
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

**FORM 10-K/A
(Amendment No. 1)**

(Mark One)

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

For the fiscal year ended December 31, 2006

or

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

For the transition period from _____ to _____

Commission file number 001-32979

THRESHOLD PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3409596
(IRS Employer
Identification No.)

1300 Seaport Boulevard, Redwood City, CA
(Address of Principal Executive Offices)

94063
(Zip Code)

(650) 474-8200
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Exchange on which Registered
Common Stock \$0.001 Par Value	NASDAQ Global Market

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of voting stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on the Nasdaq Global Market on June 30, 2006, was approximately \$77,975,552 million. Shares of the registrant's common stock held by each executive officer and director and each person or group who owns 5% or more of the registrant's outstanding common stock at June 30, 2006, have been excluded. Exclusions of such shares should not be construed to indicate that any such person is controlled by or under common control with the registrant.

On February 28, 2007, there were 37,407,750 shares of the registrant's common stock outstanding.

Documents incorporated by reference: Portions of the Proxy Statement for Registrant's Annual Meeting of Stockholders held on May 16, 2007, or the Proxy Statement, are incorporated herein by reference into Part III.

EXPLANATORY NOTE

The Threshold Pharmaceuticals, Inc. (the “Company”) Annual Report on Form 10-K for the fiscal year ended December 31, 2006 was filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 15, 2007 (the “Original 10-K”). The only purpose of this Amendment No. 1 on Form 10-K/A is to correct a typographical error in the Report of Independent Registered Accounting Firm accompanying our consolidated financial statements included in “Part II – Item 8. Financial Statements and Supplementary Data” of the Original 10-K. The Report makes reference to an incorrect date range for the periods presented on page 59 of the Original 10-K. As such, the Company has amended and restated in its entirety Item 8 of Part II.

As a result of this Amendment No. 1, the Consent of Independent Registered Accounting Firm and management certifications filed as Exhibits 23.1, 31 and 32 to the Original 10-K, respectively, have been re-executed and are hereby re-filed with this Amendment No. 1.

Except as described above, no other changes have been made to the Original 10-K. This Amendment continues to speak as of the date of the Original 10-K, and the Company has not updated the disclosures contained therein to reflect any events, which occurred after the period covered by the Original 10-K. In particular, any forward-looking statements included in this Amendment No. 1 represent management’s view as of the filing date of the Original 10-K. Such forward looking statements include statements about events and projections after the date of the filing of the Original 10-K and are identified by words such as “believes,” “projects,” “anticipates,” “expects,” “estimates,” “intend,” “should,” “would,” “could,” “potentially,” “will,” “may” or other words that convey uncertainty of future events or outcomes. Such forward-looking statements should not be assumed to be accurate as of any future date, including the date hereof. Accordingly, this Amendment No. 1 should be read in conjunction with the “Risk Factors” and the other statements contained in the Original 10-K and the Company’s other filings made with the SEC subsequent to the filing date of the Original 10-K, together with any amendments to those filings.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
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Report of Independent Registered Public Accounting Firm

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

We have completed an integrated audit of Threshold Pharmaceutical, Inc.'s (a development stage enterprise) 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity (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, 2006 and December 31, 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, and cumulatively for the period from October 17, 2001 (date of inception) to December 31, 2006, 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, CA
March 15, 2007

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

	December 31,	
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 28,450	\$ 74,947
Marketable securities	24,360	24,707
Prepaid expenses and other current assets	547	563
Total current assets	53,357	100,217
Property and equipment, net	3,169	1,667
Restricted cash	483	192
Other assets	25	25
Total assets	<u>\$ 57,034</u>	<u>\$102,101</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 619	\$ 1,237
Accrued clinical and development expenses	4,320	4,500
Accrued liabilities	2,286	2,158
Deferred revenue, current portion	1,437	1,437
Notes payable, current portion	997	230
Total current liabilities	9,659	9,562
Deferred revenue, less current portion	1,436	2,873
Notes payable, less current portion	1,247	151
Deferred rent	454	147
Total liabilities	12,796	12,733
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value:		
Authorized: 2,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value:		
Authorized: 150,000,000 shares; Issued and outstanding: 37,345,890 and 37,231,572 shares at December 31, 2006 and 2005, respectively	37	37
Additional paid-in capital	182,840	179,634
Deferred stock-based compensation	(3,975)	(11,356)
Accumulated other comprehensive income (loss)	(7)	24
Deficit accumulated during the development stage	(134,657)	(78,971)
Total stockholders' equity	44,238	89,368
Total liabilities and stockholders' equity	<u>\$ 57,034</u>	<u>\$102,101</u>

