alterations) which do not affect the Building 8 systems, exterior appearance, structural components or structural integrity, which do not require a building permit and which do not exceed collectively Twenty Five Thousand Dollars ($25,000) in cost within any twelve (12) month period, without Lessor's prior written consent. As a condition to Lessor's obligation to consider any request for consent hereunder, Lessee shall pay Lessor upon demand for the reasonable out-of-pocket costs and expenses of consultants, engineers, architects and others for reviewing plans and specifications and for monitoring the construction of any proposed Alterations, and if consent is granted, within ten (10) days after Lessee executes a construction contract for the Alterations, a construction management fee equal to one percent (1%) of all costs of demolition, construction and installation of any Alterations; the fee shall be adjusted on thirty (30) days notice after cancellation of the Alterations and a determination of final costs of same, which Lessee shall provide to Lessor along with all supporting documentation within said thirty (30) days. Lessor may require Lessee to remove any such Alterations at the expiration or sooner termination of the Lease Term and to restore the Premises to their prior

condition by written notice given on or before the earlier of (i) ninety (90) days prior to the expiration of the Lease Term or (ii) thirty (30) days after termination of the Lease or (iii) thirty (30) days after a written request from Lessee for such notice from Lessor provided, that, if Lessee requests same from Lessor, Lessor will notify Lessee within five (5) business days after receipt of Lessee's request for consent and a copy of all plans and specifications for the proposed Alteration whether it will require removal. All Alterations to be made to the Premises shall be made under the supervision of a competent, California licensed architect and/or competent California licensed structural engineer (each of whom has been approved by Lessor) and shall be made in accordance with plans and specifications which have been furnished to and approved by Lessor in writing prior to commencement of work. All Alterations shall be

designed, constructed and installed at the sole cost and expense of Lessee by California licensed architects, engineers, and contractors approved by Lessor, in compliance with all applicable law, and in good and workmanlike manner. Such approvals shall not be unreasonably withheld, conditioned or delayed by Lessor. Subject to Lessor's right to have Lessee retain ownership and remove same, any Alteration, including, without limitation, all lighting, electrical, heating, ventilation, air conditioning (other then air handling equipment which is part of the Laboratory Facilities) and full height partitioning (but not moveable, free standing cubicle-type partitions which do not extend to the ceiling or connect to Building walls or other movable furniture), drapery and carpeting installations made by Lessee, together with all property that has become an integral part of the Premises, shall not be deemed trade fixtures and shall become the property of Lessor at the expiration or sooner termination of the Lease, unless Lessor directs otherwise. Lessee shall retain title to all furniture and trade fixtures placed on the Premises. Within thirty (30) days after completion of any Alteration, Lessee shall provide Lessor with a complete set of "as built" plans for same. The initial Tenant Improvements shall not be deemed "Alterations."

SECTION 6.04. COVENANT AGAINST LIENS. Lessee shall not allow any liens arising from any act or omission of Lessee to exist, attach to, be placed on, or encumber Lessor's or Lessee's interest in the Premises, Building 8 or Project, or any portion of either, by operation of law or otherwise. Lessee shall not suffer or permit any lien of mechanics, material suppliers, or others to be placed against the Premises, Building 8 or Project, or any portion of either, with respect to work or services performed or claimed to have been performed for Lessee or materials furnished or claimed to have been furnished to Lessee or the Premises. Lessor has the right at all times to post and keep posted on the Premises any notice that it considers necessary for protection from such liens. At least ten (10) days before beginning construction of any Alteration, Lessee shall give Lessor written notice of the expected commencement date of that construction to permit Lessor to post and record a notice of nonresponsibility. If any such lien attaches or Lessee received notice of any such lien, Lessee shall cause the lien to be immediately released and removed of record. Despite any other provision of this Lease, if the lien is not released and removed within twenty (20) days after Lessor delivers notice of the lien to Lessee, Lessor may immediately take all action necessary to release and remove the lien, without any duty to investigate the validity of it. All expenses (including reasonable attorney fees and the cost of any bond) incurred by Lessor in connection with a lien incurred by Lessee or its removal shall be considered Additional Rent under this Lease and be immediately due and payable by Lessee. Notwithstanding the foregoing, If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense, defend and protect itself, Lessor and the Premises, Building 8 and Project against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to one hundred fifty percent (150%) of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in or is made a party to any such action, Lessee shall reimburse Lessor's attorneys' fees and costs within ten (10) days after demand.

SECTION 6.05 REIMBURSABLE CAPITAL EXPENDITURES. Except for items of capital expenditures which are to be made at Lessor's sole cost and expense pursuant to the first

sentence of Section 6.01(b) above, that portion of any capital expenditures, together with interest thereon at the Agreed Rate, for any single replacement item at or part of Building 8, but excluding any item of improvement in excess of Fifty Thousand Dollars ($50,000.00) (or within the Project Common Area, in excess of One Hundred Fifty Thousand Dollars ($150,000.00)) during the Lease Term shall be amortized over the remaining Lease Term for the useful life of such replacement item within the numerator being the number of months remaining in the Lease Term and the denominator being the number of months of the "useful life" of the improvements as determined by Lessor in its good faith discretion using accounting practices commonly utilized in the commercial real estate

industry, consistently applied. Lessee shall be obligated for such amortized portion of any such expenditure in equal monthly installments due and payable with each installment of Base Rent.

ARTICLE VII
INSURANCE

SECTION 7.01. PROPERTY/RENTAL INSURANCE FOR PREMISES. At all times during the Lease Term, Lessor shall keep the Premises, Building and Project insured against loss or damage by fire and those risks normally included in the term "all risk," extended coverage, fire and casualty insurance, including, without limitation, coverage for (i) earthquake and earthquake sprinkler leakage, (ii) flood, (iii) loss of rents and extra expense for eighteen (18) months, including scheduled rent increases, (iv) boiler and machinery, and (v) fire damage legal liability form, including waiver of subrogation. Lessee shall pay Lessee's Share of any deductibles. The amount of such insurance shall not be less than 100% of replacement cost. Insurance shall include a Building Ordinance and Increased Cost of Construction Endorsement insuring the increased cost of reconstructing the Premises incurred due to the need to comply with applicable statutes, ordinances and requirements of all municipal, state and federal authorities now in force, which or may be in force hereafter. Any recovery received from said insurance policy shall be paid to Lessor and thereafter applied by Lessor to the reconstruction of the Premises in accordance with the provisions of Article VIII below. Lessee, as part of the Operating Expenses, shall reimburse Lessor for Lessee's Share of the cost of the premiums for all such insurance in accordance with Article IV. Such reimbursement and shall be made within (15) days of Lessee's receipt of a copy of Lessor's statement therefor. To the extent commercially available, Lessor's insurance shall have a deductible not greater than fifteen percent (15%) for earthquake and ten percent (10%) for the basic "all risk" coverage. Lessor shall use commercially reasonable efforts to obtain competitive rates, while maintaining its discretion as a prudent project manager to select insurers and coverage Lessor believes to be appropriate.

SECTION 7.02. PROPERTY INSURANCE FOR FIXTURES AND INVENTORY. At all times during the Lease Term, Lessee shall, at its sole expense, maintain fire and casualty insurance with "all risk" coverage which includes the same coverage as required of Lessor in Section 7.01, above, on any trade fixtures, furnishings, merchandise, equipment, artwork or other personal property and on all Tenant Improvements and Alterations, whether or not presented to Lessor for its consent in or on the Premises, whether in place as of the date hereof or installed hereafter. The amount of such

insurance shall not be less than one hundred percent (100%) of the replacement cost thereof with commercially reasonable deductibles, and Lessor shall not have any responsibility nor pay any cost for maintaining any types of such insurance. Lessee shall pay all deductibles.

SECTION 7.03. LESSOR'S LIABILITY INSURANCE. During the Lease Term, Lessor shall maintain a policy or policies of commercial general liability insurance naming Lessor (and such others as designated by Lessor) against claims and liability for bodily injury, personal injury and property damage on our about the Premises and Project, with combined single limit coverage in an amount determined by Lessor in its sole discretion (which amount is currently Fifty Million Dollars ($50,000,000.00)); provided that if such policy is a blanket policy that covers properties (other than the Project) owned by Lessor, only that portion allocable to the Project shall be payable hereunder. Lessee, in addition to the rent and other charges provided herein, agrees to pay Lessee's Share of the premiums for all such insurance in accordance with Article IV.

SECTION 7.04. LIABILITY INSURANCE CARRIED BY LESSEE. At all times during the Lease Term (and any holdover period) Lessee shall obtain and keep in force a commercial general liability policy of insurance protecting Lessee, Lessor and any lender(s) whose names are provided to Lessee as additional insureds against claims and liability for bodily injury, personal injury and property damage based upon involving or arising out of ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing a single limit coverage in amount of not less than Ten Million Dollars ($10,000,000) per occurrence. Such insurance shall include coverage for Additional Lessors or Premises and coverage for "amendment of the pollution exclusion" to provide coverage for damage caused by heat, smoke, fumes from a hostile fire. The limits of said insurance required by this Lease as carried by Lessee shall not, however limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by the Lessee shall be primary to and not contributory with, any similar insurance carried by Lessor whose insurance shall be considered excess insurance only.

SECTION 7.05. PROOF OF INSURANCE. Lessee shall furnish to Lessor prior to the Commencement Date, and at least thirty (30) days prior to the expiration date of any policy, certificates indicating that the property insurance and liability insurance required to be maintained by Lessee is in full force and effect for the twelve (12) month period following such expiration date; that Lessor has been named as an additional insured to the extent of contractual

liability assumed in Section 7.07. "indemnification" and Section 7.08 "Lessor as Party Defendant"; and that all such policies will not be canceled unless thirty (30) days' prior written notice of the proposed cancellation has been given to Lessor. The insurance shall be with insurers approved by Lessor, provided, however, that such approval shall not be unreasonably withheld so long as Lessee's insurance carrier has a Best's Insurance Guide rating not less than A+ VIII and is licensed to do business in California. Lessor shall furnish to Lessee reasonable evidence of its insurance coverage required hereunder within fifteen (15) business days after demand made not more than once in any calendar year.

SECTION 7.06. MUTUAL WAIVER OF CLAIMS AND SUBROGATION RIGHTS. Lessor and Lessee hereby release and relieve the other, and waive their entire claim of recovery for loss or damage to property arising out of or incident to fire, lightning, and the other perils included in a standard "all risk" insurance policy of a type described in Sections 7.01 and 7.02 above, when such property constitutes the Premises, or is in, on or about the Premises, whether or not such loss or damage is due to the negligence of Lessor or Lessee, or their respective agents, employees, guests, licensees, invitees, or contractors. Lessee and Lessor waive all rights of subrogation against each other on behalf of, and shall obtain a waiver of all subrogation rights from, all property and casualty insurers referenced above.

SECTION 7.07. INDEMNIFICATION AND EXCULPATION.

(a) Except as otherwise provided in Section 7.07(b), Lessee shall indemnify and hold Lessor free and harmless from any and all liability, claims, loss, damages, causes of action (whether in tort or contract, law or equity, or otherwise), expenses, charges, assessments, fines, and penalties of any kind, including without limitation, reasonable attorney fees, expert witness fees and costs, arising by reason of the death or injury of any person, including any person who is an employee, agent, invitee, licensee, permittee, visitor, guest or contractor of Lessee, or by reason of damage to or destruction of any property, including property owned by Lessee or by any person who is an employee, agent, invitee, permitee, visitor, or contractor of Lessee, caused or allegedly caused (1) while that person or property is in or about the Premises; (2) by some condition of the Premises; (3) by some act or omission by Lessee or its agent, employee, licensee, invitee, guest, visitor or contractor or any person in, adjacent, on, or about the Premises with the permission, consent or sufferance of Lessee; (4) by any matter connected to or arising out of Lessee's occupation and use of the Premises; or (5) by any breach or default in timely observance or performance of any obligation on Lessee's part to be observed or performed under this Lease, provided that Lessee, as to any one occurrence (irrespective of whether such occurrence gives rise to multiple claims) shall not be required to pay or contribute, on Lessor's behalf (separate and apart from what Lessee may pay or contribute on behalf of itself or some other person) more than Five Million Dollars ($5,000,000.00) under this Section 7.07(a), over and above any insurance coverage required to be carried by Lessee hereunder and applicable to such occurrence.

(b) Notwithstanding the provisions of Section 7.07(a) of this Lease, Lessee's duty to indemnify and hold Lessor harmless shall not apply to any liability, claims, loss or damages arising from Lessor's negligence or willful act of misconduct and Lessor shall indemnify and hold Lessee harmless from any and all liability claims, loss, damages, causes of action (whether in tort or contract, law or equity, or otherwise), expenses, charges, assessments, fines, and penalties of any kind, including without limitation, reasonable attorney fees, expert witness fees and costs, arising by reason of the death or injury of any person, including any person who is an employee, agent, invitee, licensee, permittee, visitor, guest or contractor of Lessee, or by reason of damage to or destruction of any property, including property owned by Lessor or by any person who is an employee, agent, invitee, permitee, visitor, or contractor of Lessor, caused or allegedly caused by such negligence or willful act of misconduct, provided, that Lessor, as to

any one claim shall not be required to pay or contribute on Lessee's behalf (separate and apart from what Lessor may pay or contribute on behalf of itself or some other person) more than Five Million Dollars ($5,000,000.00) under this Section 7.07 (b), over and above any insurance coverage required to be carried by Lessor hereunder and applicable to such occurrence.

(c) Lessee hereby waives all claims against Lessor for damages to goods, wares and merchandise and all other personal property in, on or about the Premises and for injury or death to persons in, on or about the Premises from any cause arising at any time to the fullest extent permitted by law. Notwithstanding the provisions of Section 7.07(b) above, or any other provision of this Lease, in no event shall Lessor be liable (i) for lost profits or other consequential damages arising from any cause or (ii) for any damage which is or could be covered by the insurance Lessee is required to carry under this Lease.

(d) In no event shall either party be liable for any damage which is covered by the insurance the other party is required to carry under this Lease or to the extent it would be covered but for the other party's failure to carry same. Furthermore, Lessee shall not be liable to Lessor for lost profits or consequential damages beyond those items of damages which Lessor is entitled to recover under Article XII hereof and this sentence shall not be deemed to limit in any manner either (i) Lessor's entitlement to recover those damages or (ii) Lessee's indemnity obligations under Sections 17.09 and 17.22(e). The provisions of Article XII, Sections 17.09 and 17.22(e), respectively, shall control any apparent conflict between those provisions and this Section 7.07.

SECTION 7.08. LESSOR AS PARTY DEFENDANT. If by reason of an act or omission of Lessee or any of its employees, agents, invitees, licensee, visitors, guests or contractors, Lessor is made a party defendant or a cross-defendant to any action involving the Premises or this Lease, Lessee shall hold harmless and indemnify Lessor from all liability or claims of liability, including all damages, attorney fees and costs of suit.

ARTICLE VIII
DAMAGE OR DESTRUCTION

SECTION 8.01. DESTRUCTION OF THE PREMISES.

(a) In the event of a partial destruction of the Premises (i.e., less than fifty percent (50%) of its Rentable Area) during the Lease Term from any cause, Lessor, upon receipt of, and to the extent of, insurance proceeds paid in connection with such casualty (or within a reasonable time of the event if Lessor does not receive such proceeds due to Lessor's failure to carry same in contravention of its duty to do so under Section 7.06 above) and the deductible from Lessee which Lessee shall pay to Lessor within ten (10) business days after demand, shall forthwith repair the same, provided the repairs can be made within a reasonable time under state, federal, county and municipal applicable law, but such partial destruction shall in no way annul or void this Lease, (except as provided in Section 8.01(b) below) provided that Lessee shall be entitled to a proportionate credit for rent equal to rental income insurance proceeds received by Lessor (or equal to the amount of such proceeds which would have been paid but for Lessor's failure to

carry same in contravention of its duty to do so under Section 7.06 above) and provided further that Lessee shall repair all damage and destruction to those items as to which Lessee is required to maintain fire and casualty insurance under Section 7.02 above. Lessor and Lessee each shall use diligence in making such repairs within a reasonable time period, subject to the Force Majeure provisions of Section 17.21, in which instance the time period shall be extended accordingly, and this Lease shall remain in full force and effect, with the rent to be proportionately reduced as provided above in this Section. If the Premises are damaged by any peril within twelve (12) months prior to the last day of the Lease Term and, in the reasonable opinion of the Lessor's architect or construction consultant, the restoration of the Premises cannot be substantially completed within ninety (90) days after the date of such damage Lessor may terminate this Lease on sixty (60) days written notice to Lessee.

(b) If the Premises are damaged or destroyed by any cause to the extent of more than fifty percent (50%) of their total Rentable Area during the Lease Term, Lessor shall notify Lessee within sixty (60) days after such damage or destruction whether it will repair the same within nine (9) months (subject to the Force Majeure provision of Section 17.21) from the date of such notice. If Lessor states that it will not repair within said nine (9) months (subject to Force Majeure) this Lease shall terminate thirty (30) business days after Lessor gives its notice. In the event of such termination, Lessee shall pay to Lessor all insurance proceeds, if any, received by Lessee as a result of the damage or destruction to the extent allocable to Tenant Improvements (other than the laboratory facilities portion thereof which Lessee would have been entitled to remove hereunder) and Alterations installed therein by Lessee with or without the prior written consent of Lessor. If Lessor states that it will repair within said nine (9) months (subject to Force Majeure), Lessor shall, upon receipt of and to the extent of insurance proceeds paid (or which would have been paid but for Lessor's failure to carry same in contravention of its duty to do so under Section 7.06 above) in connection with such casualty and the deductible amount from Lessee, forthwith conduct the repair and diligently pursue the same to completion, but such destruction shall in no way annul or void this Lease, provided that Lessee shall be entitled to a proportionate credit for rent equal to rental income insurance proceeds received by Lessor.

SECTION 8.02. WAIVER OF CIVIL CODE REMEDIES. Lessee hereby expressly waives any rights to terminate this Lease upon damage or destruction to the Premises, including without limitation any rights pursuant to the provisions of Section 1932, Subdivisions 1 and 2 and Section 1933, Subdivision 4, of the California Civil Code, as amended from time-to-time, and the provisions of any similar law hereinafter enacted.

SECTION 8.03. NO ABATEMENT OF RENTALS. The Base Rent, Additional Rent and other charges due under this Lease shall not be reduced or abated by reason of any damage or destruction to the Premises (but will be subject to credit as provided in Section 8.01(a) and (b) above with respect to rental loss insurance proceeds received or which would have been paid but for Lessor's failure to carry same in contravention of its duty to do so under Section 7.06 above by Lessor), and Lessor shall be entitled to all proceeds of the insurance maintained pursuant to Section 7.01 above during the period of rebuilding pursuant to Section 8.01 above, or if the Lease is terminated pursuant to Section 8.01 above. Lessee shall have no claim against Lessor,

including, without limitation, for compensation for inconvenience or loss of business, profits or goodwill during any period of repair or reconstruction.

SECTION 8.04. NO LIABILITY FOR LESSEE'S TENANT IMPROVEMENTS, ALTERATIONS OR PERSONAL PROPERTY. In no event shall Lessor have any liability for, nor shall it be required to repair or restore, any injury or damage to Lessee's Tenant Improvements, Alterations or personal property or to any other personal property of other in or upon the Premises, Building 8 or Project.

ARTICLE IX
REAL PROPERTY TAXES

SECTION 9.01. PAYMENT OF TAXES.

(a) Subject to Lessee timely paying Lessor the same in advance as provided below, Lessor shall pay all real property taxes, including any escaped or supplemental tax and any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license, fee, charge, excise or imposition ("real property tax"), imposed, assessed or levied on or with respect to the Project by any Federal, State, County, City or other political subdivision or public authority having the direct or indirect power to tax, including, without limitation, any improvement district or any community facilities district (including with respect to a district established for purposes of constructing the Seaport Boulevard improvements and other improvements as required in the Development Agreement or by the City of Redwood City ("Community Facility District Bond"), as against any legal or equitable interest of Lessor in the Project or against the Project or any part thereof applicable to the Project for all periods of time included within the Lease Term (as the same may be extended and during any holdover period), as well as any government or private cost sharing agreement assessments made for the purpose of augmenting or improving the quality of services and amenities normally provided by government agencies and any tax, fee, charge, imposition or excise described in subsection (b) below. All such payments shall be made by Lessee directly pursuant to Section 4.05 hereof no later than ten (10) days after Lessor's delivery to Lessee of a statement of the real property tax due, together with a copy of the applicable tax bill except to the extent such amounts are included in estimated real property taxes paid monthly pursuant to Section 4.07(b). Notwithstanding the foregoing, Lessee shall not be required to pay any net income taxes, franchise taxes, or any succession, estate or inheritance taxes of Lessor.

(b) If at anytime during the Lease Term, the State of California or any political subdivision of the state, including any county, city, city and county, public corporation, district, or any other political entity or public corporation of this state, levies or assesses against Lessor a tax, fee, charge, imposition or excise on rents under the Lease, the square footage of the Premises or Project, the act of entering into this Lease, or the occupancy of Lessee, or levies or assesses against Lessor any other tax, fee, or excise, however described, including, without limitation, a so-called value added, business license, transit, commuter, environmental or energy tax fee, charge or excise or imposition related to the Project as a direct substitution in whole or in part

for, or in addition to, any real property taxes on the Project the same shall be included in real property taxes and Lessee shall pay ten (10) days before delinquency or ten (10) days after receipt of the tax bill, whichever is later, that tax, fee, charge, excise or imposition except to the extent estimated real property taxes are billed and paid monthly and such tax, fee, charge, excise or imposition is included therein. Lessee's obligation with respect to the aforesaid substitute taxes shall be limited to the amount thereof as computed at the rates that would be payable if the Project were the only property of Lessor.