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

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

	Years Ended December 31,			Cumulative Period from October 17, 2001 (date of inception) to December 31, 2006
	2006	2005	2004	
Revenue	\$ 1,461	\$ 690	\$ —	\$ 2,151
Operating expenses:				
Research and development	46,267	35,991	16,327	107,051
General and administrative	14,453	11,235	7,649	35,901
Total operating expenses	60,720	47,226	23,976	142,952
Loss from operations	(59,259)	(46,536)	(23,976)	(140,801)
Interest and other income, net	3,729	2,159	443	6,423
Interest expense	(156)	(31)	(33)	(279)
Net loss	(55,686)	(44,408)	(23,566)	(134,657)
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	—	—	—	(40,862)
Net loss attributable to common stockholders	<u>\$(55,686)</u>	<u>\$(44,408)</u>	<u>\$(23,566)</u>	<u>\$(175,519)</u>
Net loss per common share:				
Basic and diluted	<u>\$ (1.53)</u>	<u>\$ (1.63)</u>	<u>\$ (20.25)</u>	
Weighted average number of shares used in per common share calculations:				
Basic and diluted	<u>36,337</u>	<u>27,173</u>	<u>1,164</u>	

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

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THRESHOLD PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD
FROM OCTOBER 17, 2001 (DATE OF INCEPTION) TO DECEMBER 31, 2006
(in thousands, except share and per share data)

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

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	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Stockholders' Equity (Deficit)
	Shares	Amount					
Balances, December 31, 2005	37,231,572	37	179,634	(11,356)	24	(78,971)	89,368
Issuance of common stock pursuant to stock plans	276,772	—	518	—	—	—	518
Reversal of deferred stock-based compensation related to employee terminations	—	—	(2,970)	2,970	—	—	—
Amortization of deferred stock-based compensation	—	—	—	4,411	—	—	4,411
Stock-based compensation	—	—	5,738	—	—	—	5,738
Repurchase of unvested common stock	(162,454)	—	(80)	—	—	—	(80)
Components of other comprehensive income (loss):							
Change in unrealized gain (loss) on marketable securities	—	—	—	—	(31)	—	(31)
Net loss	—	—	—	—	—	(55,686)	(55,686)
Comprehensive loss							(55,717)
Balances, December 31, 2006	<u>37,345,890</u>	<u>\$ 37</u>	<u>\$182,840</u>	<u>\$ (3,975)</u>	<u>\$ (7)</u>	<u>\$ (134,657)</u>	<u>\$ 44,238</u>