(c) Lessor shall provide Lessee with copies of all tax and assessment bills on the Premises promptly upon Lessor's receipt of Lessee's written request therefore, thereof, Lessor shall also promptly provide to Lessee evidence of payment upon Lessor's receipt of Lessee's written request therefore.

(d) With respect to taxes and assessments which may lawfully be paid in

installments, for the purpose of this Section, real property tax in any period shall include only such portion of the same which is payable within such period and any interest payable thereon computed (whether or not such is the case) as if Lessor had elected to pay the same over the longest period permitted by law.

(e) If Lessor shall obtain any abatement or refund on account of any real property tax as to which Lessee shall have paid payments hereunder, Lessor shall promptly refund to Lessee Lessee's portion of any such abatement or refund, after deducting there from the reasonable costs and expenses incurred by Lessor in obtaining such abatement or refund.

(f) Real property taxes payable by Lessee hereunder shall not include real property taxes applicable to office/research and development buildings other than Building 8 or the legal parcels on which such other buildings are located, but Lessee shall pay Lessee's Share of real property taxes applicable to (i) Building 8 (together with the legal parcel on which it is located) and (ii) the Project Common Area.

SECTION 9.02. PRO RATION FOR PARTIAL YEARS. If any such taxes paid by Lessee shall cover any period prior to the Commencement Date or after the Expiration Date of the Lease Term, Lessee's Share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year during which this Lease shall be in effect, and Lessor shall reimburse Lessee to any extent required. If Lessee shall fail to pay any such taxes, Lessor shall have the right to pay the same in which case Lessee shall repay such amount to Lessor within ten (10) days after written demand, together with interest at the Agreed Rate.

SECTION 9.03. PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes imposed, assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures,

furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

(c) If Lessee shall fail to pay any such taxes, Lessor shall have the right to pay the same, in which case Lessee shall repay such amount to Lessor with Lessee's next rent installment together with interest at the Agreed Rate.

ARTICLE X
UTILITIES

SECTION 10.01. LESSEE TO PAY. Lessee shall pay prior to delinquency and throughout the Lease Term, all charges for water, gas, heating, cooling, sewer, telephone, electricity, garbage, air conditioning and ventilation, janitorial service, landscaping and all other services and utilities supplied to the Premises, including Lessee's Share of any such services or utilities which are not separately metered for the Premises. The disruption, failure, lack or shortage of any service or utility with respect to the Premises, Building or Project due to any cause whatsoever shall not affect any obligation of Lessee hereunder, and Lessee shall faithfully keep and observe all the terms, conditions and covenants of this Lease and pay all rent due hereunder, all without diminution, credit or deduction, provided that, to the extent the cause is the failure of Lessor to observe or perform an obligation of Lessor, hereunder Lessor shall initiate the cure of such failure immediately after receipt from Lessee of notice of the failure and Lessor shall thereafter diligently prosecute said cure to completion.

ARTICLE XI
ASSIGNMENT AND SUBLETTING

SECTION 11.01. LESSOR'S CONSENT REQUIRED. Except as provided in Section 11.02, Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, license or otherwise transfer or encumber all or any part of Lessee's interest in this Lease or in the Premises or any part thereof, without Lessor's prior written consent, which Lessor shall not unreasonably withhold, condition or delay. Lessor shall respond in writing to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance, subletting or licensing without such consent shall be void, and shall constitute a breach of this Lease. By way of example, but not limitation, reasonable grounds for denying consent include: (i) poor credit history or insufficient financial strength of transferee, (ii) transferee's intended use of the Premises is inconsistent with the permitted use or will materially and adversely affect Lessor's interest. Lessee shall reimburse Lessor

upon demand for Lessor's reasonable costs and expenses (including attorneys' fees, architect fees and engineering fees) involved in renewing any request for consent whether or not consent is granted, provided that Lessee's obligation for

attorneys' fees shall not exceed One Thousand Dollars ($1,000) unless any of the documents involved in the transaction become the subject of negotiation.

SECTION 11.02. LESSEE AFFILIATES. Lessee may assign or sublet the Premises, or any portion thereof, to any corporation which controls, is controlled by, or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all of Lessee's stock or all, or substantially all of the assets of Lessee as a going concern of the business that is being conducted on the Premises ("Affiliate"), provided that said assignee or sublessee assumes, in full, the obligations of Lessee under this Lease and provided further that the use to which the Premises will be put does not materially change. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease. Any portion of the Premises which is assigned or sublet to an Affiliate of Lessee shall not be included in the calculation of subleased, assigned or transferred Rentable Area for the purposes of Section 11.06.

SECTION 11.03. NO RELEASE OF LESSEE. Regardless of Lessor's consent, no subletting or assignment shall release Lessee of Lessee's obligation or alter the primary liability of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. The acceptance of rent by Lessor from any other person shall not be deemed consent to any subsequent assignment or subletting. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee.

SECTION 11.04. EXCESS RENT. In the event Lessor shall consent to a sublease or an assignment, Lessee shall pay to Lessor with its regularly scheduled Base Rent payments, fifty percent (50%) of all sums and the fair market value of all consideration collected or received by Lessee from a sublessee or assignee which are in excess of the Base Rent and Additional Rent due and payable with respect to the subject space pursuant to Article IV for the time period encompassed by the sublease or assignment term, after first deducting reasonable leasing commissions paid by Lessee with respect to such sublease or assignment.

SECTION 11.05. INFORMATION TO BE PROVIDED. Lessee's written request to Lessor for consent to an assignment or subletting or other form of transfer shall be accompanied by (a) the name and legal composition of the proposed transferee; (b) the nature of the proposed transferee's business to be carried on in the Premises; (c) the terms and provisions of the proposed transfer agreement; and (d) such financial and other reasonable information as Lessor may request concerning the proposed transferee.

SECTION 11.06. LESSOR'S RECAPTURE RIGHTS.

(a) LESSOR'S RECAPTURE RIGHTS. Notwithstanding any other provision of this Article 11, in the event that Lessee proposes to sublease or assign or otherwise transfer to any person or entity not an Affiliate of Lessee any interest in this Lease or the Premises or any part thereof affecting (collectively with all other such subleases, assignments, or transfers then in effect) more

than fifty percent (50%) of the square footage of the Rentable Area of the Premises (such affected portion of the Rentable Area of the Premises is hereafter designated "RECAPTURE SPACE") for more than the lesser of either (i) three (3) years, or (ii) fifty percent (50%) of the then remaining Lease Term, then Lessor shall have the option to recapture the Recapture Space by written notice to Lessee ("RECAPTURE NOTICE") given within ten (10) business days after Lessor receives any notice of such proposed assignment or sublease or other transfer ("TRANSFER NOTICE"). A timely Recapture Notice terminates this Lease for the Recapture Space, effective as of the date specified in the Transfer Notice. If Lessor declines or fails timely to deliver a Recapture Notice, Lessor shall have no further right under this Section 11.06 to the Recapture Space unless it becomes available again after transfer by Lessee. Lessor's recapture rights shall be subject to the rights of any sublessee, assignee or transferee of Lessee set forth in any sublease, assignment or agreement of transfer to which Lessor has consented, but subject to the terms and conditions set forth in Lessor's consent; any such sublease, assignment or agreement of transfer shall be assigned to Lessor as of the effective date of the recapture.

(b) CONSEQUENCES OF RECAPTURE. To determine the new Base Rent under this Lease if Lessor recaptures the Recapture Space, the then current Base Rent (immediately before Lessor's recapture) under the Lease shall be multiplied by a fraction, numerator of which is the square feet of the Rentable Area retained by Lessee after Lessor's recapture and the denominator of which is the total square

feet of the Rentable Area before Lessor's recapture. The Additional Rent, to the extent that it is calculated on the Rentable Area of the Premises, shall be reduced to reflect Lessee's Share based on the Rentable Ares of the Premises retained by Lessee after Lessor's recapture. This Lease as so amended shall continue thereafter in full force and effect. Either party may require written confirmation of the amendments to this Lease necessitated by Lessor's recapture of the Recapture Space. If Lessor recaptures the Recapture Space, Lessor shall, at Lessor's sole expense, construct, paint, and furnish any partitions required to segregate the Recapture Space from the remaining Premises retained by Lessee as well as arrange separate metering of utilities.

ARTICLE XII
DEFAULTS; REMEDIES

SECTION 12.01. DEFAULTS. The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Lessee:

(a) The abandonment of the Premises by Lessee or the commission of waste at the Premises or the making of an assignment or subletting in violation of Article XI, provided however, abandonment shall be considered to not occur if the Premises are maintained and occupied to the extent necessary to maintain the insurance on each and every portion of the Premises;

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, if such failure continues for a period of five (5) business days after written notice thereof from Lessor to Lessee. In the event that Lessor

serves Lessee with a Notice to Pay Rent or Quit in the form required by applicable Unlawful Detainer statutes such Notice shall constitute the notice required by this paragraph, provided that the cure period stated in the Notice shall be five (5) business days rather than the statutory three (3) days;

(c) Lessee's failure to provide (i) any supplemental letter of credit as required by Section 4.06, (ii) any instrument or assurance as required by Section 7.05 or (iii) estoppel certificate as required by Section 15.01 or (iv) any document subordinating this Lease to a Lender's deed of trust as required by Section 17.13, if any such failure continues for five (5) business days after written notice of the failure. In the event Lessor serves Lessee with a Notice to Perform Covenant or Quit in the form required by applicable Unlawful Detainer Statutes, such Notice shall constitute the notice required by this paragraph, provided that the cure period stated in the Notice shall be five (5) business days rather than the statutory three (3) days;

(d) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (a) (b) or (c) above, if such failure continues for a period of ten (10) business days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than ten (10) business days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commences such cure within said ten (10) business day period and thereafter diligently prosecutes such cure to completion;

(e) (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) the filing by Lessee of a voluntary petition in bankruptcy under Title 11 U.S.C. or the filing of an involuntary petition against Lessee which remains uncontested for a period of sixty days; (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, provided, however, in the event that any provisions of this Section 12.01(e) is contrary to any applicable law, such provision shall be of no force or effect;

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee, or any guarantor of Lessee's obligations hereunder, was materially false; and

(g) The occurrence of a material default and breach by Lessee under any other Lease between Lessee and Lessor (or any affiliate of Lessor) for Premises in Pacific Shores Center.

SECTION 12.02. REMEDIES. In the event of any such material default and breach by Lessee, Lessor may at any time thereafter, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default and breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means including by way of unlawful detainer (and without any further notice if a notice in compliance

with the unlawful detainer statutes and in compliance with paragraphs (b), (c) and (d) of Section 12.01 above has already been given), in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, (i) the cost of recovering possession of the Premises including reasonable attorney's fees related thereto; (ii) the worth at the time of the award of any unpaid rent that had been earned at the time of the termination, to be computed by allowing interest at the Agreed Rate but in no case greater than the maximum amount of interest permitted by law, (iii) the worth at the time at the time of the award of the amount by which the unpaid rent that would have been earned between the time of the termination and the time of the award exceeds the amount of unpaid rent that Lessee proves could reasonably have been avoided, to be computed by allowing interest at the Agreed Rate but in no case greater than the maximum amount of interest permitted by law, (iv) the worth at the time of the award of the amount by which the unpaid rent for the balance of the Lease Term after the time of the award exceeds the amount of unpaid rent that Lessee proves could reasonably have been avoided, to be computed by discounting that amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award plus one per cent (1%), (v) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform obligations under this Lease, including brokerage commissions and advertising expenses, expenses of remodeling the Premises for a new tenant (whether for the same or a different use), and any special concessions made to obtain a new tenant, and (vi) any other amounts, in addition to or in lieu of those listed above, that may be permitted by applicable law.

(b) Maintain Lessee's right to possession as provided in Civil Code Section 1951.4 in which case this Lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state of California. Unpaid amounts of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the Agreed Rate.

SECTION 12.03. DEFAULT BY LESSOR. Lessor shall not be in default under this Lease unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than ten (10) business days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying that Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than ten (10) business days are reasonably required for performance then Lessor shall not be in default if Lessor commences performance within such ten (10) business day period and thereafter diligently prosecutes the same to completion. In the event Lessor does not commence performance within the ten (10) business day period provided herein, Lessee may perform such obligation and will be reimbursed for its expenses by Lessor together with interest thereon at the

Agreed Rate. Lessee waives any right to terminate this Lease or to vacate the Premises on Lessor's default under this Lease. Lessee's sole remedy on Lessor's default is an action for damages or injunctive or declaratory relief. Notwithstanding the foregoing, nothing herein shall be deemed applicable in the event of Lessor's delay in delivery of the Premises. In that situation, all rights and remedies shall be determined under Section 3.01 above.

SECTION 12.04. LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designated agent within five (5) days after such amount is due and owing, Lessee shall pay to Lessor a late charge equal to (i) 3% of such overdue amount the first time a late charge is payable, and (ii) five percent (5%) of such overdue amount every other time a late charge is payable during the Lease Term. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether

or not collected, for three (3) consecutive installments of rent, then rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding Section 4.01 or any other provision of this Lease to the contrary.

SECTION 12.05 LESSOR'S RIGHT TO PERFORM LESSEE'S OBLIGATIONS. All obligations to be performed or observed by Lessee under this Lease shall be performed or observed by Lessee at Lessee's expense and without any reduction of rent. Lessor may perform or observe any obligation of Lessee which is in default hereunder, without waiving Lessor's other rights and remedies for Lessee's failure to perform or observe any obligations under this Lease and without releasing Lessee from any such obligations. Within ten (10) days after receiving a statement from Lessor, Lessee shall pay to Lessor the amount of expense reasonably incurred by Lessor in performing or observing Lessee's obligation.

ARTICLE XIII
CONDEMNATION OF PREMISES.

SECTION 13.01. TOTAL CONDEMNATION. If the entire Premises, whether by exercise of governmental power or the sale or transfer by Lessor to any condemnor under threat of condemnation or while proceedings for condemnation are pending, at any time during the Lease Term, shall be taken by condemnation such that there does not remain a portion suitable for occupation, this Lease shall then terminate as of the date transfer of possession is required. Upon such condemnation, all rent shall be paid up to the date transfer of possession is required, and Lessee shall have no claim against Lessor or the award for the value of the unexpired portion of this Lease Term.

SECTION 13.02. PARTIAL CONDEMNATION. If any portion of the Premises is taken by condemnation during the Lease Term, whether by exercise of governmental power or the sale for transfer by Lessor to an condemnor under threat of condemnation or while proceedings for condemnation are pending, this Lease shall remain in full force and effect except that in the event a partial taking (i) is more than thirty-three percent (33%) of the total square footage of the Premises; or (ii) leaves the Premises unfit for the conduct of the business of Lessee, then Lessee shall have the right to terminate this Lease effective upon the date transfer of possession is required. Moreover, Lessor shall have the right to terminate this Lease effective on the date transfer of possession is required if more than thirty-three percent (33%) of the total square footage of the Premises is taken by condemnation. Lessee and Lessor may elect to exercise their respective rights to terminate this Lease pursuant to this Section by serving written notice to the other within thirty (30) days after receipt of notice of condemnation. All rent shall be paid up to the date of termination, and Lessee shall have no claim against Lessor for the value of any unexpired portion of the Lease Term. If this Lease shall not be terminated, the rent after such partial taking shall be that percentage of the adjusted Base Rent specified herein, equal to the percentage which the square footage of the untaken part of the Premises, immediately after the taking, bears to the square footage of the entire Premises immediately before the taking. If Lessee's continued use of the Premises requires alterations and repair by reason of a partial taking, all such alterations and repair shall be made by Lessee at Lessee's expense. Lessee waives all rights it may have under California Code of Civil Procedure Section 1265.130 or otherwise, to terminate this Lease based on partial condemnation.

SECTION 13.03. AWARD TO LESSEE. In the event of any condemnation, whether total or partial, Lessee shall have the right to claim and recover from the condemning authority such compensation as may be separately awarded or recoverable by Lessee for loss of its business fixtures, or equipment belonging to Lessee immediately prior to the condemnation including any laboratory facilities portion of the Tenant Improvements which Lessee has the right to remove but elects not to. The balance of any condemnation award shall belong to Lessor (including, without limitation, any amount attributable to any excess of the market value of the Premises for the remainder of the Lease Term over the then present value of the rent payable for the remainder of the Lease Term) and Lessee shall have no further right to recover from Lessor or the condemning authority for any claims arising out of such taking, provided that Lessee shall have the right to make a separate claim in the condemnation proceeding, as long as the award payable to Lessor is not reduced thereby, for the taking of the unamortized (using the first sixty (60) months of the initial Lease Term as the amortization period) value of any Tenant Improvements paid for by Lessee which are not removed by Lessee.

ARTICLE XIV
ENTRY BY LESSOR

SECTION 14.01. ENTRY BY LESSOR PERMITTED. Lessee shall permit Lessor and its employees, agents and contractors to enter the Premises and all parts thereof (i) upon twenty-four (24) hours notice (or without notice in an emergency), including without limitation, the Building

and all parts thereof at all reasonable times for any of the following purposes: to inspect the Premises; to maintain the Premises; to make such repairs to the Premises as Lessor is obligated or may elect to make; to make repairs, alterations or additions to any other portion of the Premises and (ii) upon twenty-four (24) hours notice to show the Premises and post "To Lease" signs for the purposes of reletting during the last twelve (12) months of the Lease Term (provided that Lessee has failed to exercise its option to extend) or extended Lease Term to show the Premises as part of a prospective sale by Lessor or to post notices of nonresponsibility. Lessor shall have such right of entry without any rebate of rent to Lessee for any loss of occupancy or quiet enjoyment of the Premises hereby occasioned.

ARTICLE XV
ESTOPPEL CERTIFICATE

SECTION 15.01. ESTOPPEL CERTIFICATE.

(a) Lessee shall at any time upon not less than fifteen (15) days' prior written notice from Lessor execute, acknowledge and deliver to Lessor a statement in writing (i) certifying, if true, that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying, if true, that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging, if true, that there are not, to Lessee's knowledge, any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed and (iii) certifying or acknowledging, if true, such other matters as are requested by any prospective lender or buyer which are reasonably related to the loan or sale transaction. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises.

(b) Lessee's failure to deliver such statement within such time shall be conclusive upon Lessee (i) that this Lease is in full force and effect, without modification except as may be represented by Lessor, (ii) that there are no uncured defaults in Lessor's performance, and (iii) that not more than one month's rent has been paid in advance.

ARTICLE XVI
LESSOR'S LIABILITY

SECTION 16.01. LIMITATIONS ON LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners at the time in question of the fee title of the Premises. In the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership. For any breach of this Lease by Lessor, the liability of Lessor (including all persons and entities that comprise Lessor, and any successor

Lessor) and any recourse by Lessee against Lessor shall be limited to the interest of Lessor, and Lessor's successors in interest, in and to the Project. On behalf of itself and all persons claiming by, through, or under Lessee, Lessee expressly waives and releases Lessor and each member, agent and employee of Lessor from any personal liability for breach of this Lease.

ARTICLE XVII
GENERAL PROVISIONS

SECTION 17.01. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

SECTION 17.02. AGREED RATE INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to either party not paid when due shall bear interest at the Bank of America prime rate plus one percent (1%) ("AGREED RATE"). Payment of such interest shall not excuse or cure any default by Lessee under this Lease. Despite any other provision of this Lease, the total liability for interest payments shall not exceed the limits, if any, imposed by the usury laws of the State of California. Any interest paid in excess of those limits shall be refunded to the payor by application of the amount of excess interest paid against any sums outstanding in any order that payee requires. If the amount of excess interest paid exceeds the sums outstanding, the portion exceeding those sums shall be refunded in cash to the payor by the payee. To ascertain whether any interest payable exceeds the limits imposed, any nonprincipal payment (including late charges) shall be considered to the extent permitted by law to be an expense or a fee, premium, or penalty rather than

interest.

SECTION 17.03. TIME OF ESSENCE. Time is of the essence in the performance of all obligations under this Lease.

SECTION 17.04. ADDITIONAL RENT. Any monetary obligations of Lessee to Lessor under the terms of this Lease shall be deemed to be Additional Rent and Lessor shall have all the rights and remedies for the nonpayment of same as it would have for nonpayment of Base Rent, except that the one year requirement of Code of Civil Procedure Section 1161(2) shall apply only to scheduled installments of Base Rent and not to any Additional Rent. All references to "rent" (except specific references to either Base Rent or Additional Rent) shall mean Base Rent and Additional Rent.

SECTION 17.05. INCORPORATION OF PRIOR AGREEMENTS, AMENDMENTS AND EXHIBITS. This Lease (including Exhibits A, B, C, D, E, F, G, H, I, J, K and L) contains all agreements of the parties with respect to any matter mentioned herein. No prior agreement or understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the Lessor nor any employees or agents of the Lessor has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of said Premises and Lessee acknowledges that Lessee assumes all

responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the Lease Term except as otherwise specifically stated in this Lease. Neither party has been induced to enter into this Lease by, and neither party is relying on, any representation or warranty outside those expressly set forth in this Lease.

SECTION 17.06. NOTICES.

(a) WRITTEN NOTICE. Any notice required or permitted to be given hereunder shall be in writing and shall be given by a method described in paragraph (b) below and shall be addressed to Lessee or to Lessor at the addresses noted below, next to the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee, but delay or failure of delivery to such person shall not affect the validity of the delivery to Lessor or Lessee.

(b) METHODS OF DELIVERY:

(i) When personally delivered to the recipient, notice is effective on delivery. Delivery to the person apparently designated to receive deliveries at the subject address is personally delivered if made during business hours (e.g. receptionist).

(ii) When mailed by certified mail with return receipt requested, notice is effective on receipt if delivery is confirmed by a return receipt.

(iii) When delivery by overnight delivery Federal Express/Airborne/ United Parcel Service/DHL WorldWide Express with charges prepaid or charged to the sender's account, notice is effective on delivery if delivery is confirmed by the delivery service.

(c) REFUSED, UNCLAIMED OR UNDELIVERABLE NOTICES. Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified shall be considered to be effective as of the first date that the notice was refused, unclaimed, or considered undeliverable by the postal authorities, messenger, or overnight delivery service.

SECTION 17.07. WAIVERS. No waiver of any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach of the same or any other provisions. Any consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of consent to or approval of any subsequent act. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

SECTION 17.08. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes, provided that Lessee shall also

simultaneously execute in recordable form and delivering to Lessor a Quit Claim Deed as to its leasehold and any other interest in the Premises and hereby authorizes Lessor to date and record the same only upon the expiration or sooner termination of this Lease.

SECTION 17.09. SURRENDER OF POSSESSION; HOLDING OVER.

(a) At the expiration of the Lease, Lessee agrees to deliver up and surrender to Lessor possession of the Premises and all improvements thereon broom clean and, in as good order and condition as when possession was taken by Lessee, excepting only ordinary wear and tear (wear and tear which could have been avoided by first class maintenance practices and in accordance with industry standards shall not be deemed "ordinary"). Upon expiration or sooner termination of this Lease, Lessor may reenter the Premises and remove all persons and property therefrom. If Lessee shall fail to remove any personal property which it is entitled or obligated to remove from the Premises upon the expiration or sooner termination of this Lease, for any cause whatsoever, Lessor, at its option, may remove the same and store or dispose of them, and Lessee agrees to pay to Lessor on demand any and all expenses incurred in such removal and in making the Premises free from all dirt, litter, debris and obstruction, including all storage and insurance charges. If the Premises are not surrendered at the end of the Lease Term, Lessee shall indemnify Lessor against loss or liability resulting from delay by Lessee in so surrendering the Premises, including, without limitation, actual damages for lost rent and with respect to any claims of a successor occupant.

(b) If Lessee, with Lessor's prior written consent, remains in possession of the Premises after expiration of the Lease Term and if Lessor and Lessee have not executed an express written agreement as to such holding over, then such occupancy shall be a tenancy from month to month at a monthly Base Rent equivalent to one hundred twenty-five percent (125%) of the monthly rental in effect immediately prior to such expiration, such payments to be made as herein provided for Base Rent. In the event of such holding over, all of the terms of this Lease, including the payment of Additional Rent all charges owing hereunder other than rent shall remain in force and effect on said month to month basis.

SECTION 17.10. CUMULATIVE REMEDIES. No remedy or election hereunder by Lessor shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity, provided that notice and cure periods set forth in Article XII are intended to extend and modify statutory notice provisions to the extent expressly stated in Section 12.01.

SECTION 17.11. COVENANTS AND CONDITIONS. Each provision of this Lease to be observed or performed by Lessee shall be deemed both a covenant and a condition.

SECTION 17.12. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of Article XVI, this

Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State of California and any legal or equitable action or proceeding brought with respect to the Lease or the Premises shall be brought in Santa Clara County, California except for such actions or proceedings as are required by California law to be brought in the County were the subject real property is located.

SECTION 17.13. LEASE TO BE SUBORDINATE. Lessee agrees that this Lease is and shall be, at all times, subject and subordinate to the lien of any mortgage, deed of trust or other encumbrances which Lessor may create against the Premises including all renewals, replacements and extensions thereof provided, however, that regardless of any default under any such mortgage, deed of trust or other encumbrance or any sale of the Premises under such mortgage, deed of trust or other encumbrance so long as Lessee timely performs all covenants and conditions of this Lease and continues to make all timely payments hereunder, this Lease and Lessee's possession and rights hereunder shall not be disturbed by the mortgagee or beneficiary or anyone claiming under or through such mortgagee or beneficiary. Lessee shall execute any documents which are commercially reasonable (i.e., of a type customarily executed between lenders and lessees for similar loans and leases) subordinating this Lease within ten (10) days after delivery of same by Lessor so long as the mortgagee or beneficiary agrees therein that this Lease will not be terminated if Lessee is not in default following a foreclosure, including, without limitation, any Subordination Non-Distribution and Attornment Agreement ("SNDA") which is substantially in the form attached hereto as Exhibit "F."

SECTION 17.14. ATTORNEYS' FEES. If either party herein brings an action to enforce the terms hereof or to declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to recover its reasonable attorney's fees, expert witness fees and costs as fixed by the Court.

SECTION 17.15. SIGNS. Lessee shall not place any sign outside the Premises (or visible from outside the Premises) without Lessor's prior written consent,

which consent shall not be unreasonably withheld and subject to Lessee's obtaining approval by the City of Redwood City. Lessee, at its sole cost and expense, after obtaining Lessor's prior written consent, shall install, maintain and remove prior to expiration of this Lease (or within ten (10) days after any earlier termination of this Lease) all signage in full compliance with (i) all applicable law, statutes, ordinances and regulations and (ii) all provisions of this Lease concerning Alterations and (ii) Lessor's signage policy set forth on Exhibit G hereto.

SECTION 17.16. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

SECTION 17.17. GUARANTOR. [Intentionally Omitted]

SECTION 17.18. QUIET POSSESSION. Upon Lessee timely paying the rent for the Premises and timely observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire Lease Term, subject to all of the provisions of this Lease.

SECTION 17.19. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and conditions, covenants and restrictions, so long as such easements, rights, dedications, Maps and conditions, covenants and restrictions do not unreasonably interfere with the use of the Premises of parking rights granted hereunder, including access thereto, by Lessee. Lessee shall sign any of the aforementioned or other documents, and take such other actions, which are reasonably necessary or appropriate to accomplish such granting, recordation and subordination of the Lease to same, upon request of Lessor, and failure to do so within ten (10) business days after a written request to do so shall constitute a material breach of this Lease, provided that Lessor shall reimburse Lessee for Lessee's reasonable out-of-pocket expenses necessarily incurred in the performance of Lessee's obligations under this Section 17.19..

SECTION 17.20. AUTHORITY. Each individual executing this Lease on behalf of a corporation, limited liability company or partnership represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of such entity in accordance with a duly adopted resolution of the governing group of the entity empowered to grant such authority, and that this Lease is binding upon said entity in accordance with its terms. Each party shall provide the other with a certified copy of its resolution within thirty (30) days after execution hereof, but failure to do so shall in no manner (i) be evidence of the absence of authority or (ii) affect the representation or warranty.

SECTION 17.21. FORCE MAJEURE DELAYS. In any case where either party hereto is required to do any act (other than the payment of money), delays caused by or resulting from Acts of God or Nature, war, civil commotion, fire, flood or other casualty, labor difficulties, shortages of labor or materials or equipment, government regulations, delay by government or regulatory agencies with respect to approval or permit process, unusually severe weather, or other causes beyond such party's reasonable control the time during which act shall be completed, shall be deemed to be extended by the period of such delay, whether such time be designated by a fixed date, a fixed time or "a reasonable time."

SECTION 17.22. HAZARDOUS MATERIALS.

(a) DEFINITION OF HAZARDOUS MATERIALS AND ENVIRONMENTAL LAWS. "Hazardous Materials" means any (a) substance, product, waste or other material of any nature whatsoever which is or becomes listed regulated or addressed pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. sections 9601, et seq. ("CERCLA"); the Hazardous Materials Transportation Act ("HMTA") 49 U.S.C. section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. section 6901, et seq. ("RCRA"); the Toxic

Substances Control Act, 15 U.S.C. sections 2601, et seq. ("TSCA"); the Clean Water Act, 33 U.S.C. sections 1251, et seq.; the California Hazardous Waste Control Act, Health and Safety Code sections 25100, et seq.; the California Hazardous Substances Account Act, Health and Safety Code sections 26300, et seq.; the California Safe Drinking Water and Toxic Enforcement Act, Health and Safety Code sections 25249.5, et seq.; California Health and Safety Code sections 25280, et seq.; (Underground Storage of Hazardous Substances); the California Hazardous Waste Management Act, Health and Safety Code sections 25170.1, et seq.; California Health and Safety Code sections 25501. et seq. (Hazardous Materials Response Plans and Inventory); or the Porter-Cologne Water Quality Control Act, California Water Code sections 13000, et seq., all as

amended, or any other federal, state or local statute, law, ordinance, resolution, code, rule, regulation, order or decree regulating, relating to or imposing liability (including, but not limited to, response, removal and remediation costs) or standards of conduct or performance concerning any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter may be in effect (collectively, "Environmental Laws"); (b) any substance, product, waste or other material of any nature whatsoever whose presence in and of itself may give rise to liability under any of the above statutes or under any statutory or common law theory based on negligence, trespass, intentional tort, nuisance, strict or absolute liability or under any reported decisions of a state or federal court, (c) petroleum or crude oil, including but not limited to petroleum and petroleum products contained within regularly operated motor vehicles and (d) asbestos.

(b) LESSOR'S REPRESENTATIONS AND DISCLOSURES. Lessor represents that it has provided Lessee with a description of the Hazardous Materials on or beneath the Project as of the date hereof, attached hereto as Exhibit I and incorporated herein by reference and that except as described in the documents identified in Exhibit "I," Lessor has no actual knowledge of any Hazardous Materials at the Project. Lessee acknowledges receipt of the attached Exhibit I, which Lessor has provided pursuant to California Health & Safety Code Section 25359.7 which requires:

"Any owner of nonresidential real property who knows, or has reasonable cause to believe, that any release of hazardous substances has come to be located on or beneath that real property shall, prior to the sale, lease or rental of the real property by that owner, give written notice of that condition to the buyer, lessee or renter of the real property."

(c) LESSOR'S ENVIRONMENTAL INDEMNITY. Lessor agrees to indemnify and hold Lessee harmless from any liabilities, losses, claims, damages, penalties, fines, attorneys' fees, expert fees, court costs, remediation costs, investigation costs, or other expenses resulting from or arising out of the use, storage, treatment, transportation, release, presence, generation, or disposal of Hazardous Materials on, from or about the Project, and/or subsurface or ground water, before or after the Commencement Date from an act or omission of Lessor (or Lessor's successor), its agents or employees (but not from an act or omission of any other person, including, without limitation, a tenant of or licensee of the Project or its agents, employees, invitees, vendors, contractors, agents or visitors or any other visitor to the Project) or from Lessor's

misrepresentation of its actual knowledge of Hazardous Materials at the Project pursuant to the California Health & Safety Code or as otherwise required by law.

(d) USE OF HAZARDOUS MATERIALS. Lessee shall not cause or permit any Hazardous Materials to be brought upon, kept or used in, on or about the Project by Lessee, its agents, employees, contractors, licensee, guests, visitors or invitees without the prior written consent of Lessor. Lessor shall not unreasonably withhold such consent so long as Lessee demonstrates to Lessor's reasonable satisfaction that such Hazardous Materials are necessary or useful to Lessee's business and will be used, kept and stored in a manner that complies with all applicable Environmental Laws. Lessee shall, at all times, use, keep, store, handle, transport, treat or dispose all such Hazardous Materials in or about the Project in compliance with all applicable Environmental Laws. Lessee shall remove all Hazardous Materials used or brought onto the Project during the Lease Term from the Project prior to the expiration or earlier termination of the Lease.

(e) LESSEE'S ENVIRONMENTAL INDEMNITY. Lessee agrees to indemnify and hold Lessor harmless from any liabilities, losses, claims, damages, penalties, fines, attorney fees, expert fees, court costs, remediation costs, investigation costs, or other expenses resulting from or arising out of the use, storage, treatment, transportation, release, presence, generation, or disposal of Hazardous Materials on, from or about the Project, and/or subsurface or ground water, after the Commencement Date from an act or omission of Lessee (or Lessee's successor), its agents, employees, invitees, vendors or contractors.

(f) LESSEE'S OBLIGATION TO PROMPTLY REMEDIATE. If the presence of Hazardous Materials on the Premises after the Commencement Date results from an act or omission of Lessee (or Lessee's successors), its agents, employees, invitees, vendors, contractors, guests, or visitors results in contamination or deterioration of the Project or any water or soil beneath the Property, Lessee shall promptly take all action necessary or appropriate to investigate and remedy that contamination, at its sole cost and expense, provided that Lessor's consent to such action shall first be obtained, which consent shall not be unreasonably withheld, conditioned or delayed. In no event shall Lessee be responsible for, and Lessor shall indemnify and hold Lessee harmless with respect to, remediation of Hazardous Materials identified in Exhibit "I" which were disclosed as being present at the Project prior to the Commencement Date.

(g) LESSOR'S OBLIGATION TO PROMPTLY REMEDIATE. If the presence of

undisclosed Hazardous Materials on or beneath the Project before the Commencement Date or after Hazardous Materials on or beneath the Project has resulted or results from an act or omission of Lessor, its agents, employees, invitees, vendors or contractors (but not from an act or omission of any other person, including, without limitation, a tenant of or licensee of the Project or its agents, employees, invitees, vendors, contractors, agents or visitors) results in contamination or deterioration of the Project or the Premises or any water or soil beneath the Project, Lessee shall promptly take all action necessary or appropriate to investigate and remedy that contamination, at its sole cost and expense. In no event shall Lessor be responsible for remediation of Hazardous

materials that were identified in Exhibit "I" (including approximate amounts of concentrations thereof) as being at the Project prior to the Commencement Date.

(h) NOTIFICATION. Lessor and Lessee each agree to promptly notify the other of any communication received from any governmental entity concerning Hazardous Materials or the violation of Environmental Laws that relate to the Project.

SECTION 17.23. MODIFICATIONS REQUIRED BY LESSOR'S LENDER. If any lender of Lessor requests a modification of this Lease that will not increase Lessee's cost or expense or materially and adversely change Lessee's rights and obligations hereunder, this Lease shall be so modified and Lessee shall execute whatever documents are required by such lender and deliver them to Lessor within ten (10) days after the request.

SECTION 17.24. BROKERS. Lessor and Lessee each represents to the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, except for the real estate brokers or agents identified on the signature page hereof ("Brokers") and that they know of no other real estate broker or agent who is entitled to a commission or finder's fee in connection with this Lease. Each party shall indemnify, protect, defend, and hold harmless the other party against all claims, demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including reasonable attorney fees) for any leasing commission, finder's fee, or equivalent compensation alleged to be owning on account of the indemnifying party's dealings with any real estate broker or agent other than the Brokers. The terms of this Section 17.24 shall survive the expiration or earlier termination of the Lease Term.

SECTION 17.25. [Intentionally Omitted]

SECTION 17.26. ACKNOWLEDGMENT OF NOTICES. Lessor has provided and Lessee hereby acknowledges receipt of the Notices attached as Exhibits J and K hereto, concerning the presence of certain uses and operations of neighboring parcels of land.

SECTION 17.27. LIST OF EXHIBITS.

		REF. PAGE
EXHIBIT A:	Real Property Legal Description, Site Plan, and Building Elevations	
EXHIBIT B:	Plans and Specifications for Shell Building [Intentionally Omitted]	
EXHIBIT C:	Work Letter Agreement for Tenant Improvements and Interior Specification Standards	
EXHIBIT D:	Cost Responsibilities of Lessor and Lessee [Intentionally Omitted]	
EXHIBIT E:	Memorandum of Commencement of Lease Term and Schedule of Base Rent	
EXHIBIT F:	SNDA	
EXHIBIT G:	Signage Exhibit	
EXHIBIT H:	Guaranty of Lease [Intentionally Omitted]	
EXHIBIT I:	Hazardous Materials Disclosure	
EXHIBIT J:	Notice to Tenants	
EXHIBIT K:	Notice to Tenants	
EXHIBIT L:	Rules and Regulations	

LESSOR AND LESSEE EACH HAS CAREFULLY READ AND HAS REVIEWED THIS LEASE AND BEEN ADVISED BY LEGAL COUNSEL OF ITS OWN CHOOSING AS TO EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOWS ITS INFORMED AND VOLUNTARY CONSENT THERETO. EACH PARTY HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS AND CONDITIONS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

Executed at San Jose, California, as of the reference date.

LESSOR:	ADDRESS:
Pacific Shores Development, LLC, a Delaware limited liability company	c/o Jay Paul Company 350 California Street, Suite 1905 San Francisco, California 94104-1432
By: Technology Land, LLC, a California limited liability company	
	With a copy to:
By: _____ Jay Paul, Sole Member	Thomas G. Perkins, Esq. 99 Almaden Blvd., 8th Floor San Jose, CA 95113 Telephone: 408- 993-9911 Facsimile: 408-286.3312
LESSEE:	ADDRESS:
Arqule, Inc., a Delaware corporation	_____ _____ (Before Commencement Date)
By: _____ (Type or print name)	
Its: _____	Pacific Shores Center Building 8, 5th Floor 1300 Seaport Boulevard Redwood City, CA 94063 (After Commencement Date)

BROKER EXECUTION

By signing below, the indicated real estate broker or agent is not being made a party hereto, but is signifying its agreement with the provisions hereof concerning brokerage.

LESSOR'S BROKER:	ADDRESS:
Cornish & Carey Commercial	2804 Mission College Boulevard Suite 120 Santa Clara, California 95054
By: _____ _____ (Type or print name)	
Its: _____	
LESSEE'S BROKER:	ADDRESS:
Cornish & Carey Commercial	_____
By: _____ (Type or print name)	
Its: _____	

EXHIBIT A
TO
PACIFIC SHORES DEVELOPMENT, LLC

LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

REAL PROPERTY LEGAL DESCRIPTION,
SITE PLAN AND BUILDING ELEVATIONS

(See Building Description and Depiction of Property attached)

Graphic representation [floor plan] of 5th floor, 1300 Seaport Boulevard, Redwood City, CA.

Promotional photograph of typical Pacific Shores Center building elevation.

Site plan of Pacific Shores Center showing locations of office buildings and other facilities.

EXHIBIT B
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

SHELL BUILDING PLANS AND SPECIFICATIONS

(INTENTIONALLY OMITTED)

EXHIBIT C
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE CORPORATION,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
1300 SEAPORT BOULEVARD
REDWOOD CITY, CALIFORNIA 94063

WORK LETTER AGREEMENT FOR TENANT IMPROVEMENTS
AND INTERIOR SPECIFICATION STANDARDS

This Work Letter Agreement ("WORK LETTER") shall set forth the terms and conditions relating to the construction of Tenant Improvements within the Premises. This Work Letter is essentially organized chronologically and is intended to address the issues of the construction of Tenant Improvements at the

Premises, in sequence, as such issues will arise during the actual construction of the Premises. All references in this Work Letter to Articles or Sections of "the Lease" shall mean the relevant portions of the above referenced Lease to which this Work Letter is attached as Exhibit "C," and all references in this Work Letter to Sections of "this Work Letter" shall mean the relevant portions of Sections 1 through 5 of this Work Letter. "Landlord" herein shall have the same meaning as "Lessor" in the Lease and "Tenant" herein shall have the same meaning as "Lessee" in the Lease.

SECTION 1
DELIVERY OF THE PREMISES

1.1 DELIVERY BY LANDLORD. On the Lease Commencement Date, following the full execution and delivery of the Lease and this Work Letter by Landlord and Tenant, Landlord shall deliver the Premises to Tenant, and Tenant shall accept the Premises from Landlord "As-Is," subject to all the terms and conditions of the Lease, provided, that Tenant acknowledges that certain work involving the closure of a stairway between the Premises and the floor beneath the Premises will be conducted by Landlord during Tenant's construction in the Premises.

SECTION 2
TENANT IMPROVEMENTS

2.1 TENANT TO CONSTRUCT. At Tenant's sole cost and expense, including payment to Landlord of (i) an amount equal to one percent (1%) of all costs of actual construction (and excluding costs of design and construction management paid by Tenant to third parties) as an oversight fee, (ii) all related out-of-pocket costs incurred by Landlord, and (iii) all related costs to which Landlord is entitled under, the Lease. Tenant shall construct certain interior improvements in conformance with the Approved Working Drawings described below ("TENANT IMPROVEMENTS") and subject to all the terms and conditions of the Lease and this Agreement. A failure, for any reason, to complete the construction of the Tenant Improvements by July 30, 2002, shall have no impact on the date for commencement of payment of Base Rent, which shall remain unchanged.

2.2 TENANT IMPROVEMENT ALLOWANCE. None

2.3 TENANT IMPROVEMENT SPECIFICATIONS. Landlord has established specifications (the "SPECIFICATIONS") for the Building standard components to be used in the construction of the Tenant Improvements in the Premises. The Specifications are set forth on Schedule One hereto. The quality of Tenant Improvements shall be equal to or of greater quality than the quality of the Specifications, provided that the Tenant Improvements shall comply with certain Specifications as designated by Landlord. Landlord may make changes to the Specifications from time to time which changes shall not be retroactive or require retrofitting by Tenant.

SECTION 3
CONSTRUCTION DRAWINGS

3.1 PREPARATION OF DRAWINGS. Tenant shall retain an architect/space planner approved by Landlord (the "ARCHITECT") and engineering consultants approved by Landlord (the "ENGINEERS") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work to be conducted in the Premises. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be referenced collectively as the "CONSTRUCTION DRAWINGS." All Construction Drawings shall comply with drawing format and specifications determined by Landlord, and shall be subject to Landlord's approval, which Construction Drawings shall contain the information listed on Schedule Two attached hereto. Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building plans, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Landlord's review of the Construction Drawings as set forth in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in Section 7.07(a) of the Lease shall specifically apply to the

Construction Drawings.