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

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

	Years Ended December 31,			Cumulative Period from October 17, 2001 (date of inception) to December 31, 2006
	2006	2005	2004	
Cash flows from operating activities:				
Net loss	\$(55,686)	\$(44,408)	\$(23,566)	\$ (134,657)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	938	573	143	1,755
Stock-based compensation expense	10,149	9,421	5,975	26,633
Amortization of debt issuance costs	—	—	10	44
Gain on sale of investments, property and equipment	(41)	—	—	(36)
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	16	(272)	(189)	(573)
Accounts payable	(618)	257	699	619
Accrued clinical and development expenses	(180)	4,057	227	4,320
Accrued liabilities	128	1,114	823	2,286
Deferred rent	307	69	78	454
Deferred revenue	(1,437)	(690)	5,000	2,873
Net cash used in operating activities	<u>(46,424)</u>	<u>(29,879)</u>	<u>(10,800)</u>	<u>(96,282)</u>
Cash flows from investing activities:				
Acquisition of property and equipment	(2,405)	(1,162)	(1,022)	(4,894)
Acquisition of marketable securities	(42,915)	(38,874)	(38,199)	(114,284)
Proceeds from sales and maturities of marketable securities	43,238	28,413	24,023	89,924
Restricted cash	(291)	85	(162)	(483)
Net cash used in investing activities	<u>(2,373)</u>	<u>(11,538)</u>	<u>(15,360)</u>	<u>(29,737)</u>
Cash flows from financing activities:				
Proceeds from redeemable convertible preferred stock, net	—	—	—	49,839
Proceeds from issuance of common stock, net of offering expenses	438	102,357	(415)	102,387
Proceeds from issuance of notes payable	2,616	—	490	3,616
Repayment of notes payable	(754)	(332)	(185)	(1,373)
Net cash provided by (used in) financing activities	<u>2,300</u>	<u>102,025</u>	<u>(110)</u>	<u>154,469</u>
Net increase (decrease) in cash and cash equivalents	(46,497)	60,608	(26,270)	28,450
Cash and cash equivalents, beginning of period	74,947	14,339	40,609	—
Cash and cash equivalents, end of period	<u>\$ 28,450</u>	<u>\$ 74,947</u>	<u>\$ 14,339</u>	<u>\$ 28,450</u>
Supplemental disclosures:				
Cash paid for interest	\$ 156	\$ 31	\$ 33	\$ 234
Non-cash investing and financing activities:				
Deferred stock-based compensation	<u>\$ (2,970)</u>	<u>\$ 459</u>	<u>\$ 20,385</u>	<u>\$ 20,231</u>
Conversion of redeemable convertible preferred stock	<u>\$ —</u>	<u>\$ 49,839</u>	<u>\$ —</u>	<u>\$ 49,839</u>
Deferred offering expenses in connection with IPO	<u>\$ —</u>	<u>\$ (1,287)</u>	<u>\$ 1,287</u>	<u>\$ —</u>
Change in unrealized gain in marketable securities	<u>\$ (31)</u>	<u>\$ (80)</u>	<u>\$ (59)</u>	<u>\$ (7)</u>
Fair value of redeemable convertible preferred stock warrant	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 44</u>
Dividend related to beneficial conversion feature of redeemable convertible preferred stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 40,862</u>
Accrued cost of acquisition of property and equipment	<u>\$ —</u>	<u>\$ (589)</u>	<u>\$ 589</u>	<u>\$ —</u>

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

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations and Basis of Presentation

Threshold Pharmaceuticals, Inc. (the “Company”) was incorporated in the State of Delaware on October 17, 2001. The Company is a biotechnology company focused on the discovery and development of small molecule therapeutics for the potential treatment of cancer. The Company has product candidates in various stages of development as well as discovery and, since inception, has devoted substantially all of its time and efforts to performing research and development, raising capital and recruiting personnel.

In June 2005, the Company formed a wholly-owned subsidiary, THLD Enterprises (UK), Limited in the United Kingdom in connection with conducting clinical trials in Europe. As of December 31, 2006, there has been no financial activity related to this entity.

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

The Company believes that its cash, cash equivalents and marketable securities as of December 31, 2006 will be sufficient to fund its projected operating requirements through at least mid-2008, including completing its current and planned trials, conducting research and discovery efforts towards additional product candidates, working capital and general corporate purposes. Additional funds will be required to in-license or otherwise acquire and develop additional products or programs. The Company intends to seek funds through arrangements with collaborators or others that may require the Company to relinquish rights to certain product candidates that it might otherwise seek to develop or commercialize independently. Additionally, the Company may need or choose to raise additional capital or incur indebtedness to continue to fund its operations in the future. The Company’s ability to raise additional funds will depend on the Company’s clinical and regulatory events and factors related to financial, economic, and market conditions, many of which are beyond its control. The Company cannot be certain that sufficient funds will be available when required or on satisfactory terms. If necessary funds are not available, the Company may have to delay, reduce the scope or eliminate some of its research and development, which could delay the time to market for any of its product candidates.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

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

Marketable Securities

The Company classifies its marketable securities as “available-for-sale.” Such marketable securities are recorded at fair value and unrealized gains and losses are recorded as a separate component of stockholders’ equity until realized.

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Realized gains and losses on sale of all such securities will be reported in net loss, computed using the specific identification cost method. The Company places its marketable securities primarily in U.S. government securities, money market funds, corporate bonds and commercial paper.

Fair value of financial instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of the notes payable at December 31, 2006 and 2005 approximates fair value. Estimated fair values for marketable securities, which are separately disclosed elsewhere, are based on quoted market prices for the same or similar instruments.