3.2 FINAL SPACE PLAN. On or before April 30, 2002, Tenant shall supply Landlord

with four (4) copies signed by Tenant of its final space plan for the Premises before any architectural working drawings or engineering drawings have been commenced. The final space plan (the "FINAL SPACE PLAN") shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein. Landlord may request clarification or more specific drawings for special use items not included in the Final Space Plan. Landlord shall advise Tenant within five (5) business days after Landlord's receipt of the Final Space Plan for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall cause the Final Space Plan to be revised to correct any deficiencies or other matters Landlord may reasonably require and submit the revised Final Space Plan to Landlord for its approval no later than five (5) business days after Landlord delivers its advice. Landlord's failure to advise timely shall be deemed approval.

3.3 FINAL WORKING DRAWINGS. After the Final Space Plan has been approved by Landlord, Tenant shall supply the Engineers with a complete listing of standard and non-standard equipment and specifications, including, without limitation, B.T.U. calculations, electrical requirements and special electrical receptacle requirements for the Premises, to enable the Engineers and the Architect to complete the "Final Working Drawings" (as that term is defined below) in the manner as set forth below. Upon the approval of the Final Space Plan by Landlord and Tenant, Tenant shall promptly cause the Architect and the Engineers to complete the architectural and engineering drawings for the Premises, and Architect shall compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings with complete specifications in a form which is complete to allow subcontractors to bid on all of the work and to obtain all applicable permits (collectively, the "FINAL WORKING DRAWINGS") and shall submit to Landlord for Landlord's approval, on or before May 30, 2002, four (4) copies signed by Tenant of such Final Working Drawings. Landlord shall advise Tenant within ten (10) business days after Landlord's receipt of the Final Working Drawings for the Premises if the same is unsatisfactory or incomplete in any respect. If Tenant is so advised, Tenant shall immediately revise the Final Working Drawings in accordance with such review and any disapproval of Landlord in connection therewith and submit the revised Final Working Drawings to Landlord no later than ten (10) business days after Landlord delivers its advice. Landlord's failure to advise timely shall be deemed approval.

3.4 APPROVED WORKING DRAWINGS. The Final Working Drawings shall be approved by Landlord (the "APPROVED WORKING DRAWINGS") prior to the commencement of construction of the Premises by Tenant. After approval by Landlord of the Final Working Drawings, Tenant shall submit the same to the City of Redwood City for all applicable building permits. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any building permit or certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in executing permit applications and performing other ministerial acts reasonably necessary to enable Tenant to obtain any such permit or certificate of occupancy. No changes, modifications

or alterations in the Approved Working Drawings other than to reflect changes which are within the discretion of Tenant hereunder may be made without the prior written consent of Landlord, which consent may not be unreasonably withheld, delayed or conditioned.

SECTION 4
CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractors.

4.1.1 THE CONTRACTOR. A general contractor shall be retained by Tenant to construct the Tenant Improvements pursuant to a written construction contract ("CONSTRUCTION CONTRACT"). Such general contractor ("CONTRACTOR") shall be selected by Tenant subject to Landlord's consent, which consent shall not be unreasonably withheld or delayed provided that such contractor is a California licensed contractor with a successful track record of constructing first class tenant improvements in first class office buildings and has never been involved in a material dispute with Landlord.

4.1.2 TENANT'S AGENTS. All subcontractors and laborers used by Tenant (such subcontractors and laborers, to be referred to collectively with the Contractor as "TENANT'S AGENTS") must be approved in writing by Landlord, which approval shall not be unreasonably withheld or delayed. If Landlord does not approve any of Tenant's proposed subcontractors, laborers, materialmen or suppliers, Tenant shall submit other proposed subcontractors and laborers for Landlord's written approval.

4.2 CONSTRUCTION OF TENANT IMPROVEMENTS BY TENANT'S AGENTS.

4.2.1 CONSTRUCTION CONTRACT, COST BUDGET. Within two (2) business days of its execution by Tenant and Contractor, Tenant shall deliver a copy of the

Construction Contract and the budget for the construction of the Tenant Improvements and a check payable to Landlord in an amount equal to one percent (1%) the construction price for the cost of construction of the Tenant Improvements.

4.2.2 TENANT'S AGENTS.

4.2.2.1 LANDLORD'S GENERAL CONDITIONS FOR TENANT'S AGENTS AND TENANT IMPROVEMENT WORK. Tenant's and Tenant's Agent's construction of the Tenant Improvements shall comply with the following: (i) the Tenant Improvements shall be constructed in accordance with the Approved Working Drawings and a construction schedule to be created on or before May 30, 2002 by contractor and approved by Landlord which approval shall not be unreasonably withheld, delayed or conditioned ("APPROVED CONSTRUCTION SCHEDULE"); (ii) Tenant shall take such action as is necessary to cause Tenant's Agents to adhere to the Approved Construction Schedule; and (iii) Tenant shall abide by and cause all of Tenant's Agents to abide by all rules made by Landlord's Building manager with respect to the use of freight, loading dock and service elevators, storage of materials, coordination of work with the contractors of other tenants, and

any other matter in connection with this Work Letter, including, without limitation, the construction of the Tenant Improvements. Tenant shall reimburse landlord within ten (10) business days after demand, for all costs of repair and cleanup incurred by Landlord for damage to the Premises, Building 8 or Project caused by Tenant or Tenant's Agents or debris, litter or other materials or matter left within the premises at any time.

4.2.2.2 INDEMNITY. Tenant's indemnity of Landlord as set forth in Section 7.07(a) of the Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non-payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. Such indemnity by Tenant, as set forth in Section 7.07(a) of the Lease, shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to Landlord's performance of any ministerial acts reasonably necessary (i) to permit Tenant to complete the Tenant Improvements, and (ii) to enable Tenant to obtain any building permit or certificate of occupancy for the Premises.

4.2.2.3 REQUIREMENTS OF TENANT'S AGENTS. Each of Tenant's Agents shall guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Each of Tenant's Agents shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the completion of the work performed by such contractor or subcontractors. The correction of such work shall include, without additional charge, all additional expenses and damages incurred in connection with such removal or replacement of all or any part of the Tenant Improvements, and/or Building 8 and/or Common Areas that may be damaged or disturbed thereby. All such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the Contract or subcontract and shall be written such that such guarantees or warranties shall inure to the benefit of both Landlord and Tenant, as their respective interests may appear, and can be directly enforced by either. Tenant covenants to give to Landlord any assignment or other assurances which may be necessary to effect such right of direct enforcement.

4.2.2.4 INSURANCE REQUIREMENTS.

4.2.2.4.1 GENERAL COVERAGES. Tenant's Contractor shall carry worker's compensation insurance covering all of their respective employees, and shall also carry commercial general liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in Section 7.04 of the Lease.

4.2.2.4.2 SPECIAL COVERAGES. Tenant shall carry "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of the Tenant Improvements, and such other insurance as Landlord may require, it being understood and agreed

that the Tenant Improvements shall be insured by Tenant pursuant to Section 7.02 of the Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord including, but not limited to, the requirement that all of Tenant's Agents shall carry excess liability and Products and Completed Operation Coverage insurance, each in amounts not less than $1,000,000

per incident, $2,000,000 in aggregate, and in form and with companies as are required to be carried by Tenant as set forth in Section 7.05 of the Lease.

4.2.2.4.3 GENERAL TERMS. Certificates for all insurance carried pursuant to this Section 4.2.2.4 shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the Project. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days prior written notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until the Tenant Improvements are fully completed and accepted by Landlord, except for any Products and Completed Operation Coverage insurance required by Landlord, which is to be maintained for ten (10) years following completion of the work and acceptance by Landlord and Tenant. All policies carried under this Section 4.2.2.4 shall insure Landlord and Tenant, as their interests may appear, as well as Contractor and Tenant's Agents. All insurance, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the Landlord and that any other insurance maintained by Landlord is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2.2.2 of this Work Letter. Landlord may, in its discretion, require Tenant to obtain a lien and completion bond or some alternate form of security satisfactory to Landlord in an amount sufficient to ensure the lien- free completion of the Tenant Improvements and naming Landlord as a co-obligee, upon ten (10) days advance written notice.

4.2.3 GOVERNMENTAL COMPLIANCE. The Tenant Improvements shall comply in all respects with the following: (i) the Code and other state, federal, city or quasi-governmental laws, codes, ordinances and regulations, as each may apply according to the rulings of the controlling public official, agent or other person; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

4.2.4 INSPECTION BY LANDLORD. Landlord shall have the right to inspect the Tenant Improvements at all times, provided however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. Should Landlord disapprove any portion of the Tenant Improvements, Landlord shall

notify Tenant in writing of such disapproval and shall specify the items disapproved. Any defects or deviations in, and/or disapproval by Landlord of, the Tenant Improvements shall be rectified by Tenant at no expense to Landlord, provided however, that in the event Landlord determines that a defect or deviation exists or disapproves of any matter in connection with any portion of the Tenant Improvements and such defect, deviation or matter might adversely affect the mechanical, electrical, plumbing, heating, ventilating and air-conditioning or life-safety systems of the Building, the structure or exterior appearance of the Building or any other tenant's use of such other tenant's leased premises, Landlord may take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such defect, deviation and/or matter, including, without limitation, causing the cessation of performance of the construction of the Tenant Improvements until such time as the defect, deviation and/or matter is corrected to Landlord's satisfaction.

4.2.5 MEETINGS. Commencing upon the execution of this Lease, Tenant shall hold periodic meetings at a reasonable time with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements. Tenant shall provide Landlord with reasonable advance written notice of all such meetings to enable landlord's representative to attend and participate.

4.3 NOTICE OF COMPLETION; COPY OF RECORD SET OF PLANS. Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall cause a Notice of Completion to be recorded in the office of the Recorder of the County of San Mateo in accordance with Section 3093 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Working Drawings as necessary to reflect all changes made to the Approved Working Drawings during the course of construction, (B) to certify to the best of their knowledge that the "record-set" of mylar "as-built" drawings are true and correct, which certification shall survive the expiration or termination of

this Lease, and (C) to deliver to Landlord two (2) sets of copies of such record set of drawings within sixty (60) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

SECTION 5
MISCELLANEOUS

5.1 TENANT'S REPRESENTATIVE. Tenant has designated Steve Lacerte, Director of Facilities as its sole representative with respect to the matters set forth in this Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Work Letter.

5.2 LANDLORD'S REPRESENTATIVE. Landlord has designated Janette Sammartino of the Jay Paul Company as its sole representatives with respect to the matters set forth in this Work Letter, who,

until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Work Letter.

5.3 TIME OF THE ESSENCE IN THIS TENANT WORK LETTER. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 TENANT'S LEASE DEFAULT. Notwithstanding any provision to the contrary contained in this Lease, if any material default as described in Section 12.01 of Lease or failure by Tenant to timely observe or perform an obligation under this Work Letter has occurred at any time on or before the substantial completion of the Premises, then (i) in addition to all other rights and remedies granted to Landlord pursuant to this Lease, Landlord shall have the right to cause Contractor to cease the construction of the Premises (in which case, Tenant shall be responsible for any delay in the substantial completion of the Premises caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Work Letter shall be forgiven until such time as such default is cured pursuant to the terms of this Lease (in which case, Tenant shall be responsible for any delay in the substantial completion of the Tenant Improvements caused by such inaction by Landlord), and (iii) the date on which payment of Base Rent is to commence under the Lease shall not be affected.

5.5 TENANT'S AGENTS. All subcontractors, laborers, materialmen, and suppliers retained directly by Tenant shall conduct their activities in and around the Premises, Buildings and the Project in a harmonious relationship with all other subcontractors, laborers, materialmen and suppliers at the Premises, Buildings and Project.

5.6 CHANGE ORDERS. No material changes, modifications or alterations in the Approved Working Drawings or in the Tenant Improvement work pursuant thereto (collectively referred to as "CHANGE ORDERS") shall be made by Tenant without the prior written consent of Landlord, which consent shall not be unreasonably withheld, delayed or conditioned. Landlord will respond to Tenant's submission of all requests for Change Orders for Landlord approval within three (3) business days from Landlord's actual receipt. All requests for Change Orders shall be made in writing. Once approved in writing, such Change Orders shall become a part of the Approved Working Drawings. A Change Order shall be deemed "material" only if such Change Order exceeds Five Thousand Dollars ($5,000) in cost (either additive or deductive) or if it could affect any of the Building 8 systems or structure. Tenant may make changes, modifications or alterations in the Approved Working Drawings and in the Tenant Improvement work pursuant thereto if the cost (or savings) of same is less than Five Thousand dollars ($5,000) and they do not adversely affect any of the Building 8 systems or structure.

5.7 ASSUMPTION OF THE RISK. Tenant accepts, assumes and shall be solely responsible for all risks for the construction and installation of the Tenant Improvements other than for risks resulting from the gross negligence or willful misconduct of Landlord or Landlord's employees, agents, contractors or subcontractors.

5.8 NO PARTNERSHIP. Nothing in this Agreement shall cause Landlord and Tenant to be partners or joint venturers.

5.9 HAZARDOUS MATERIALS. If the construction of the Tenant Improvements or Tenant's move into the Premises will involve the use of Hazardous Materials, Tenant shall comply with Landlord's rules and regulations concerning such Hazardous Materials.

5.10 SCHEDULES. Attached hereto and incorporated herein by reference are the following schedules:

Schedule One to Exhibit "C" - B Abbreviated Specifications
Schedule Two to Exhibit "C" - B Construction Drawing Requirements

SCHEDULE ONE
TO
EXHIBIT C
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE CORPORATION
FOR
Pacific Shores Center
Fifth Floor, Building 8
1300 Seaport Boulevard
Redwood City, California

INTERIOR SPECIFICATION STANDARDS

ABBREVIATED BUILDING STANDARDS

FOR PACIFIC SHORES

NOTE: THE TENANT IMPROVEMENTS SHALL BE CLASS "A" AND, THEIR QUALITY MUST BE AT A MINIMUM, PER THE FOLLOWING STANDARDS:

GENERAL OFFICE

CUSTOM CABINETRY

SCOPE: All materials and labor for the construction and installation of Cabinetry and all related accessories per WIC Standards.

A. Trade Standards: Woodworking Institute of California (WIC) latest edition Section 15 and 16 for plastic laminated casework and plastic laminated countertops. Color of plastic laminate to be selected by Architect
B. All cabinetry to be constructed to "Custom-Grade" Specifications. Cabinetry to be flush overlay construction.
C. Plastic Laminate: High Pressure thermoset laminated plastic surfacing material to equal or surpass NEMA LD3, Nevamar, WilsonArt or approved equal.
1. Countertops, shelf-tops, splashes, and edges: Grade GP 50, 0.050 inches thick.
2. All other exposed vertical surfaces: Grade GP 28, 0.028 inches thick
3. Semi-exposed backing sheet: Grade CL 20, 0.020 inches thick
4. Concealed backing sheet: Grade BK 20, 0.020 inches thick
D. Adhesives: Bond surfaces to Type 11 as recommend by Plastic Laminate Manufacturer.
E. Hinges: Heavy-duty concealed self-closing hinges. Amount of hinges per Door per WIC. Stanley or approved equal
F. Door and Drawer Pulls: Wire-pull with 4-inch centers; Dull Chrome finish; Stanley 4483 or approved equal.
G. Drawer slides: Heavy-duty grade with ball-bearings. Stanley, Klein, or approved equal

H. Door Catches: Heavy-duty commercial friction type.
1. Recessed Adjustable Shelf Standards: Aluminum or zinc-plated recessed type; Knape & Vogt with clips or approved equal.
J. Base and Wall Cabinets including doors: 3/4-inch thick medium density particleboard:
1. Conceal all fastenings.
2. Provide clear spaces as required for mechanical and electrical fittings
3. Plastic laminate and self-edge all shelves.
4. Provide 3/4-inch thick doors and drawer faces.
5. Unless indicated otherwise, all shelving to be adjustable.
6. Provide back and ends on all cabinets.
7. All exposed cabinet faces to be plastic-laminated.
K. Countertops and Shelving: 3/4-inch thick medium density particleboard. Backsplash to be 3/4 inches thick, glued and screwed into top with scribed `edges. Joints in countertop to be not closer than 24 inches from sinks. Joints shall be shop fitted, splined, glued and mechanically fastened.
L. Installation of Cabinetry shall be per WIC instructions, Custom Grade.

WOOD DOORS

SCOPE: All materials and labor necessary for the installation of Wood Doors,

required accessories and preparations for hardware.

A. Non-rated Wood Doors: 1-3/4 inch thick, flush, solid core, plain sliced Birch veneer with Birch edge. Cores may be either of the following: Glued block Hardwood Core per NWMA or Particleboard Core per NWMA. Manufacturer: Algoma, Weyerhaeuser, or approved equal.
B. Fire-rated Wood Doors: 1-3/4 inch thick, flush, solid core, plain sliced Birch face veneer with Birch Edge with mineral core per rating. Manufacturer: Algoma, Weyerhaeuser, or approved equal. Doors shall have a permanent UL label.
C. Vision Panels (where applies): Fire rated vision panel where required. Set in square metal stop to match metal doorstops as provided by doorframe manufacturer.
D. Doors shall be 8'- 0" X 3'-0" leafs typical.

ALUMINUM DOOR AND WINDOW FRAMES

SCOPE: All materials and labor necessary for the installation of Aluminum Door Frames.

A. Frame Manufacturers: Raco, or Ragland Manufacturing Company, Inc.
B. Door Frames: Non-rated and 20-minute label, Raco "Trimstyle" frame with Trim 700 (3/8 inch by 1- 1/2 inch) with no exposed fasteners.
C. Finish, Door and Window Frame Extrusions, Wall Trim:
1. Painted and oven-cured with "Duralaq" finish.
2. Color: Clear.
3. Finish shall meet or exceed requirements of AAMA Specifications 603.
4. Coat inside of frame profile with bituminous coating to a thickness of 1/16 inch where in contact with dissimilar materials.

DOOR HARDWARE

SCOPE: All materials and labor for the installation of all Door Hardware, locksets, closers, hinges, miscellaneous door hardware.

A. Swinging Door Lockset and Cylinder: Schlage "L" series with lever handle with 6 pin cylinder.
B. Keyway: Furnish blank keyways to match existing master-key system. Match existing

keyways.
C. Finishes: Satin Chrome, 626 finish. Paint closers to match.
D. Kickplates: 16 gauge stainless steel; 10 inches high: width to equal door width less 2 inches.

HARDWARE SCHEDULE

HARDWARE GROUP A (Typical, rated, single door)

1	Lockset	Schlage	L9050PD
1-1/2 pair	Butt Hinges	Hager	BB1279
1	Closer	Norton	700 Series
1	Stop	Quality	(332 @ carpet)
1	Smoke Seal	Pemko	

HARDWARE GROUP B (Typical, rated, closet/service door)

1	Lockset	Schlage	L9080PD
1-1/2 pair	Butt Hinges	Hager	BB1279
1	Closer	Norton	700 Series w/ hold-open
1	Stop	Quality	(332 @ carpet)
1	Smoke Seal	Pemko	

HARDWARE GROUP C (Typical, non-rated door)

1	Lockset	Schlage	L9050PD
1-1/2 pair	Butt Hinges	Hager	BB1279
1	Stop	Quality	(332 @ carpet)

HARDWARE GROUP D (Typical, non-rated, closet/service door)

1	Lockset	Schlage	L9080PD
1-1/2 pair	Butt Hinges	Hager	BB1279
1	Stop	Quality	(332 @ carpet)

HARDWARE GROUP E (Card-access door)

1	Electric Lockset	Schlage	L9080PDGU
1-1/2 pair	Butt Hinges	Hager	BB1279 - NRP
(2 pr @ 8' door)			
1	Electric Butt	Hager	ETW
1	Closer	Norton	700 Series w/ hold-open

1	Stop	Quality	(332 @ carpet)

HARDWARE GROUP F (Typical, double door)

1	Electric Lockset	Schlage	L9050PD
3 pair	Butt Hinges	Hager	BB1270
1	Auto Flush Bolt	Glyn Johnson	FB-8
1	Dustproof Strike	Glyn Johnson	DP2
2	Closer	Norton	7700 Series
2	Stop	Quality	(332 @ carpet)
1	Astragal	Pemko	
1	Coordinator	Glyn Johnson	
1	Smoke Seal	Pemko	

GLAZING

SCOPE: All materials and labor for the installation of Glass.

A. Manufacturers: PPG Industries, or Viracon, Inc. See glazing schedule below.
B. Shop prepares all glazing. Edges to have no chips or fissures.
C. Glazing Materials:
1. Safety Glass: ASTM C1048, fully tempered with horizontal tempering, Condition A uncoated, Type 1 transparent flat, Class 1 clear, Quality q3 glazing select, conforming to ANSI Z97.1
2. Mirror Glass: Clear float type with copper and silver coating, organic overcoating, square polished edges, 1/4-inch thick,
3. Wire Glass: Clear, polished both sides, square wire mesh of woven stainless steel wire 1/2 inch X 1/2 inch grid; 1/4 inch thick.
4. Tempered Glass: 1/4 inch thick, no tong marks. UL rated for 1 -hour rating.
5. Spacers: Neoprene.
6. Tape to be poly-iso-butylene.

D. Schedule:
1 Type A: 1/4-inch thick mirror, annealed, heat strengthened, or full tempered as required.
2. Type B: 1/4 inch thick clear float glass, annealed, heat strengthened, or full tempered as required.
3. Type C: 1/4-inch thick wire glass plate, square pattern "Baroque"

LIGHT GAUGE METAL FRAMING

SCOPE: All materials and labor necessary for the installation of metal framing and related accessories.

A. Structural Studs: 14 gauge punched channel studs with knurled screw-type flanges, prime-coated steel. Manufacturer: United States Gypsum SJ or approved equal. Submit cut-sheet of material.
B. Partition Studs: 20 gauge studs with key-hole shaped punch-outs at 24 inches on center. Manufacturer: United States Gypsum ST or approved equal.
C. Fasteners for Structural Studs: Metal screws as recommended by metal system manufacturer. Weld at all structural connection points.
D. Reinforce framed door and window openings with double studs at each jamb (flange-to-flange and weld) and fasten to runners with screws and weld. Reinforce head with 14 gauge double stud same width as wall. Screw and weld.
E. Provide all accessories as required to fasten metal-framing per manufacturers recommendations.
F. Provide and install flat-strapping at all structural walls (walls with concrete footings beneath the walls). Minimum bracing shall be 25 % of structural walls shall be braced with flat-strapping per Manufacturers recommendations. Weld at all strap ends and at all intermediate studs.
G. Provide foundation clips at 4'-0" on center at structural walls. Anchor with 1/2 inch diameter by 10 inch long anchor bolts.
H. Non-structural interior partitions shall be anchored with power-driven fasteners at 4'-0" on center at the concrete slab.

ACOUSTIC CEILING SYSTEM

SCOPE: All materials and labor for the installation of the Acoustic Ceiling System including T-Bar system, Acoustic Ceiling Panels, Suspension wiring and fastening devices and Glued-down

Ceiling Panels.

A. Manufacturer: Armstrong, or approved equal. Exposed T-bar system; factory painted; steel construction; rated for intermediate duty.
D. Acoustical Tile: "Second Look", conforming to the following:

1. Size: 24 X 48 inches.
2. Thickness: 3/4 inches.
3. Composition: Mineral.
4. NRC Range: .55 to .60.
5. STC Range: 35 to 39.
6. Flame Spread: ASTME84,0-25. UL Label, 25 or under.
7. Edge: Tegular, Lay-in.
8. Surface Color: White.
9. Surface Finish: Factory-applied washable vinyl latex paint.

G. Installation to be per ASTM C636 structural testing. Lateral support for each 96 square feet of ceiling flared at 45 degrees in 4 directions.
H. Provide clips for panel uplift restraints at all panels, 2 per panel.

GYPSUM WALLBOARD

SCOPE: Provide all materials and labor for the installation of Gypsum Wallboard including all accessories and finishes.

A. Standard Gypsum Wallboard: ASTM C36;. Ends square cut, tapered edges.
B. Fire Resistant Gypsum Wallboard: ASTM C36, 5/8 inches thick Type X. Ends square cut, tapered edges. See Drawings for locations.
C. Moisture-resistant gypsum wallboard: ASTM C630-90.
D. Joint-reinforcing Tape and Joint Compound: ASTM C475, as manufactured by or recommended by wallboard manufacturer. Minimum 3 coat application for a smooth finish.
E. Corner Bead: Provide at all exposed outside corners;
F. L-shaped edge trim: Provide at all exposed intersections with different materials.
G. All work shall be done in accordance with the USG recommended method of installation.
1. Finish: smooth.

PAINTING

A. Paint Manufacturers: ICI, Dunn-Edwards Corporation, Kelly Moore.
B. Paint colors shall be selected by the Architect.
C. Painting Schedule: Provide for 4 different color applications
1. P-1: "Field". Color to be selected.
2. P-2: "Accent". Color to be selected.
3. P-3: "Accent". Color to be selected.
4. P-4: "Accent". Color to be selected.
D. Interior Gypsum Wallboard:
1. Primer: Vinyl Wall Primer/Sealer.
2. 1 stand 2nd Coat: Eggshell Acrylic Latex.
E. Metal Framing:
1. Primer: Red Oxide, shop-primed (for non-galvanized) if exposed.
F. Wood Work, Wood Doors:
1. Two coats of transparent finish. Sand lightly between coats with steel wool.

INSULATION

A. R-15 in exterior walls.
B. R-25 on Roof.
C. Sound batts in conference, restroom and lobby walls.

ROOF EQUIPMENT

A. Stainless steel mechanical platform and associated access stairs and guard rail system
B. EIFS roof screen to match detail of exterior GFRC Panel.

FULL HEIGHT GLAZED PARTITION

A. 1/4" glazed partition, in building standard aluminum frame

FINISHES

A. Vinyl Composite Tile: Armstrong stonetex, 12" X 12"
B. Resilient Base: Burke rubber wall base, 4" top set or cove, as appropriate for VCT or carpet.
C. Window Coverings: Miniblinds, Levelor, color: TBD
D. Carpet:

Option 1:	Designweave, Windswept Classic 30 oz. (Direct glue installation) or equal
Option 2: (cut pile) UPGRADE	Designweave, Tempest Classic 32 oz. (Direct glue installation) or equal.
Option 3: (cut pile) UPGRADE	Designweave, Sabre Classic, 38 oz. (Direct glue installation) or equal.

KITCHEN FIXTURES

A. Sink: Ekkay stainless steel, GECR-2521-L&R, 20 gauge, 25"w X 21 1/4" D X 5 3/8" D, ADA compliant.
B. Kitchen Faucet: American Standard, Silhouette Single control, #4205 series, spout 9 3/4".

KITCHEN APPLIANCES

A. Dishwasher:
Option 1: GE GSD463DZWW, 24'W X 24 3/4" D X 34-35" H, 9 gallons/wash
Option 2: Bosch, SHU5300 series, 5.4 gallons/wash-with water heater

B. Refrigerator:
Full Size: GE, "S" series top-mount, TBX16SYZ, 16.4 cubic feet, recessed, recessed handles, 28" W X 29 1/8" D X 66 3/4" H, white, optional factory installed ice-maker.

Under-counter:
Option 1: U-Line, #29R, 3.5 cubic feet, white
Option 2: U-Line, Combo 29FF, Frost Free with factory installed icemaker, 2.1 cubic feet, white

C. Microwave: GE, Spacemaker II JEM25WY, Midsize, 9 cubic feet, 800 watts,

23 13/16" W X 11 13/16"D X 12 5/16" H

Option 1: Under counter Mounting Kit, #4AD19-4
Option 2: Accessory Trim Kit # JXB37WN, 26 1/8" W X 18 1/4" H (built-in application)

D. Garbage Disposal: ISE #77, 3/4" horsepower

E. Water Heater: To be selected by DES.

PUBLIC SPACES

FRONT BUILDING LOBBY

Walk Off Matts:	Design Materials, Sisel, Calcetta #68. Natural, 100% coir
Floor Tile:	3/8" X 18" X 18" Stone or Marble set in mortar bed in recessed slab as approved by Owner
Transition Strips:	5/16" X 1 1/2" X random length strips, cherry wood flooring
Corridor Carpeting:	Carpet over pad, Atlas, New Vista or as approved by Owner
Lobby Ceiling:	Suspended gypsum board ceiling, Painted
Building Lobby: Pendant Fixture	Akarl shades hanging #J1-9 3/4" X 5'-2" or equal as approved by owner.
Stairs & Mezzanine Railing:	P & P Railing, Modesto with custom cherry guard rail Rep: Oliver Capp (805) 241-8810. Hand and guard railing P & P Railings, Modesto stainless steel railing with horizontal spirals and custom cherry guard rail cap by others, fittings dark gray metallic or equal as approved by Owner.

BACK BUILDING LOBBY & EMERGENCY STAIRS

Walk Off Matts:	Design Materials, Sisal, Calcutta #68, Natural, 100% coir.
Treads & Landings:	Carpet covered concrete, as approved by Owner
Stringers, Risers & Handrails	Painted steel stringer, eggshell finish enamel.
Ceiling:	Suspended gypsum board ceiling.

ELEVATORS

Cars:	(1) 3800 lb, (1) 3500 lb 150 ft/min by Otis
Elevator Doors:	Stainless Steel

Elevator

Interior Paneling: Cherry veneer with stainless steel reveals and railing

Elevator Floor: Slate 3/8" X 18" X 18" tile as approved by Owner.

RESTROOMS

Counter tops: Stone/marble or equal as approved by Owner

Walls at Lavatories: Eggshell finish, latex paint, Benjamin Moore

Floor at Toilets: 2" X 2" matte porcelain ceramic floor tiles, thin set, Dal-tile.

Walls at Toilets: 2" X 2" matte porcelain ceramic floor tiles, thin set, Dal-tile.

Ceiling: Suspended gypsum board ceiling.

Toilet compartments:

A. Manufactured floor-anchored metal toilet compartments and wall-hung urinal screens.
B. Approved Manufacturer, Global Steel Products Corp, or approved equal.
C. Toilet Partitions: Stainless Steel finish.
D. Hardware: Hinges: Manufacturer's standard self-closing type that can be adjusted to hold door open at any angle up to 90 degrees. Latch and Keeper: Surface-mounted latch unit, designed for emergency access, with combination rubber-faced door strike and keeper. Coat Hook: Combination hook and rubber-tipped bumper. Door Pull: Manufacturer's standard.

Ceramic Tile

A. Manufacturer: Dal-Tile or approved equal.
B. Size: 4-1/4" X 4-1/4" for walls, 8 X 8 for floors, 3/4" liner strip as accent.
C. Glaze: Satin glaze for walls, unglazed tile for floors.
D. Color: As selected by Architect.
E. Accessories: Base, corners, coved cap and glazed to match
F. Wall and floor installation: per applicable TCA
G. Waterproof Membrane: Chloraloy or approved equal.
H. Tile Backer Board: 1/2 inch thick wonderboard
I. Grout: Commercial Portland Cement Grout; Custom Building Products or approved equal
J. Mortar: Latex-Portland cement mortar; Custom Building Products or approved equal.

RESTROOM:

Toilet: Kohler/American Standard, commercial quality.

Urinal: Kohler/American Standard, commercial quality.

Lavatory: Kohler/American Standard, undercounter.

Lavatory Faucet: Kroin handicap lavatory faucet #HV1LH, polished chrome.

Soap Dispenser Counter: Bobrick, 8226, Lavatory mounted for soaps, 34 fl oz.

Toilet accessories:

A. Manufacturer: Bobrick Washroom Equipment, or approved equal.
B. Schedule: Model numbers used in this schedule are Bobrick (134) unless otherwise noted.
C. Combination Paper Towel Dispenser/Waste Receptacle: Recessed, Model B-3944, one per restroom #7151 and 7152, and two per restroom #7050 and 7061.
D. Feminine Napkin Vendor: Recessed, combination napkin/tampon vendor, Model B-3500, with 25 cent operation, one per each women's toilet room.
E. Soap Dispenser: Lavatory mounted dispenser, Model B-822, one per each lavatory.
F. Toilet Paper Dispenser: Surface-mounted, Model JRT, JR Escort, "In-Sight" by Scott Paper Company, one per stall.

G. Toilet Seat Cover Dispenser: Recessed, wall-mounted, Model B-301, one per stall.
H. Sanitary Napkin Disposal: Recessed, wall-mounted, Model B-353, one per each women's handicapped and odd stall.
I. Sanitary Napkin Disposal: Partition-mounted, Model B-354 (serves two stalls).
J. Grab Bars: Horizontal 36", B6206-36: 42", B62-6-42: one per each handicapped stall.
K. Mop/Broom Holders: B223-24 (one per janitor closet).
L. Paper Towel Dispensers: Recessed mounted, Model B-359, one at side wall adjacent to sink.

TENANT CORRIDORS

Walls:	Eggshell finish, latex paint, Benjamin Moore.
Floors:	Level loop carpet over pad with 4" resilient base as approved by Owner.
Ceiling:	24" X 24" X 3/4" thick fine fissured type mineral fiber, Armstrong Cirus acoustical tile (beveled regular edge) in a 24" X 24" Donn Fineline suspended grid, white finish.
Water Fountain:	Haws Model #1114 Stainless Steel #4.
Cross Corridor Smoke Detector:	3'-6" X full height, 20 minute rated, pocket assembly, on magnetic hold opens.
Corridor Wall Sconce	Carpyen "Berta" 35cm X 33 cm, engraved curved opaque glass,2 X 7-9W, #G-23.or equal as approved by owner

ELECTRICAL

A. 50 foot candles at working surface.

B. 3 Bulb 2X4 parbolic fixtures
C. 1/2 20 Amp circuit for each hard wall office
D. Electrical Devices: Recessed wall mounted devices with plastic cover plate. Color: white, multi-gang plate 80400 Series duplex wall outlets.
E. Telephone/Data Outlets: Recessed wall mounted, Standard 2X4 wall box with 3/4" EMT conduit from box to sub out above ceiling walls pull string, cabling, terminations and cover-plates, color: white, provided by tenant's vendor. Tenant shall furnish telephone backboard.
F. Light Switches: Dual level rocker type, mounted at standard locations, with plastic cover plate, 5325-W cover plate single switch B0401-W, double switch B0409-W. Decors by Leviton, colors: white, and will comply with Title 24 Energy Codes. Decors by Leviton.

MECHANICAL

A. VAV Reheat system - design/build. Each floor to have a minimum of thirty zones. Provide reheat boxes on all zones on top floor and at all exterior zones on lower floor. System shall meet T-24 for ventilation.. Design shall be for 73 deg. Ambient interior temperature and 2 1/2 watts per sq. ft. min.

FIRE SPRINKLER SYSTEM

As required by NFPA & factory mutual standard hazard, seismically braced.

END

SCHEDULE TWO
TO
EXHIBIT C
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE CORPORATION
FOR
Pacific Shores Center
Fifth Floor, Building 8
1300 Seaport Boulevard
Redwood City, California

CONSTRUCTION DRAWINGS REQUIREMENTS

I. Floor Plans Showing:

1. Location and type of all partitions.
2. Location and type of all doors. Indicate hardware and provide keying schedule.
3. Location and type of glass partitions, windows, and doors. Indicate framing and reference full-height partitions.
4. Locations of telephone equipment room.
5. Critical dimensions necessary for construction, with indication of required clearances.
6. Location and types of all electrical items: outlets, switches, telephone outlets and lighting.
7. Location and type of equipment that will require special electrical requirements. Provide manufacturers' specifications for use and operation, including heat output.
8. Location, weight per square foot, and description of any heavy equipment or filing system.
9. Requirements for special air-conditioning or ventilation.
10. Location and type of plumbing.
11. Location and type of kitchen equipment.
12. Location, type and color of floor covering, wall covering, paint and finishes.

II. Details Showing
1. All millwork with verified dimensions of all equipment to be built in.
2. Corridor entrance.
3. Bracing or support of special walls, glass partitions, etc., if desired. If not included with the plans, Tenant's engineer will design all support or bracing required at Tenant's expense.

III. Additional Information
1. Provide Landlord with Title 24 energy calculations.

EXHIBIT D
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

COST RESPONSIBILITIES OF LESSOR AND LESSEE
FOR SHELL AND TENANT IMPROVEMENTS

[Intentionally Omitted]

EXHIBIT E
TO
PACIFIC SHORES DEVELOPMENT LLC
LEASE
TO
ARQULE, INC.
FOR
PREMISES
AT
Pacific Shores Center
Fifth Floor, Building 8
Redwood City, California 94063

MEMORANDUM
OF
COMMENCEMENT OF LEASE TERM

Pursuant to Article III, Section 3.01, paragraph (a) of the above-referenced Lease, the parties to said Lease agree to the following:

1. The Commencement Date of the Lease is MARCH 1, 2002 and the Lease Term commenced on said date. The Expiration Date for the initial Lease Term is FEBRUARY 28, 2010.
2. The date for commencement of Base Rent for the Premises is AUGUST 1, 2002.
3. Attached hereto as a part hereof is a true and correct schedule of Base Rent.

4. The total Rentable Area of the Premises is an agreed THIRTY-THREE THOUSAND SIX HUNDRED NINETY-NINE (33,699) rentable square feet.

Each person executing this Memorandum certifies that he or she is authorized to do so on behalf of and as the act of the entity indicated. Executed as of March _____, 2002, at Redwood City (San Mateo County), California.

PACIFIC SHORES DEVELOPMENT, LLC
a Delaware limited liability company

By: Technology Land, LLC

Its: Operating Member

By: ----------
Jay Paul

Its: Sole Member

ArQule, Inc.,
a Delaware corporation

By: ----------

(Type or print name)

Its: ----------

By: ----------

(Type or print name)

Its: ----------

SCHEDULE TO EXHIBIT E

PACIFIC SHORES CENTER, REDWOOD CITY, CA
MEMORANDUM AND COMMENCEMENT OF RENT
TERM AND SCHEDULE OF BASE RENT

BUILDING 8 - 5TH FLOOR

BEGINNING	RENTAL RATE	SQ. FT.	MONTHLY	ANNUALLY
3/1/02	$2.25	33,699	$75,822.75	$ 909,873.00(1),(2)
3/1/03	$2.34	33,699	$78,855.66	$ 946,267.92
3/1/04	$2.43	33,699	$82,009.89	$ 984,118.68
3/1/05	$2.53	33,699	$85,290.28	$1,023,483.36
3/1/06	$2.63	33,699	$88,701.89	$1,064,422.68
3/1/07	$2.74	33,699	$92,249.97	$1,106,999.64
3/1/08	$2.85	33,699	$95,939.97	$1,151,279.64
3/1/09	$2.96	33,699	$99,777.57	$1,197,330.84

(1) Subject, however, to the advance payment of first month's Base Rent.
(2) Subject, however, to free Base Rent according to the lease.

EXHIBIT F
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
Redwood City, California 94063

SNDA

(See Permanent SNDA Sample Attached)

SUBORDINATION, NON-DISTURBANCE
AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (this "Agreement") made as of the _____ day of _____, 2002, by and among Nomura Asset Capital Corporation ("Lender"), _____ ("Tenant") and _____ ("Landlord").

WITNESSETH:

WHEREAS, Lender has agreed to make a loan (the "Loan") of up to _____ to Landlord;

WHEREAS, the Loan will be evidenced by a deed of trust note (the "Note") of even date herewith made by Landlord to order of Lender and will be secured by, among other things, a deed of trust, assignment of leases and rents and security agreement (the "Deed of Trust") of even date herewith made by Landlord to Lender covering the land (the "Land") described on Exhibit A attached hereto and all improvements (the "Improvements") now or hereafter located on the land (the Land and the Improvements hereinafter collectively referred to as the "Property"); and

WHEREAS, by a lease dated as of _____ (which lease, as the same may have been amended and supplemented, is hereinafter called the "Lease"), Landlord leased to Tenant approximately _____ square feet of space located in the Improvements (the "Premises"); and

WHEREAS, the parties hereto desire to make the Lease subject and subordinate to the Deed of Trust.

NOW, THEREFORE, the parties hereto, in consideration of the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby agree as follows:

1. The Lease, as the same may hereafter be modified, amended or extended, and all of Tenant's right, title and interest in and to the Premises and all rights, remedies and options of Tenant under the Lease, are and shall be unconditionally subject and subordinate to the Deed of Trust and the lien thereof, to all the terms, conditions and provisions of the Deed of Trust, to each and every advance made or hereafter made under the Deed of Trust, and to all renewals, modifications, consolidations, replacements, substitutions and extensions of the Deed of Trust, so that at all times the Deed of Trust shall be and remain a lien on the Property prior and superior to the Lease for all purposes; provided, however, and Lender agrees, that so long as (A) no event has occurred and no condition exists, which would entitle Landlord to terminate the Lease or would cause, without further action of Landlord, the termination of the Lease or would entitle Landlord to dispossess Tenant from the Premises, (B) the term of the Lease has commenced and

Tenant is in possession of the Premises, (C) the Lease shall be in full force and effect and shall not have been otherwise modified or supplemented in any way without Lender's prior written consent, (D) Tenant shall duly confirm its attornment to Lender or its successor or assign by written instrument as set forth in Paragraph 3 hereof, (E) neither Lender nor its successors or assigns shall be liable under any warranty of construction contained in the Lease or any implied warranty of construction, and (F) all representations and warranties made herein by Tenant shall be true and correct as of the date of such attornment; then, and in such event Tenant's leasehold estate under the Lease shall not be terminated, Tenant's possession of the Premises shall not be disturbed by Lender and Lender will accept the attornment of Tenant.