Concentration of credit risk and other risks and uncertainties

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

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

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

Property and equipment

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

Impairment of long-lived assets

In accordance with the provisions of Statement of Financial Accounting Standards Board ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," ("SFAS No. 144") the Company reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Under SFAS No. 144, an impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. The Company considers various valuation factors, principally discounted cash flows, to assess the fair values of long-lived assets. As of December 31, 2006, the Company has not incurred any such impairment losses.

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Comprehensive income (loss)

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

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101 (SAB 104), "Revenue Recognition in Financial Statements" and Emerging Issues Task Force (EITF) Issue 00-21 "Revenue Arrangements with Multiple Deliverables" (EITF 00-21). In connection with the Company's agreement with MediBIC, the Company recognizes revenue from the non-refundable, upfront payment ratably over the term of its performance under the agreements. The upfront payment received, pending recognition as revenue, is recorded as deferred revenue and classified as a short-term or long-term liability on the balance sheet to be amortized over the period of deferral.

Research and development expenses

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

Preclinical and Clinical Trial Accruals

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

Income taxes

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

Segments

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

Stock-based compensation

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

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As a result, the Company recorded deferred stock-based compensation for these options of \$0.5 million, \$20.4 million and \$2.3 million for the years ended December 31, 2005, 2004 and 2003, respectively. This expense, which is a non-cash charge, has been amortized over the period in which the options vest, which is generally four years. The amortization of this expense recognized for the years ended December 31, 2006, 2005 and 2004 was \$4.4 million, \$5.3 million and \$5.3 million, respectively.

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

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

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109” (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for fiscal years beginning after December 16, 2006, with the cumulative effect, if any, of the change in accounting principle recorded as an adjustment to opening retained earnings. The adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (Topic 1N), “*Quantifying Misstatements in Current Year Financial Statements*,” (“SAB No. 108”). SAB No. 108 addresses how the effect of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB No. 108 requires SEC registrants (i) to quantify misstatements using a combined approach which considers both the balance-sheet and income-statement approaches, (ii) to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors, and (iii) to adjust their financial statements if the new combined approach results in a conclusion is that an error is material. SAB No. 108 addresses the mechanics of correcting misstatements that include effects from prior years. It indicates that the current-year correction of a material error that includes prior-year effects may result in the need to correct prior-year financial statements even if the misstatement in the prior year or years is considered immaterial. Any prior-year financial statements found to be materially misstated in originating in years subsequent to the issuance of SAB No. 108, prior year financial statements requiring restatement would be restated in accordance with SFAS No. 154, “*Accounting Changes and Error Corrections*.” Because the combined approach represents a change in practice, the SEC staff will not require registrants that followed an acceptable approach in the past to restate prior years’ historical financials statements. Rather, these registrants can report the cumulative effect of adopting the new approach as an adjustment to the current year’s beginning balance of retained earnings. If the new approach is adopted in a quarter other than the first quarter, financial statements for prior interim periods within the year of adoption may need to be restated. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of SAB No. 108 did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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

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

	Years Ended December 31,		
	2006	2005	2004
Numerator:			
Net loss attributable to common stockholders	<u>\$(55,686)</u>	<u>\$(44,408)</u>	<u>\$(23,566)</u>
Denominator:			
Weighted-average number of common shares outstanding	37,394	29,098	2,335
Less: Weighted-average shares subject to repurchase	<u>(1,058)</u>	<u>(1,925)</u>	<u>(1,171)</u>
Weighted-average number of common shares outstanding used in computing basic and diluted net loss per common share	<u>36,337</u>	<u>27,173</u>	<u>1,164</u>
Basic and diluted net loss per common share	<u>\$ (1.53)</u>	<u>\$ (1.63)</u>	<u>\$ (20.25)</u>

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,		
	2006	2005	2004
Redeemable convertible preferred stock	—	—	20,553
Options to purchase common stock	2,075	926	447
Common stock subject to repurchase	615	1,475	2,069
Shares issuable related to the ESPP	69	40	—
Warrants to purchase redeemable convertible preferred stock	—	—	38

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NOTE 3—MARKETABLE SECURITIES

The Company invests in highly-liquid, investment-grade securities. The following is a summary of the Company's available-for-sale securities at December 31, 2006 and 2005:

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

As of December 31, 2005 (in thousands):	Cost Basis	Unrealized Gain	Unrealized Loss	Fair Value
Common stock in a public company	\$ 28	\$ 36	\$ —	\$ 64
Money market funds	3,719	—	—	3,719
Certificates of Deposit	3,325	—	—	3,325
Corporate bonds	7,159	—	(6)	7,153
Government securities	7,485	1	(9)	7,477
Commercial paper	71,785	10	(3)	71,792
Asset-backed securities	4,863	—	(5)	4,858
	98,364	47	(23)	98,388
Less cash equivalents	(73,670)	—	—	(73,670)
Total marketable securities	<u>\$ 24,694</u>	<u>\$ 47</u>	<u>\$ (23)</u>	<u>\$ 24,707</u>

Gross realized gains on sales of marketable securities in 2006 and 2005 were \$41,000 and \$34,000, respectively. There were no realized gains or losses on the sales of marketable securities in 2004.

As of December 31, 2006, weighted average days to maturity for the Company's available for sale securities was 79 days, with the longest maturity being November 2007.

The following table provides the breakdown of the marketable securities with unrealized losses at December 31, 2006 (in thousands):

As of December 31, 2006 (in thousands):	In loss position for less than twelve months	
	Fair Value	Unrealized Loss
Corporate bonds	\$ 5,087	\$ (2)
Government securities	8,490	(9)
	<u>\$13,577</u>	<u>\$ (11)</u>

The gross unrealized losses related to marketable securities are primarily due to a decrease in the fair value of debt securities as a result of an increase in interest rates during the year ended December 31, 2006. The Company has determined that the gross unrealized losses on its marketable securities at December 31, 2006 are temporary in nature. The Company reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, credit quality and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

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NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment comprise the following (in thousands):

	December 31,	
	2006	2005
Computer and office equipment	\$ 901	\$ 330
Laboratory equipment	1,202	728
Leasehold improvements	2,787	1,426
	4,890	2,484
Less: Accumulated depreciation	(1,721)	(817)
Total property and equipment, net	<u>\$ 3,169</u>	<u>\$ 1,667</u>

Depreciation expense was \$0.9 million, \$0.6 million, \$0.1 million and \$1.7 million for the years ended December 31, 2006, 2005 and 2004, and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2006, respectively.

Certain laboratory, computer and office equipment with a cost basis of approximately \$1.3 million is collateral for borrowings under the loan and security agreement with Silicon Valley Bank.

NOTE 5—ACCRUED LIABILITIES:

Accrued liabilities comprise the following (in thousands):

	December 31,	
	2006	2005
Payroll and employee related expenses	\$ 1,610	\$ 1,265
Professional services	384	369
Other accrued expenses	292	524
Total Accrued liabilities	<u>\$ 2,286</u>	<u>\$ 2,158</u>

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

The following table sets forth an analysis of the restructuring accrual during the year ended December 31, 2006 (in thousands):

	Balance at January 1, 2006	Charges	Cash paid	Balance at December 31, 2006
Severance and benefits	\$ —	\$ 1,035	\$ (1,035)	\$ —

NOTE 6—NOTES PAYABLE:

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

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In April 2006, the Company amended the existing loan and security agreement to borrow up to an additional \$4.0 million for working capital and equipment purchases. The interest rate for borrowings under this facility will be determined based on the 36-month U.S. Treasury note plus 2.25% on the date of borrowing. The Company borrowed \$2.6 million under this facility, which will be repaid over a 36-month period from the date of borrowing. The interest rate on these borrowings was approximately 7.2% per annum.

At December 31, 2006, future principal payments under the amended loan and security agreement are as follows (in thousands):

Year Ending December 31,	
2007	\$ 997
2008	910
2009	337
Total	<u>\$2,244</u>

Under the amended loan and security agreement, the Company is required to maintain the lower of 85% of its total cash and cash equivalents or \$10.0 million with the financial institution. Borrowings under the equipment line of credit are collateralized by the related equipment. At December 31, 2006, the Company was in compliance with all covenants in the agreement.

NOTE 7—COMMITMENTS AND CONTINGENCIES:

The Company leases certain of its facilities under noncancelable leases, which qualify for operating lease accounting treatment under SFAS No. 13, "Accounting for Leases," and, as such, these facilities are not included on its consolidated balance sheets. On August 31, 2004, the Company entered into a noncancelable facility sublease agreement for 33,700 square feet of laboratory and office space. The lease was effective October 1, 2004 and expires February 2010. On April 1, 2005 the Company entered into a noncancelable facility operating lease for approximately 6,489 square feet of laboratory space, which expires in February 2010. In connection with the execution of the lease, the Company paid a security deposit of approximately \$25,000.