2. Notwithstanding anything to the contrary contained in the Lease, Tenant hereby agrees that in the event of any act, omission or default by Landlord or Landlord's agents, employees, contractors, licensees or invitees which would give Tenant the right, either immediately or after the lapse of a period of time, to terminate the Lease, or to claim a partial or total eviction, or to reduce the rent payable thereunder or credit or offset any amounts against future rents payable thereunder, Tenant will not exercise any such right (i) until it has given written notice of such act, omission or default to Lender by delivering notice of such act, omission or default, in accordance with Paragraph 8 hereof, and (ii) until a period of not less than thirty (30) days for remedying such act, omission or default shall have elapsed following the later of (i) the giving of such notice, and (ii) the date on which the Landlord's time to cure (under Section 12.03 of this Lease) has expired. Notwithstanding the foregoing, in the case of any default of Landlord which cannot be cured within such thirty (30) day period, if Lender shall within such period proceed promptly to cure the same (including such time as may be necessary to acquire possession of the Premises if possession is necessary to effect such cure) and thereafter shall prosecute the curing of such default with diligence, then the time within which such default may be cured by Lender shall be extended for such period as may be necessary to complete the curing of the same with diligence. Lender's cure of Landlord's default shall not be considered an assumption by Lender of Landlord's other obligations under the Lease. Unless Lender otherwise agrees in writing, Landlord shall remain solely liable to perform Landlord's obligations under the Lease (but only to the extent required by and subject to the

limitation included with the Lease), both before and after Lender's exercise of any right or remedy under this Agreement. If Lender or any successor or assign becomes obligated to perform as Landlord under the Lease, such person or entity will be released from those obligations when such person or entity assigns, sells or otherwise transfers its interest in the Premises or the Property. Nothing in this paragraph 2 shall be deemed to affect tenant's rights under Section 12.03 of this Lease

3. Without limitation of any of the provisions of the Lease, in the event that Lender succeeds to the interest of Landlord or any successor to Landlord, then subject to the provisions of this Agreement including, without limitation, Paragraph 1 above, the Lease shall nevertheless continue in full force and effect and Tenant shall and does hereby agree to attorn to and accept Lender and to recognize Lender as its Landlord under the Lease for the then remaining balance of the term thereof, and upon request of Lender, Tenant shall execute and deliver to Lender an agreement of attornment reasonably satisfactory to Lender.

4. If Lender succeeds to the interest of Landlord or any successor to Landlord, in no event shall Lender have any liability for any act or omission of any prior landlord under the Lease which occurs prior to the date Lender succeeds to the rights of Landlord under the Lease, nor any liability for claims, offsets or defenses which Tenant might have had against Landlord. In no event shall Lender have any personal liability as successor to Landlord and Tenant shall look only to the estate and property of Lender in the Land and the Improvements for the satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money in the event of any default by Lender as Landlord under the Lease, and no other property or assets of Lender shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to the Lease.

5. Tenant agrees that no prepayment of rent or additional rent due under the Lease of more than one month in advance, and no amendment, modification, surrender or cancellation of the Lease, and no waiver or consent by Landlord under the terms of the Lease, shall be binding upon or as against Lender, as holder of the Deed of Trust, and as Landlord under the Lease if it succeeds to that position, unless consented to in writing by Lender. In addition, and notwithstanding anything to the contrary set forth in this Agreement, Tenant agrees that Lender, as holder of the Deed of Trust, and as Landlord under the Lease if it succeeds to that position, shall in no event have any liability for the performance or completion of any initial work or installations or for any loan or contribution or rent concession towards initial work, which are required to be made by Landlord (A) under the Lease or under any related Lease documents or (B) for any space which may hereafter become part of said Premises, and any such requirement shall be inoperative in the event Lender succeeds to the position of Landlord prior to the completion or performance thereof. Tenant further agrees with Lender that Tenant will not voluntarily subordinate the Lease to any lien or encumbrance without Lender's prior written consent.

6. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute and be construed as one and the same instrument.

7. All remedies which Lender may have against Landlord provided herein, if any, are cumulative and shall be in addition to any and all other rights and remedies provided by law and by other agreements between Lender and Landlord or others. If any party consists of multiple individuals or entities, each of same shall be jointly and severally liable for the obligations of such party hereunder.

8. All notices to be given under this Agreement shall be in writing and shall be deemed served upon receipt by the addressee if served personally or, if mailed, upon the first to occur of receipt of the refusal of delivery as shown on a return receipt, after deposit in the United States Postal Service certified mail, postage prepaid, addressed to the address of Landlord, Tenant or Lender appearing below, or, if sent by telegram, when delivered by or refused upon attempted delivery by the telegraph office. Such addresses may be changed by notice given in

the same manner. If any party consists of multiple individuals or entities, then notice to any one of same shall be deemed notice to pay such party.

LENDER'S ADDRESS:

Nomura Asset Capital Corporation
Two World Financial Center, Building B
New York, New York 10281-1198
Attn: Ms. Sheryl McAfee

TENANT'S ADDRESS:

- ----------

- ----------

- ----------

- ----------

Attn:

LANDLORD'S ADDRESS:

- ----------

- ----------

- ----------

- ----------

Attn:
---

9. This Agreement shall be interpreted and construed in accordance with and governed by the laws of the State of California.

10. This Agreement shall apply to, bind and inure to the benefit of the parties hereto and their respective successors and assigns. As used herein "Lender" shall include any subsequent holder of the Deed of Trust.

11. Tenant acknowledges that Landlord has assigned to Lender its right, title and interest in the Lease and to the rents, issues and profits of the Property and the Property pursuant to the Deed of Trust, and that Landlord has been granted the license to collect such rents provided no Event of Default has occurred under, and as defined in, the Deed of Trust. Tenant agrees to pay all rents and other amounts due under the Lease directly to Lender upon receipt of written demand by Lender, and Landlord hereby consents thereto. The assignment of the Lease to Lender, or the collection of rents by Lender pursuant to such assignment, shall not obligate Lender to perform Landlord's obligations under the Lease.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

NOMURA ASSET CAPITAL CORPORATION,
a Delaware corporation

By:

Name:
Title:

[LANDLORD]

By:

[TENANT]

By:

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, 2000, before me, _____ the undersigned, a notary public in and for said state, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me

that he/she executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

EXHIBIT G
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

SIGNAGE EXHIBIT

SIGNAGE POLICY

MULTI TENANT BUILDINGS

Each Tenant of at least one full floor in multi-tenant Buildings will be permitted (subject to compliance with Section 17.15 of the Lease) to place one sign on a shared monument to be located near the entrance to the parking lot associated with the Building ("SHARED MONUMENT"). The exact size, design, color, location and materials of the Shared Monument, and of the Tenant's sign on the Shared Monument, will be determined by Lessor in its sole and absolute discretion, provided that Lessor will not unreasonably withhold its consent to a Tenant sign which employs a design and color commonly used by such Tenant for marketing purposes so long as it fits within the space allocated by Lessor, and so long as it is in keeping with the overall design scheme of the Project. Lessor reserves the right, to be exercised in its sole and absolute discretion, to permit multi-floor Tenants to place signage on the exterior surfaces of each multi-tenant Building, as well as the right to allow different or additional signage anywhere in the Project, provided that, so long as Lessor may lawfully do so, Lessor will not reduce the size of space allocated to a Tenant on the Shared Monument to a size smaller than that permitted as of the commencement date of such Tenant's Lease, unless the size of the premises subject to such lease decreases from its size as of the lease commencement date or unless Lessor provides alternate signage of reasonably equivalent visibility.

EXHIBIT H
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

GUARANTY OF LEASE

[Intentionally Omitted]

EXHIBIT I
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as

LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

HAZARDOUS MATERIALS DISCLOSURE

Lessor has provided Lessee, and Lessee acknowledges that it has received and pursuant to Section 17.22(b) of the Lease, reviewed same, a copy of each of those certain documents entitled: (i) PHASE I, ENVIRONMENTAL SITE ASSESSMENT, PACIFIC SHORES CENTER, REDWOOD CITY, CALIFORNIA, Prepared for: The Jay Paul Company, San Francisco, California, Prepared by: IRIS ENVIRONMENTAL, Oakland, California, December 20, 1999, Job No. 99-122A; and (ii) PHASE II, ENVIRONMENTAL SITE ASSESSMENT, PACIFIC SHORES CENTER, 1000 SEAPORT BOULEVARD, REDWOOD CITY, CALIFORNIA, Prepared for: The Jay Paul Company, San Francisco, California, Prepared by: IRIS ENVIRONMENTAL, Oakland, California, January 14, 1999, Job No. 99-122-B

LESSEE

ARQULE, INC.,
A DELAWARE CORPORATION

By:

(Type or print name)

Its:

By:

(Type or print name)

Its:

EXHIBIT J
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

NOTICE TO TENANTS AND TRANSFEREES OF
CURRENT OR FUTURE USES OF ADJACENT PORT PROPERTY

Notice is hereby given to all lessees, tenants and transferees of land or interests in land located within Pacific Shores Center of the presence or potential future presence of Port related industrial activities on Port property adjacent to and west of Pacific Shores Center. All recipients of this notice should be aware of the following facts:

1. The parcel of Port property adjacent to Pacific Shores Center to the northwest shown on the Exhibit __A__ attached hereto (the "Port Parcel") is now or may be developed for Port related maritime and industrial uses similar to those occupying other properties along the west side of Seaport Boulevard and to the west of Pacific Shores Center.

2. Such Port related maritime and industrial activities are those which are permitted by the general industrial zoning of the City of Redwood City and may include heavy industrial land uses, including uses which involve the receipt, transport, storage or management of hazardous wastes, aggregates, cement, gravel and similar materials, including the outdoor storage and handling of such

materials.

3. Pacific Shores Center Limited Partnership, on behalf of itself, its successors and assigns, has recognized, accepted and approved such uses of the Port Parcel subject to the utilization of Best Available Management Practices in the development and use of the Port Parcel. Best Available Management Practices are defined on Exhibit _B_ attached hereto.

4. Despite the use of Best Available Management Practices on the Port Parcel by the

Port and its lessees and licensees and despite Pacific Shores Center Limited Partnership's efforts to ensure compatibility between such uses and those in Pacific Shores Center, it is possible that such uses will cause emissions into the air of dust or other particulate matter, or noise or odorous substances which may be offensive to or be perceived as a nuisance by occupants of Pacific Shores Center.

5. Pursuant to covenants made by Pacific Shores Center Limited Partnership on behalf of its successors and assigns, tenants and lessees, the tenants, lessees and transferees of Pacific Shores Center Limited Partnership have approved and accepted such neighboring uses subject to their utilization of Best Available Management Practices.

6. Any actions to enjoin the continuation of such uses or to recover any damages to persons or property related to their operations are subject to a requirement for prior notice found in recorded covenants by Pacific Shores Center Limited Partnership. The following language is excerpted from such covenants:

> "In the event that either party hereto believes that the other has failed to perform any covenant made herein in favor of the other, at least ten (10) days prior to the commencement of any action to enforce the covenants hereunder or to recover damages for the breach thereof, that party who believes that a failure to perform has occurred (the "Complaining Party") shall give written notice (the "Notice") to the party alleged not to have performed the covenant (the "Non-Complaining Party") of the specific nature of the alleged failure and of the intent of the Complaining Party to take action to remedy the breach by the Non-Complaining Party. In the event that the nature of the alleged failure to perform is such that the same cannot reasonably be cured within ten (10) days after receipt of the Notice (the "Notice Period"), the Non-Complaining Party shall not be deemed to be in violation of its covenants and no action shall be commenced by the Complaining Party if, within the Notice Period, the Non-Complaining Party commences such cure and thereafter diligently and continuously prosecutes the same to completion within a reasonable time. Provided, however, that the Complaining Party shall not be precluded from recovering any actual damages suffered by reason of the alleged failure to perform prior to or after delivery of the Notice, whether or not such failure is thereafter cured."

EXHIBIT A
TO
EXHIBIT J
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.
A DELAWARE CORPORATION
AS
LESSEE
FOR
PREMISES
AT
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
1300 SEAPORT BOULEVARD
REDWOOD CITY, CALIFORNIA 94063

Graphic representation [map] of parcel of property adjacent to the Pacific Shores Center located to the Northwest.

EXHIBIT B

TO
EXHIBIT J
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.
A DELAWARE CORPORATION
as
LESSEE
FOR
PREMISES
AT
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
1300 SEAPORT BOULEVARD
REDWOOD CITY, CALIFORNIA 94063

DEFINITION OF "BEST AVAILABLE MANAGEMENT PRACTICES"
(Exchange Parcel and New Road Access)

"Best Available Management Practices ("BAMP") means the following.

1. Compliance with all laws, rules and regulations, and operating permits, whether Federal, state or local, applicable to the uses of the Exchange Parcel and industrial operations thereon, including without limitation all laws, rules and regulations and operating permits applicable to emissions into the air of gases, substances and particulate matter, the generation or release of odors or odorous substance into the air, and the generation of noise.

2. Initiation and maintenance of reasonable precautions to minimize emission and transport of dust from the Exchange Parcel and the New Road Access onto the Project Site. As used herein the term "reasonable precautions" shall mean the use of materials, techniques and equipment reasonably available at the time of commencement of a use or operation and designed to minimize emissions during predictably adverse climatic conditions common in the area (collectively, "initial measures") plus the addition of one or more of the following additional measures if not already in use and if initial measures prove inadequate to achieve minimization of emission and transport of dust onto the Project Site:

(a) Paving of surfaces used for active operations where the absence of such paving causes emission and transport of dust onto the Project Site;

(b) Installation of wind fences to a height of not less than 20 feet with 50% porosity around areas of open storage and areas of active dust-generating uses causing emission and transport of dust onto the Project Site;

(c) Use of storage silos, open-ended enclosures or water spray equipment for the outdoor storage and handling of materials, such as rock, concrete, soil, mineral substances, and similar materials, causing emission and transport of dust onto the Project Site;

(d) Installation of enclosures or use of water or foam spray bars both above and below the belt surface of all conveyers used for loading and unloading materials, causing emission and transport of dust onto the Project Site; and

3. Initiation of a reasonable, regularly scheduled sweeping program for the New Road Access to minimize accumulation of dust and dirt and/or installation of dust traps, wheel washers or other methods of minimizing the tracking of dust onto the Road Access Area and resulting emission and transport of dust onto the Project Site.

EXHIBIT K
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

NOTICE TO PACIFIC SHORES TENANTS, LESSEES, SUCCESSORS, ASSIGNS AND TRANSFEREES

REGARDING CURRENT OR FUTURE USES OF ADJACENT RMC LONESTAR AND PORT PROPERTY

Notice is hereby given to all tenants, lessees, successors, assigns and transferees of land or interest in land located within the Pacific Shores Center of the presence or potential future presence of maritime and industrial activities on RMC Lonestar and Port of Redwood City property west and adjacent to Pacific Shores Center. Recipients of this notice should be aware of the following:

1. The RMC Lonestar property and parcels of port property adjacent to and west of Pacific Shores Center are shown on the map attached to this notice. The RMC Lonestar and Port properties are now devoted to, or will be developed for, maritime and industrial uses.

2. These maritime and industrial uses are those which are permitted by the "Heavy Industry" General Plan designation and general industrial zoning of the City of Redwood City. These uses include, by way of example and not limitation, uses involving the receipt, transport, storage, handling, processing or management of aggregates, cement, concrete, asphalt, soil or other landscaping materials, recyclable metals and plastics, recyclable concrete and asphalt, chemicals, petroleum products, hazardous wastes, and similar materials, including indoor storage, mixing and handling of these materials.

3. These uses may cause, on either a regular or intermittent basis, air emissions,

including without limitation, dust and other particulates, odors, vibrations, loud noises, and heavy truck, rail or marine vessel traffic. These uses may have visual, aesthetic or other aspects that may be offensive or perceived as a nuisance by occupants of Pacific Shores Center.

EXHIBIT L
TO
PACIFIC SHORES DEVELOPMENT, LLC
LEASE
TO
ARQULE, INC.,
a Delaware corporation
as
LESSEE
for
PREMISES
at
PACIFIC SHORES CENTER
FIFTH FLOOR, BUILDING 8
REDWOOD CITY, CALIFORNIA 94063

RULES AND REGULATIONS

1. Lessee and Lessee's employees shall not in any way obstruct the sidewalks, entry passages, pedestrian passageways, driveways, entrances and exits to the Project or the Building, and they shall use the same only as passageways to and from their respective work areas.

2. Any sash doors, sashes, windows, glass doors, lights and skylights that reflect or admit light into the Common Area of the Project shall not be covered or obstructed by the Lessee. Water closets, urinals and wash basins shall not be used for any purpose other than those for which they were constructed, and no rubbish, newspapers, food or other substance of any kind shall be thrown into them. Lessee shall not mark, drive nails, screw or drill into, paint or in any way deface the exterior walls, roof, foundations, bearing walls or pillars without the prior written consent of Lessor, which consent may be withheld in Lessor's sole discretion. The expense of repairing any breakage, stoppage or damage resulting from a violation of this rule shall be borne by Lessee.

3. No awning or shade shall be affixed or installed over or in the windows or the exterior of the Premises except with the consent of Lessor, which may be withheld in Lessor's discretion.

4. No boring or cutting for wires shall be allowed, except with the consent of Lessor, which consent may be withheld in Lessor's discretion.

5. Lessee shall not do anything in the Premises, or bring or keep anything therein, which will in any way increase or tend to increase the risk of fire or the rate of fire insurance or which shall conflict with the regulations of the fire department or the law or with any

insurance policy on the Premises or any part thereof, or with any rules or regulations established by any administrative body or official having jurisdiction, and it shall not use any machinery therein, even though its installation may have been permitted, which may cause any unreasonable noise, jar, or tremor to the floors or walls, or which by its weight might injure the floors of the Premises.

6. Lessor may reasonably limit weight, size and position of all safes, fixtures and other equipment used in the Premises. If Lessee shall require extra heavy equipment, Lessee shall notify Lessor of such fact and shall pay the cost of structural bracing to accommodate it. All damage done to the Premises or Project by installing, removing or maintaining extra heavy equipment shall be repaired at the expense of Lessee.

7. Lessee and Lessee's officers, agents and employees shall not make nor permit any loud, unusual or improper noises nor interfere in any way with other Lessees or those having business with them, nor bring into or keep within the Project any animal or bird or any bicycle or other vehicle, except such vehicle as Lessor may from time to time permit.

8. No machinery of any kind will be allowed in the Premises without the written consent of Lessor. This shall not apply, however, to customary office equipment or trade fixtures or package handling equipment.

9. All freight must be moved into, within and out of the Project only during such hours and according to such reasonable regulations as may be posted from time to time by Lessor.

10. No aerial or satellite dish or similar device shall be erected on the roof or exterior walls of the Premises, or on the grounds, without in each instance, the written consent of Lessor. Any aerial so installed without such written consent shall be subject to removal without notice at any time. Lessor may withhold consent in its sole discretion.

11. All garbage, including wet garbage, refuse or trash shall be placed by the Lessee in the receptacles appropriate for that purpose and only at locations prescribed by the Lessor.

12. Lessee shall not burn any trash or garbage at any time in or about the Premises or any area of the Project.

13. Lessee shall observe all security regulations issued by the Lessor and comply with instructions and/or directions of the duly authorized security personnel for the protection of the Project and all tenants therein.

14. Any requirements of the Lessee will be considered only upon written application to Lessor at Lessor's address set forth in the Lease.

15. No waiver of any rule or regulation by Lessor shall be effective unless expressed in writing and signed by Lessor or its authorized agent.

16. Lessor reserves the right to exclude or expel from the Project any person who, in the judgment of Lessor, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of the law or the rules and regulations of the Project.

17. Lessor reserves the right at any time to change or rescind any one or more of these rules and regulations or make such other and further reasonable rules and regulations as in Lessor's judgment may from time to time be necessary for the operation, management, safety, care and cleanliness of the Project and the Premises, and for the preservation of good order therein, as well as for the convenience of other occupants and tenants of the Project. Lessor shall not be responsible to Lessee or the any other person for the non-observance or violation of the rules and regulations by any other tenant or other person. Lessee shall be deemed to have read these rules and have agreed to abide by them as a condition to its occupancy of the Premises.

18. Lessee shall abide by any additional rules or regulations which are ordered or requested by any governmental or military authority.

19. In the event of any conflict between these rules and regulations, or any further or modified rules and regulations from time to time issued by Lessor, and the Lease provisions, the Lease provisions shall govern and control.

20. Lessor specifically reserves to itself or to any person or firm it selects, (i) the right to place in and upon the Project, coin-operated machines for the sale of cigarettes, candy and other merchandise or service, and (ii) the revenue resulting therefrom.

Exhibit 10.12

[LETTERHEAD OF THRESHOLD PHARMACEUTICALS, INC.]

September 3, 2004

William A. Halter
101 Constitution Ave., NW
Suite 600 West
Washington, CD 2001

Dear Bill:

On behalf of Threshold Pharmaceuticals, Inc. (the "Company"), I am pleased to confirm your appointment to the Company's Board of Directors. This appointment is effective as of the next meeting of the Board of Directors, currently scheduled for September 22, 2004, provided you accept such offer as indicated by your signature below. Your appointment to the Board is for an indefinite term, until your successor has been duly elected and qualified. If the Company completes its initial public offering, you will be classified as a Class III director, to serve until the Company's 2007 annual meeting of stockholders. You may be removed from the Board at any time by action of the company's stockholders.

As compensation for being on our Board of Directors, you will receive an option to purchase 40,000 shares of Common Stock (the "Shares"), pursuant to the Company's 2001 Equity Incentive Plan. The exercise price for the Shares will be equal to the current fair market value of the Company's Common Stock, as determined by the Board of Directors. The option will vest at the rate of 1/36th of the Shares per month, commencing September 22, 2004, provided you continue to serve as a member of the Board. In addition, the option will vest in its entirety upon a "change of control" of the Company, as will be defined in the agreement between you and the Company, as well as in the event of your death. You will also be entitled to either additional fully-vested option grants for 20,000 shares on each anniversary of your appointment to the Board of Directors commencing in 2005, or if the Company completes its initial public offering, to additional option grants as a non-employee director of the Company pursuant to the Company's 2004 Equity Incentive Plan.

In addition, you will receive a retainer of $20,000 per year, plus $2,500 per in-person board meeting attended in excess of five in-person meetings and three dinners per year, and $500 per telephonic board meeting. You will also receive $1,000 per year retainer for service on any board committee, and a $2,500 per year retainer for serving as a committee chairperson. All payments will be subject to applicable withholding taxes, if any.

The Company will indemnify you pursuant to its standard form of Indemnification Agreement, a copy of which is attached.

Our next scheduled Board meeting is September 22, with an anticipated dinner the evening before. As for the schedule thereafter, we will review and finalize that at the next meeting. You will be expected to attend BOD meetings in person whenever you are able. The Company will reimburse you for all reasonable expenses incurred in support of your responsibilities to the BOD.

On behalf of the entire team, I look forward to working with you to make Threshold Pharmaceuticals, Inc. the great success we all know it can be.

Sincerely,

/s/ Harold E. Selick

Harold E. Selick
Chief Executive Officer

Accepted and acknowledged:

/s/ William A. Halter

Date: 9/14/04

Exhibit 10.13

[LETTERHEAD OF THRESHOLD PHARMACEUTICALS, INC.]

September 3, 2004

Goerge G.C. Parker, Ph.D.
280 Mapache Drive
Portola Valley, CA 94028

Dear George:

On behalf of Threshold Pharmaceuticals, Inc. (the "Company"), I am pleased to confirm your appointment to the Company's Board of Directors. This appointment is effective as of the next meeting of the Board of Directors, currently scheduled for September 22, 2004, provided you accept such offer as indicated by your signature below. Your appointment to the Board is for an indefinite term, until your successor has been duly elected and qualified. If the Company completes its initial public offering, you will be classified as a Class III director, to serve until the Company's 2007 annual meeting of stockholders. You may be removed from the Board at any time by action of the company's stockholders.

As compensation for being on our Board of Directors, you will receive an option to purchase 40,000 shares of Common Stock (the "Shares"), pursuant to the Company's 2001 Equity Incentive Plan. The exercise price for the Shares will be equal to the current fair market value of the Company's Common Stock, as determined by the Board of Directors. The option will vest at the rate of 1/36th of the Shares per month, commencing September 22, 2004, provided you continue to serve as a member of the Board. In addition, the option will vest in its entirety upon a "change of control" of the Company, as will be defined in the agreement between you and the Company, as well as in the event of your death. You will also be entitled to either additional fully-vested option grants for 20,000 shares on each anniversary of your appointment to the Board of Directors commencing in 2005, or if the Company completes its initial public offering, to additional option grants as a non-employee director of the Company pursuant to the Company's 2004 Equity Incentive Plan.

In addition, you will receive a retainer of $20,000 per year, plus $2,500 per in-person board meeting attended in excess of five in-person meetings and three dinners per year, and $500 per telephonic board meeting. You will also receive $1,000 per year retainer for service on any board committee, and a $2,500 per year retainer for serving as a committee chairperson. All payments will be subject to applicable withholding taxes, if any.

The Company will indemnify you pursuant to its standard form of Indemnification Agreement, a copy of which is attached.

Our next scheduled Board meeting is September 22, with an anticipated dinner the evening before. As for the schedule thereafter, we will review and finalize that at the next meeting. You will be expected to attend BOD meetings in person whenever you are able. The Company will reimburse you for all reasonable expenses incurred in support of your responsibilities to the BOD.

On behalf of the entire team, I look forward to working with you to make Threshold Pharmaceuticals, Inc. the great success we all know it can be.

Sincerely,

/s/ Harold E. Selick

Harold E. Selick
Chief Executive Officer

Accepted and acknowledged:

/s/ George G.C. Parker

Date: 9/7/04

EXHIBIT 10.14

DEVELOPMENT

AGREEMENT

BETWEEN

THRESHOLD PHARMACEUTICALS, INC.

AND

MEDIBIC CO., LTD.

DEVELOPMENT AGREEMENT

THIS AGREEMENT is entered into as of the 30th day of November, 2004, ("Effective Date") by and between**THRESHOLD PHARMACEUTICALS, INC.,** a Delaware corporation having its principal place of business at 951 Gateway Blvd., Suite 3A, South San Francisco, CA 94080, U.S.A. ("Threshold"), and **MEDIBIC CO., LTD.,** a Japan corporation, having its head office at Daido Seimei Kasumigaseki Building 8F, 1-4-2 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013 Japan ("MediBIC").

RECITALS

WHEREAS, Threshold is engaged in the research and development of therapeutic pharmaceutical products and desires funding and development expertise to support the development in Asia of its glufosfamide product candidate;

WHEREAS, MediBIC is also engaged in the development of therapeutic pharmaceutical products; and

WHEREAS, Threshold and MediBIC desire to establish a relationship to develop in Asia a therapeutic product containing glufosfamide for the treatment of cancer;

NOW, THEREFORE, in consideration of the foregoing and the covenants and promises contained herein, the parties agree as follows:

ARTICLE 1

DEFINITIONS

As used herein, the following terms shall have the following meaning, and the singular shall include the plural and vice versa:

1.1 "Affiliate" shall mean any corporation or other entity which controls, is controlled by, or is under common control with a party. A corporation or other entity shall be regarded as in control of another corporation or entity if it owns or directly or indirectly controls more than fifty percent (50%) of the voting stock or other ownership interest of the other corporation or entity, or if it possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the corporation or other entity or the power to elect or appoint more than fifty percent (50%) of the members of the governing body of the corporation or other entity. Notwithstanding the foregoing, in no event shall any corporation or other entity in which MediBIC holds a equity or other ownership interest greater than 5% be deemed a Threshold Affiliate.

1.2 "Agreement" shall mean this Development Agreement.

1.3 "Asian Territory" shall mean Japan, North Korea, South Korea, China, Taiwan, Hong Kong, Indonesia, the Philippines, Thailand, Vietnam, Malaysia, Myanmar, Singapore, Cambodia, Laos, Bangladesh, India, and Brunei.

1.4 "Commercialization" shall mean all activities that are undertaken during the term of this Agreement that relate to the commercial manufacture, marketing, and sale of Compound Product in the Asian Territory, including advertising, education, planning, marketing, promotion, distribution, market and product support studies for the Compound Product in the Asian Territory.

1.5 "Compound" shall mean glufosfamide.

1.6 "Compound Product" shall mean any product that was developed by Threshold or a sublicensee of Threshold for marketing as a therapeutic that contains the Compound and that is for the treatment of cancer.

1.7 "Confidential Information" shall mean, subject to the limitations set forth in Section 8.1 hereof, information disclosed to one party by the other party.

1.8 "Development Plan" shall mean the plan agreed upon by the Parties under Article 4 of this Agreement for the development of Compound Product.

1.9 "Field" shall mean all human cancer therapeutic uses.

1.10 "First Indication" means that particular type of cancer that the Development Plan, agreed upon by the Parties, describes as the first cancer indication for which regulatory approval for the Compound Product will be sought in the Asian Territory.

1.11 "Initiation" means, with respect to the particular phase of a clinical trial (e.g., Phase I, Phase II or Phase III), the dosing of the first human patient in such trial.

1.12 "Japanese Pharmaceutical Company" shall mean a pharmaceutical company that maintains its corporate headquarters and its principal place of business in Japan.

1.13 "MediBIC Know-How" shall mean, to the extent MediBIC is free to grant rights therein and it is necessary and useful for the development, manufacture or sale of Compound Product, all tangible or intangible know-how, trade secrets, inventions (whether or not patentable), data, clinical and preclinical results, information, and any physical, chemical or biological material, including cell lines, any replication or any part of such material, which MediBIC owns, controls or has a license to (with right to sublicense) during the term of this Agreement.

1.14 "MediBIC Payment" shall mean the payment made by MediBIC to Threshold per the terms of Article 3.

1.15 "MHW" shall mean the Japanese Ministry of Health and Welfare or such other agency or instrumentality of Japan to which the responsibilities and authority of the MHW are given or delegated from time to time.

1.16 "Net Revenues" shall mean, for purposes of Section 6.1, the upfront fees, milestone payments and royalties received by Threshold in the Asian Territory for the development and Commercialization of the Compound Product, excluding the US$4,750,000 to be paid by MediBIC as described in Section 3.1 of this Agreement, less any royalties and other milestones owed by

Threshold to a third party for such development and Commercialization. The Parties agree that, with respect to the up-front and any milestone payments that have been or are later paid to Baxter International, Inc., or its affiliates ("Baxter") by Threshold pursuant to Threshold's license agreement with Baxter for licensing of the Compound, one-third of such payments shall be attributable to development and Commercialization of Compound Product in the Asian Territory and therefore deducted from gross revenue. All of the subsequent royalties owed to Baxter for sales of Compound Product in the Asian Territory shall be deductible from gross revenues. For purposes of this definition, "gross revenue" shall mean, in the event that Threshold sublicenses a third party to develop and/or Commercialize Compound Product in the Asian Territory, the milestones and royalty payments received by Threshold from said third party.

1.17 "Net Sales" shall mean, for purposes of Section 6.2, with respect to a Compound Product, the gross amounts received for all quantities of such Compound Product sold by Threshold and its Affiliates to independent third parties in the Asian Territory after deducting (a) trade, quantity and cash discounts actually taken, (b) returns, rebates and allowances (including in connection with any Compound Product withdrawals or recalls), (c) duties, sales and excise taxes or other governmental charges, (d) transportation, delivery and insurance charges, (e) commissions or fees paid to third parties in connection with such sales to the extent not deducted above; (f) retroactive price reductions imposed by public authorities, and (g) sales for use in clinical trials or other scientific testing. With respect to sales of combination products, which shall consist of Compound Products combined with one or more other active ingredients, products or services, "Net Sales" from such sales shall be calculated by multiplying the Net Sales of that combination by the fraction A/(A + B), where A is the average gross selling price of the Compound Product sold separately in that country, and B is the average gross selling price of the other product, active ingredient or service sold separately in that country. In the event that no separate sale of such other product, active ingredient or service is made during the applicable royalty reporting period and in the relevant country in which the sale of the combination product was made, then Net Sales shall be determined by multiplying the Net Sales of such combination by a fraction (C/(C+D)), where C is Threshold's or its Affiliate's standard fully-burdened cost of the Compound Product and D is Threshold's or its Affiliate's standard fully-burdened cost of the relevant other product, active ingredient or service. Sales among Threshold and its Affiliates shall not be deemed Net Sales; provided, however, that any sales by Threshold or its Affiliates to independent third parties shall be deemed Net Sales. In the event a Threshold sublicensee sells Compound Product in the Asian Territory, then, for purposes of determining whether payments are owed MediBIC under Section 6.3 of this Agreement, Net Sales shall have the meaning assigned to it in the licensing agreement relating to such Compound Product between Threshold and said sublicensee.

1.18 "Other Indications" means all particular cancers that are agreed in the Development Plan as the therapeutic indication for which regulatory approval will be sought in Japan after or in parallel to the First Indication.

1.19 "Parties" means Threshold and MediBIC.

1.20 "Threshold Territory" shall mean the entire world except the Asian Territory.

ARTICLE 2

DEVELOPMENT PROGRAM OVERVIEW

2.1 Overview. MediBIC shall make a payment of four million seven hundred fifty thousand U.S. dollars (US$4,750,000) to Threshold to support the development of Compound Product in the Asian Territory and in consideration of the opportunity, described herein, to derive financial benefit from the development and Commercialization of Compound Product in the Asian Territory by Threshold, its Affiliate(s), and/or sublicensee(s). The Parties shall diligently negotiate and expect to agree upon a Development Plan for Compound Products in the Asian Territory under which MediBIC, or some third party selected by Threshold, will conduct the clinical trials for the Compound Product in Japan. As consideration for its support of the development of the Compound, MediBIC will receive a percentage of Net Revenues that are received by Threshold from a sublicensee for further development and sales of Compound Products in the Asian Territory and/or a royalty on sales of Compound Products in the Asian Territory by Threshold or its Affiliate(s), as provided in Article 6. Nothing in this Agreement shall be deemed to require Threshold to continue the development or commercialization of any Compound Product(s) if Threshold determines in good faith that such development or commercialization would not be commercially practicable. In that event, Threshold will negotiate in good faith with MediBIC for a period not to exceed sixty (60) days regarding the possible sale of rights to such discontinued Compound Product(s) to MediBIC. Any sale of such rights agreed to by the parties will be set forth in a separate written agreement.

ARTICLE 3

PAYMENT TO THRESHOLD

3.1 Payment. Within thirty (30) days after the Effective Date, and subject to the terms of this Agreement as described below, MediBIC will make a payment of four million seven hundred fifty thousand U.S. dollars (US$4,750,000; the MediBIC Payment) to Threshold.

3.2 Payment Method. MediBIC shall make payment of the MediBIC Payment by bank wire transfer in immediately available funds to an account designated by Threshold.

3.3 Refund of Payment. Threshold will refund the MediBIC Payment in the event that the Parties are unable to agree, before March 1, 2005 (or such later date agreed in writing by the Parties), on a Development Plan for the Compound Product in the Asian Territory; any such refund of the MediBIC Payment shall terminate this Agreement.

ARTICLE 4

DEVELOPMENT PLAN

4.1 Overview. The Development Plan shall describe all major activities that the Parties anticipate will be necessary for the approval of a Compound Product for the First Indication in Japan by [***]. The Development Plan shall also describe manufacturing arrangements and other steps, if any, that must be taken in the Asian Territory prior to regulatory approval in Japan to provide

maximum commercial potential for the Compound Product in the Asian Territory. The Development Plan shall include, but not be limited to, the terms as described in Section 4.3.

4.2 Preparation of Development Plan. A Joint Development Committee (JDC) will be established as provided in Section 5.2 below and will meet as soon as practicable after the Effective Date to begin preparing the Development Plan.

4.3 Contents of Development Plan. The Development Plan will include, but is not necessarily limited to, the following provisions:

(a) First Indication. The choice of the First Indication will be stated in the Development Plan and will be the focus of initial clinical development activities thereunder to support regulatory approval of Compound Product in Japan.

(b) Additional Indications. The choice of Other Indications will be stated in the Development Plan and will be the focus of clinical development activities after or in parallel to, but with a lower priority than, the First Indication.

(c) Clinical Trials. The clinical trials that the Parties anticipate will be necessary to achieve regulatory approval of a Compound Product for the First Indication and a projection of the clinical trials that will be required for the Other Indications will be described in the Development Plan. Threshold expects to engage MediBIC or a third party to conduct all clinical trials for the First Indication.

(i) Timeline. The anticipated timeline for clinical trials and regulatory submissions leading to approval of a Compound Product for the First Indication shall be set forth in the Development Plan.

(ii) Parameters of the Trials. The number and location of clinical trial sites, proposed principal investigators, if any, anticipated number of subjects in each trial**,** and other such administrative parameters of the contemplated clinical trials shall be set forth in the Development Plan.

(iii) Protocol. A draft of the protocol including endpoints, to the extent they can be projected to the satisfaction of the Parties prior to March 1, 2005, for the First Indication shall be set forth in the Development Plan.

(iv) Regulatory Submissions. A description of the regulatory submissions that will be necessary, and the cost and other resources that will be necessary, to prepare and submit the necessary submissions for the First Indication shall be set forth in the Development Plan.

(v) Manufacturing Supply. A description of the anticipated source of supply of Compound Product used in the clinical trials shall be set forth in the Development Plan.

(d) Development Budget. The Development Plan shall include a Development Budget that estimates the expenses to be incurred in performing the Development Plan for the First Indication and for any Other Indications to be pursued contemporaneously therewith.

(e) Current Relationships with [***]. The Development Plan shall set forth those [***] with whom Threshold has a current relationship or has had prospective business discussions. [***].

4.4 Approval of the Development Plan. The Parties agree to appoint personnel, as provided in Section 5.1, to work diligently to prepare a Development Plan acceptable to both Parties before March 1, 2005. To become effective hereunder, the Development Plan must be agreed upon, as evidenced by the signatures of an authorized representative of each Party, on or before March 1, 2005. If the Parties are unable to agree on a Development Plan by that date, and unless an extension of such deadline is agreed in writing by the Parties, Threshold will refund the MediBIC Payment, as described in Sections 3.1 and 3.3, to MediBIC, and this Agreement will terminate, except for the Confidentiality obligations, which will survive, under Sections 8.1 and 8.2.

4.5 Modifications. After approval by the Parties, the Development Plan may be modified by the Parties pursuant to the authority of the JDC as established in Section 5.5, below. As provided in Section 5.5, the JDC may modify any aspect of the Development Plan, and Threshold shall have the right, in its sole discretion, to modify any aspect of the Development Plan in the event the JDC is unable to reach agreement on a matter relating to the development of Compound Product in the Asian Territory.

4.6 Regulatory Approvals. In the event the Development Plan provides for material participation by MediBIC in the development of Compound Products, MediBIC shall provide all assistance reasonably requested by Threshold in complying with all requirements of applicable laws, rules, and regulations related to regulatory filings and approvals relating to Compound Products in any country in the Asian Territory. If MediBIC is required by applicable laws or regulations of a regulatory authority having jurisdiction in the Asian Territory to disclose information directly to such regulatory authority relating to a Compound Product, MediBIC shall notify Threshold in writing of the requirement and the particulars of the information required to be disclosed, and MediBIC shall coordinate with Threshold in making any such disclosure.

ARTICLE 5

JOINT DEVELOPMENT COMMITTEE

5.1 Overview. The JDC shall work diligently to prepare a Development Plan agreeable to both Parties by March 1, 2005. Thereafter, provided the Development Plan has been agreed upon by the Parties, the JDC will manage the development activities described in the Development Plan and adjust the Development Plan as necessary to reflect new information until the MediBIC Payment has been expended. Threshold shall notify MediBIC when the MediBIC Payment has been

expended, and at that time, the JDC shall cease to exist, and Threshold shall assume responsibility to manage all development activities relating to Compound Products. The JDC will also coordinate activities with Threshold and MediBIC and be responsible for coordinating, to the extent Threshold determines such coordination necessary, the development activities of the Compound Product in the Asian Territory with development activities in the Threshold Territory.

5.2 Membership. The JDC shall be composed of at least four members, two members appointed by each Party. Each Party shall designate its initial JDC representatives at the Effective Date so the JDC may begin preparation of the Development Plan as soon as possible after the Effective Date. Each Party may replace its JDC representatives at any time upon written notice to the other Party. Threshold will designate one of its initial JDC representatives as the Chairperson of the JDC.

5.3 Meetings of the Joint Development Committee. Except for the first meeting of the JDC, which will occur as soon as practicable after the execution of this Agreement, future meetings of the JDC shall be held at such times as shall be mutually agreed upon by the Parties, but in no event less often than quarterly until Threshold has paid or otherwise incurred expenses directly relating to development of Product Compound in the Asian Territory that total to an amount that equals or exceeds the MediBIC Payment, at which point the JDC will be dissolved and cease to exist. Additional persons from each Party may attend meetings of the JDC without voting rights. Minutes of the meeting shall be confirmed by both Parties at each meeting.

5.4 Voting. The JDC will make its decisions by majority vote, with each Party's representatives collectively having one vote. If there is a deadlock in the JDC vote, then Threshold will have authority to cast an additional vote.

5.5 Responsibilities of the Joint Development Committee. The JDC shall agree on the initial Development Plan, shall exercise oversight of the implementation of the Development Plan, and shall approve all modifications and addenda to the Development Plan. To satisfy its responsibilities, the JDC shall prepare and submit to the Parties, by the first day of each calendar year, an updated Development Plan that includes a detailed description of all development anticipated to be performed during the following calendar year.

5.6 Reporting to MediBIC After Dissolution of the JDC. After the dissolution of the JDC, Threshold shall supply MediBIC annual updates within thirty (30) days of each anniversary of the Effective Date regarding development and Commercialization activities relating to Compound Products in the Asian Territory until a Compound Product is marketed in the Asian Territory, in which event, the annual update will be superseded by royalty reports, or until development is stopped based on Threshold's determination not to continue development or Commercialization of a Compound Product in the Asian Territory.

ARTICLE 6

PAYMENT TO MEDIBIC

6.1 Payments to MediBIC for Sublicensee Sales of Compound Product in the Asian Territory. If Threshold (or any successor to or Affiliate of Threshold holding commercial

rights to Compound Products) receives payments from an independent third party sublicensee based on the development and/or Commercialization of a Compound Product in the Asian Territory (i.e., upfront payments for a commercial agreement, milestone payments, or royalty on sales of a Compound Product), and such payments exceed amounts Threshold owes to third parties as a result of such activities (including, in the case of a sublicense in connection with the resolution of any patent claim or dispute, reasonable attorney's fees and expenses, and any damages or other payments, including royalties, arising therefrom) so that there are Net Revenues, then Threshold shall make payments to MediBIC on those Net Revenues as follows:

(a) [***] percent ([***]%) of the Net Revenues received by Threshold if [***];

(b) [***] percent ([***]%) of the Net Revenues received by Threshold if the sublicensee making the payments is a company other [***].

6.2 Payments to MediBIC for Sales by Threshold. In the event Threshold, as opposed to a sublicensee, directly or through a successor or Affiliate sells Compound Product in the Asian Territory, Threshold (or its successor or Affiliate) will pay MediBIC [***] percent ([***]%) of the Net Sales of the Compound Product in the Asian Territory for all sales made by Threshold or its successor or Affiliate in the Asian Territory.

6.3 Incentive Payments for Successful Sublicensing to a [***]. In the event that [***]:

(a) Threshold shall pay to MediBIC [***].

(b) Threshold shall pay to MediBIC [***].

(c) [***].

(d) [***].

6.4 Payment Method. All payments due under this Agreement to MediBIC shall be made by bank wire transfer in immediately available funds to an account designated by MediBIC. Royalties due on Net Sales or Net Revenues made in currencies other than United States dollars shall be made, at Threshold's election, either in such currencies or in United States dollars after conversion pursuant to Section 6.4(b) below. All payments, excluding the initial payment made to Threshold under Section 3.1, shall be paid within ninety (90) days after the end of each June and December. Each payment of royalties shall be accompanied by a statement of the amount of Net Sales or Net Revenues, as applicable, during such period, the amount of Net Sales or Net Revenues, as applicable, to date as of the end of such period where necessary in determination of royalty rates, and the amount of royalties due on such sales or revenue. MediBIC hereby agrees that no royalties shall be payable upon samples of the Compound Product used for the purpose of promoting such Compound Product, in such quantities as are standard in the industry for comparable products.

(a) Taxes. Any withholding of taxes levied by tax authorities on payments hereunder shall be borne by MediBIC, and deducted by Threshold from the sums otherwise payable for payment to the proper tax authorities on MediBIC's behalf. Threshold agrees to cooperate with MediBIC, at MediBIC's expense, in the event MediBIC claims exemption from such withholding or seeks deductions under any double taxation or other similar treaty or agreement from time to time in force, such cooperation to consist of providing receipts of payment of such withholding taxes imposed on payments made hereunder.

(b) Foreign Exchange. If Threshold elects to remit payment of royalties hereunder in United States Dollars on Net Sales or Net Royalties received in currencies other than United States dollars, such amounts shall be converted at the official rate of exchange of the currency of the country from which the royalties are payable, as quoted in the *Wall Street Journal* for the last business day of the calendar quarter in which the royalties are payable. If the transfer of or the conversion into the United States dollar equivalents of any such remittance in any such instance is not lawful or possible,]the payment of such part of the royalties as is necessary shall bemade by the deposit thereof, in the currency of the county where the sale was made on which the royalty was based to the credit and account of MediBIC or its nominee in any commercial bank or trust company of MediBIC's choice located in that country, prompt written notice of which shall be given by Threshold to MediBIC.

(c) Records; Audit. During the term of this Agreement and for a period of three (3) years thereafter, both Parties shall keep complete, true and accurate books of accounts and records for the purpose of determining the payments to be made under this Agreement. Such records will be open for an audit during the term of this Agreement and for the three (3) year period thereafter by U.S. independent accountants selected by MediBIC and reasonably acceptable to Threshold, solely for the purpose of verifying payment statements hereunder. Such accountants shall execute a suitable confidentiality agreement reasonably acceptable to Threshold prior to conducting such audit. Such representatives may disclose to MediBIC only their conclusions regarding the accuracy and completeness of royalty payments and of records related thereto, and shall not disclose any other information from such audit without the prior written consent of Threshold. Such inspections shall be made no more than once each calendar year, at reasonable time and on reasonable notice. Any adjustment in the amount of payments or royalties due MediBIC on account of overpayments or underpayments disclosed in such audit shall be made at the next date when royalty payments are to be made to hereunder. No claim for underpayment may be made by MediBIC more than six (6) months following completion of such audit.

ARTICLE 7

INTELLECTUAL PROPERTY RIGHTS

7.1 License to Threshold of MediBIC Know-How. MediBIC hereby grants Threshold an exclusive, royalty-free (excluding the payments and royalties provided in this Agreement) license to MediBIC Know-How to make, have made, use, offer to sell, sell and import Compound Product throughout the world.

ARTICLE 8

CONFIDENTIALITY

8.1 Confidential Information; Exceptions. During the term of this Agreement, and for a period of five (5) years after termination thereof, each Party will maintain all Confidential Information in trust and confidence and will not disclose any Confidential Information to any third party or use any Confidential Information for any purpose other than as expressly authorized under this Agreement. Each Party may use such Confidential Information only to the extent required to accomplish the purposes of this Agreement or to the extent required by law, regulation or government or judicial order. Confidential Information shall not be used for any purpose or in any manner that would constitute a violation of any laws or regulations, including without limitation the export control laws of the United States. Confidential Information shall not be reproduced in any form except as required to accomplish the intent of this Agreement. No Confidential Information shall be disclosed to any employee, agent, consultant, Affiliate, or sublicensee who does not have a need for such information. Each Party will use at least the same standard of care as it uses to protect proprietary or confidential information of its own to ensure that suchemployees, agents, consultants and clinical investigators do not disclose or make any unauthorized use of the Confidential Information. Each Party will promptly notify the other upon discovery of any unauthorized use or disclosure of the Confidential Information.

Confidential Information shall not include any information which:

(a) is now, or hereafter becomes, through no act or failure to act on the part of the receiving party, generally known or available;

(b) is known by the receiving party at the time of receiving such information, as evidenced by its records;

(c) is hereafter furnished to the receiving party by a third party, as a matter of right and without restriction on disclosure;

(d) is independently developed by the receiving party without any breach of this Agreement; or

(e) is the subject of a written permission to disclose provided by the disclosing party.

Additionally, either party may disclose Confidential Information of the other party to the extent required to comply with any court or governmental subpoena, process, order or regulation; provided, however, that the party seeking to make such disclosure shall promptly notify the other party to provide it an opportunity to seek to challenge or limit the scope of such disclosure.

8.2 Financial Terms. The Parties agree that the financial terms of the Agreement will be considered Confidential Information of both parties. Notwithstanding the foregoing, Threshold may disclose such terms to *bona fide* potential sublicensees, and either Party may disclose such terms in connection with financing efforts. In connection with any such disclosure, each Party agrees to request confidential treatment of such information. Threshold and MediBIC shall have the further right to disclose the terms of the Agreement to any potential acquirer, merger partner, or other *bona fide* potential financial partner, subject to a requirement to seek confidential treatment of such information.

ARTICLE 9

TERM AND TERMINATION OF AGREEMENT

9.1 Failure to Reach a Development Plan. This Agreement shall expire on March 1, 2005 if a Development Plan has not been agreed upon by the Parties, or if the Parties have not extended such deadline in writing, and the MediBIC Payment will be refunded to MediBIC pursuant to Section 3.3 of this Agreement.

9.2 Term. If the Parties have agreed upon a Development Plan prior to March 1, 2005 (or such later date agreed by the Parties), this Agreement will expire on the expiration date of the last to expire patent in a country in the Asian Territory that is owned or controlled by Thresholdthat claims the Compound, a Compound Product sold in such country, a process employed in such country to make the Compound or a Compound Product, or an approved use of a Compound Product in such country.

9.3 Extension. The Parties may extend the term of this Agreement by the written agreement of both Parties.

9.4 Early Termination by Threshold. If this Agreement is not terminated for failure of the Parties to agree upon on a Development Plan, Threshold may terminate this Agreement after the Development Agreement is agreed upon at any time and terminate its payment obligations under Article 6, following the written notice to MediBIC and receipt by MediBIC of the payment due it under the following schedule:

(a) [***] U.S. dollars (US$[***]) if the notice of termination is delivered to MediBIC after the Development Plan has been agreed by the Parties, but prior to the Initiation of Phase I clinical testing of a Compound Product in Japan;

(b) [***] U.S. dollars (US$[***]) if the notice of termination is delivered to MediBIC after the Initiation of Phase I clinical testing in Japan, but prior to the Initiation of Phase II clinical testing of a Compound Product in Japan;

(c) [***] U.S. dollars (US$[***]) if the notice of termination is delivered to MediBIC after the Initiation of Phase II clinical testing in Japan, but prior to the Initiation of Phase III clinical testing of a Compound Product in Japan; and

(d) [***] U.S. dollars (US$[***]) if the notice of termination is delivered to MediBIC after the Initiation of Phase III clinical testing in Japan, but prior to regulatory approval of a Compound Product in Japan.

9.5 Accrued Rights, Surviving Obligations. Upon any expiration or termination of this Agreement, all royalty and other payment obligations hereunder shall terminate, except for any accrued rights and obligations of either Party prior to the date of such expiration or termination; provided, however, that in the case of any termination by Threshold under Section 9.4, MediBIC shall not be entitled to any accrued rights to receive payments pursuant to Article 6.

ARTICLE 10

INDEMNITY

10.1 Compound Product Liability Indemnity by Threshold. Threshold shall defend, indemnify and hold MediBIC harmless from and against all claims and expenses, including reasonable attorneys' fees, arising out of the death of or bodily injury to any person or persons resulting from the Commercialization of Compound Products by Threshold and its sublicensees, other than those claims and expenses arising from MediBIC's negligence or willful misconduct or failure to follow the Development Plan; and provided that (i) MediBIC provides Threshold prompt notice of any such claim, (ii) Threshold shall not be obligated to indemnify MediBIC for any loss in connection with any settlement unless Threshold consents in writing to such settlement, and (iii) Threshold shall have the exclusive right to defend any such claim.

ARTICLE 11

REPRESENTATIONS AND WARRANTIES

11.1 MediBIC Representations, Warranties and Indemnities. MediBIC represents and warrants the following:

(a) Corporate Authority. MediBIC is a corporation duly organized, validly existing and in good standing under the laws of Japan, has the power and authority, corporate and otherwise, to execute and deliver this Agreement and to perform its obligations hereunder and thereunder, and has by all necessary corporate action duly and validly authorized the execution and delivery of this Agreement, and the performance of its obligations hereunder.

(b) Binding Obligation. This Agreement is the valid and legally binding obligation of MediBIC in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and similar laws and to general principles of equity which are within the discretion of courts of applicable jurisdiction.

(c) No Conflicts. The execution, delivery and performance by MediBIC of this Agreement, and each other agreement, document, or instrument now or hereafter executed and delivered by MediBIC pursuant thereto or in connection herewith will not: (i) conflict with or violate the articles of incorporation or by-laws of MediBIC or any provision of any law, rule, regulation, authorization or judgment of any governmental authority having applicability to MediBIC or its actions; or (ii) conflict with or result in any breach of, or constitute a default under, any note, security agreement, commitment, contract or other agreement, instrument or undertaking to which MediBIC is a party or by which any of its property is bound.

(d) Agreements with Employees and Consultants. MediBIC has and will maintain with all MediBIC employees, agents and consultants, written agreements sufficient to enable MediBIC to perform its obligations under this Agreement, whenever MediBIC thinks it is necessary.

11.2 Threshold Representations, Warranties and Indemnities. Threshold represents and warrants the following:

(a) Corporate Authority. Threshold is a corporation duly organized, validly existing and in good standing under the laws of the state of Delaware, has the power and authority, corporate and otherwise, to execute and deliver this Agreement, and to perform its obligations hereunder, and has by all necessary corporate action duly and validly authorized the execution and delivery of this Agreement, and the performance of its obligations hereunder.

(b) Binding Obligation. This Agreement is the valid and legally binding obligation of Threshold in accordance with its terms, subject to bankruptcy, reorganization, insolvency, moratorium and similar laws and to general principles of equity which are within the discretion of courts of applicable jurisdiction.

(c) No Conflicts. The execution, delivery and performance by Threshold of this Agreement, and each other agreement, document, or instrument now or hereafter executed and delivered by Threshold pursuant thereto or in connection herewith will not: (i) conflict with or violate the articles of incorporation or by-laws of Threshold or any provision of any law, rule, regulation, authorization or judgment of any governmental authority having applicability to

Threshold or its actions; or (ii) conflict with or result in any breach of, or constitute a default under, any note, security agreement, commitment, contract or other agreement, instrument or undertaking to which Threshold is a party or by which any of its property is bound.

(d) Agreements with Employees and Consultants. Threshold has and will maintain with all Threshold employees, agents and consultants, written agreements sufficient to enable Threshold to perform its obligations under this Agreement, whenever Threshold thinks it is necessary.

11.3 Disclaimer of Warranties. EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE 11, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND HEREUNDER, WITH RESPECT TO ANY PATENT RIGHTS, TECHNOLOGY, COMPOUNDS OR CONFIDENTIAL INFORMATION, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, VALIDITY OF ANY PATENT RIGHTS OR TECHNOLOGY, OR THE NON-INFRINGEMENT OF ANY THIRD PARTY PATENTS OR PROPRIETARY RIGHTS.

ARTICLE 12

IMPORT AND EXPORT CONTROLS

12.1 United States Laws. The Parties understand and acknowledge that each of them is subject to regulation by agencies of the U.S. government, including the U.S. Department of Commerce, which prohibit export or diversion of certain products and technology to certain countries. Any and all obligations of MediBIC or Threshold to provide access to or license any technology pursuant to this Agreement, as well as any technical assistance shall be subject in all respects to such United States laws and regulations as shall from time to time govern the license and delivery of technology and products abroad by persons subject to the Jurisdiction of the United States, including the Export Administration Act of 1979, as amended, any successor or interim controlling legislation, and the Export Administration Regulations issued by the Department of Commerce, International Trade Administration, Bureau of Export Administration. Both Parties also agree to comply with the requirements of the U.S. Foreign Corrupt Practices Act (the "Act") and shall refrain from any payments to third parties which would cause MediBIC or Threshold to violate the Act. At MediBIC's request and expense, Threshold shall advise MediBIC regarding compliance with the Act.

12.2 Non-United States Laws. MediBIC and Threshold shall each provide the other Party with such reasonable assistance as may be required for the Party requesting such assistance, and at the requesting Party's expense, to comply with all non-United States laws, ordinances, rules,regulations and the like of all governmental units or agencies within any territory having jurisdiction pertaining to this Agreement, including without limitation, obtaining all import, export and other permits, certificates, licenses or the like required by such non-United States laws, ordinances, rules, regulations and the like, necessary to permit the Parties to perform hereunder and to exercise their respective rights hereunder.

ARTICLE 13

LIMITATIONS OF LIABILITY

NEITHER THRESHOLD NOR MEDIBIC WILL BE LIABLE OR OBLIGATED IN ANY MANNER FOR ANY SPECIAL INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, UNDER ANY CAUSE OF ACTION, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE) STRICT LIABILITY OR OTHERWISE, AND EVEN IF INFORMED OF THE POSSIBILITY THEREOF IN ADVANCE, ARISING OUT OF THIS AGREEMENT OR BY REASON OF BREACH OF THIS AGREEMENT. THESE LIMITATIONS WILL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY HEREIN.

ARTICLE 14

MISCELLANEOUS PROVISIONS

14.1 Waiver. No waiver by either Party hereto of any breach or default of any of the covenants or agreements herein set forth shall be deemed a waiver as to any subsequent or similar breach or default.

14.2 Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their permitted successors and assigns; provided, however, that neither Party shall assign any of its rights and obligations hereunder without the prior written consent of the other party, except that no consent shall be required for any assignment incident to the merger, consolidation, reorganization, or acquisition of stock or assets affecting substantially all of the assets to which this Agreement pertains or actual voting control of the assigning Party.

14.3 Notices. Any notice or other communication required or permitted to be given to either Party hereto shall be in writing and shall be deemed to have been properly given and to be effective on the date of delivery if delivered in person or by facsimile or five (5) days after mailing by registered or certified mail, postage paid, to the other Party at the following address:

In the case of Threshold:	Threshold Pharmaceuticals, Inc. 951 Gateway Blvd. S. San Francisco, CA 94080 Attention: CEO
In the case of MediBIC:	MediBIC Co., Ltd., Daido Seimei Kasumigaseki Building 8F 1-4-2 Kasumigaseki, Chiyoda-ku, Tokyo, 100-0013 Japan Attention: CEO

Either Party may change its address for communications by a notice to the other Party in accordance with this section.

14.4 Headings. The headings of the several sections are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

14.5 Amendment. No amendment or modification hereof shall be valid or binding upon the Parties unless made in writing and signed by both Parties.

14.6 Construction of Agreement and Choice of Law, Jurisdiction and Venue. This agreement and its terms and conditions shall be governed exclusively by and construed according to the laws of California, U.S.A., excluding its choice of law provisions and also excluding the United Nations Convention on Contracts for International Sale of Goods. The official text of this Agreement and any notices given or accounts or statements required hereby shall be in English. In the event of any dispute concerning the construction or meaning of this Agreement, reference shall be made only to this Agreement as written in English and not to any other translation into any other language. All disputes which may arise between the Parties hereto in relation to the interpretation or administration of this Agreement shall be first referred to the JDC for resolution. Any disputes which the JDC shall be unable to resolve within a reasonable period of time shall be resolved by the agreement of the Chief Executive Officers of the respective Parties or their delegates. Any disputes which cannot be resolved in this manner shall be finally resolved in the courts in San Francisco, California.

14.7 Force Majeure. Any delays in performance by any Party under this Agreement (other than the payment of money) shall not be considered a breach of this Agreement if and to the extent caused by occurrences beyond the reasonable control of the Party affected, including but not limited to acts of God, embargoes, governmental restrictions, strikes or other concerted acts of workers, fire, flood, explosion, riots, wars, civil disorder, rebellion or sabotage (a "Force Majeure"). The Party suffering such occurrence shall immediately notify the other Party and any time for performance hereunder shall be extended by the actual time of delay caused by the occurrence; provided, however, that if a Party is affected by a Force Majeure event for more than ninety (90) days, the party not affected shall be entitled to terminate this Agreement with no further obligation hereunder.

14.8 Independent Contractors. In making and performing this Agreement, MediBIC and Threshold act and shall act all times as independent contractors and nothing contained in this Agreement shall be construed or implied to create an agency, partnership or employer and employee relationship between Threshold and MediBIC. At no time shall one Party make commitments or incur any charges or expenses for or in the name of the other Party.

14.9 Severability. If any term, condition or provision of this Agreement is held to be unenforceable for any reason, it shall, if possible, be interpreted rather than voided to achieve the intent of the Parties to this Agreement to the extent possible. In any event, all other terms, conditions and provisions of this Agreement shall be deemed valid and enforceable to the full extent.

14.10 Cumulative Rights. The rights, powers and remedies hereunder shall be in addition to, and not in limitation of all rights, powers and remedies provided at law or in equity, or under any other agreement between the Parties. All of such rights, powers and remedies shall be cumulative, and may be exercised successively or cumulatively.

14.11 Entire Agreement. This Agreement, and any and all Exhibits referred to herein, embodies the entire understanding of the Parties with respect to the subject matter hereof and shall supersede all previous communications, representations or understandings, either oral or written, between the Parties relating to the subject matter hereof.

IN WITNESS WHEREOF, both MediBIC and Threshold have executed this Agreement, in duplicate originals, by their respective officers hereunto duly authorized, as of the day and year hereinabove written.

THRESHOLD PHARMACEUTICAL, INC.

By: /s/ Harold E. Selick
Harold E. Selick
Title: Chief Executive Officer
Date: December 2, 2004

MEDIBIC CO., LTD.

By: /s/ Yasuhiro Hashimoto
Yasuhiro Hashimoto, MD
Title: President and CEO
Date: December 2, 2004

ADDENDUM

Side letter to Development Agreement between Threshold Pharmaceuticals and MediBIC.

Addressed To: Barry Selick, CEO of Threshold
From: Yas Hashimoto, CEO of MediBIC

Threshold and MediBIC will soon begin preparing a Development Plan for the clinical development of glufosfamide in the Asian Territory, as called for and defined in the Development Agreement between the Parties effective December 2, 2004 ("Agreement"). This letter describes certain exclusive negotiation obligations of Threshold, as set forth below, that shall be deemed part of the Agreement.

If the Parties approve the Development Plan by March 1, 2005, they will then begin good faith negotiations regarding the specifics of commercial development of products containing glufosfamide in the Asian Territory, including clinical testing and regulatory approval. In connection with such negotiations, Threshold agrees that it will not offer any other party the rights to develop and market glufosfamide in the Asian Territory for the time period described below, unless MediBIC gives prior written approval (the "MediBIC Option"). The term of this option shall commence on the date of this letter and continue until July 1, 2005 (or, earlier, if any termination of the Agreement)(the "Option Period"). The Parties may, at any time, agree in writing to extend the Option Period beyond such date.

The MediBIC Option is subject to the following limitations: During the Option Period, Threshold may negotiate with third parties regarding the development and marketing of products containing glufosfamide (a) in connection with any transaction or arrangement involving the sale or transfer of all of Threshold's stock, assets or business involving glufosfamide, whether by sale, merger, consolidation or otherwise, (b) in connection with a license agreement covering worldwide rights to develop and market products containing glufosfamide, or (c) in connection with a Japanese Pharmaceutical Company described in Section 4.3 of the Agreement.

In consideration for Threshold granting the MediBIC Option, by December 15, 2004, MediBIC will pay Threshold an amount not less than two hundred fifty thousand United States dollars (US$250,000), as agreed upon in writing by the Parties (the "Option Payment"). The Option Payment will be returned in full to MediBIC by Threshold if the Parties do not approve the Development Plan prior to March 1, 2005, or if during the Option Period, (a) Threshold consummates any transaction transferring its glufosfamide assets to a third party, (b) enters into a worldwide license agreement for the development of glufosfamide, or (c) enters into a transaction or arrangement for glufosfamide with a Japanese Pharmaceutical Company other than one that satisfies the requirements of Section 6.1(a) of the Agreement. In addition, at any time during the Option Period, Threshold may return the Option Payment in full to MediBIC and be released from the MediBIC Option.

IN WITNESS WHEREOF, both MediBIC and Threshold have executed this Agreement, in duplicate originals, by their respective officers hereunto duly authorized, as of the day and year hereinabove written.

THRESHOLD PHARMACEUTICAL, INC.

By: /s/ Harold E. Selick
Harold E. Selick
Title: Chief Executive Officer
Date: December 2, 2004

MEDIBIC CO., LTD.

By: /s/ Yasuhiro Hashimoto
Yasuhiro Hashimoto, MD
Title: President and CEO
Date: December 2, 2004

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No. 3 to Registration Statement on Form S-1 of our report dated April 8, 2004, relating to the financial statements of Threshold Pharmaceuticals, Inc., which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
December 3, 2004