In February 2006, the Company entered into a new lease for an additional 34,205 square feet of space and an increase in the lease term for the existing space located at the Company's headquarters in Redwood City, California to September 30, 2011. The lease is for a period of 66 months, beginning on April 1, 2006 with respect to the additional square footage and will begin on March 1, 2010 with respect to the existing square footage. The lease will expire, unless otherwise terminated under the terms of the lease, on September 30, 2011. The aggregate rent for the term of the lease is approximately \$4.8 million. In addition, the lease requires the Company to pay certain taxes, assessments, fees and other costs and expenses associated with the premises in amounts yet to be determined as well as a customary management fee. The Company will also be responsible for the costs of certain tenant improvements associated with the leased space. In connection with the lease, the Company furnished a letter of credit to the landlord for approximately \$0.3 million.

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

Years Ended December 31,	
2007	\$1,232
2008	1,358
2009	1,398
2010	1,462
2011	<u>1,129</u>
Future minimum rental payments	<u>\$6,579</u>

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Rent expense for the years ended December 31, 2006, 2005, 2004, and, cumulatively, for the period from October 17, 2001 (date of inception) to December 31, 2006 was \$1.1 million, \$0.6 million, \$0.7 million and \$3.0 million, respectively.

The Company's purchase commitments at December 31, 2006 were \$1.6 million, which are primarily for the manufacture and testing of active pharmaceutical ingredient (API) or drug product for clinical testing.

License agreements

In November 2002, the Company entered into an exclusive license agreement with certain individuals for rights to certain patent applications. Under the terms of the agreement, the Company was required to make aggregate upfront payments of approximately \$15,000. Based on the early stage of development and the uncertainty of the feasibility of the licensed technology, the upfront fees were expensed immediately as incurred. The Company is also required to make various milestone payments up to \$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, 2006.

In August 2003, the Company entered into an exclusive worldwide license and development agreement with Baxter International and Baxter Healthcare S.A., together Baxter for certain patent rights and technology associated with glufosfamide and its drug candidates in development. Under the terms of the agreement, the Company made an initial upfront payment of \$100,000 and in December 2003, another milestone payment of \$100,000. In November 2004, the Company made an additional milestone payment of \$1.3 million. The Company will be required to make a milestone payment of \$1.0 million within 30 days of filing a NDA for glufosfamide with the FDA. Total additional milestone payments in connection with the development of glufosfamide and United States of America and foreign regulatory submissions and approvals could total \$8.0 million. In addition, based on the attainment of specified sales thresholds the Company could be required to make payments totaling \$17.5 million. The Company will also be required to make royalty payments upon product commercialization. No royalty payments have been made as of December 31, 2006.

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

The unamortized portion of the upfront payment has been classified as deferred revenue on the Company's consolidated balance sheet at December 31, 2006 and 2005.

Indemnification

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

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

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NOTE 8—STOCKHOLDERS' EQUITY

Common stock

On February 4, 2005, the Company completed its initial public offering of 6.1 million shares of common stock for net proceeds totaling \$38.1 million. On October 14, 2005, the Company completed a public offering of 6.4 million shares of its common stock for net proceeds totaling \$62.4 million. Each share of common stock has the right to one vote. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to the prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid as of December 31, 2006.

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

Reverse Stock Split

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

Preferred Share Rights Agreement

On August 8, 2006, the board of directors adopted a Preferred Shares Rights Agreement. As part of this agreement, preferred stock purchase rights ("the rights") were distributed to stockholders of record as of August 23, 2006, at the rate of one right for each share of common stock held. The rights become exercisable only upon the acquisition, or the acquisition of the right to acquire, by a person or group of affiliated or associated persons, 15% or more of the outstanding shares of the Company's common stock. Once exercisable, each right entitles the holder to purchase, at a price of \$25.00, one one-thousandth of a share of Series A Participating Preferred Stock. For a limited period of time following the announcement of any such acquisition or offer, the rights are redeemable by the Company at a price of \$0.01 per right. If the rights are not redeemed or exchanged, each right will then entitle the holder to receive, upon exercise of such right, a number of shares of the Company's common stock having a then current value equal to two times the purchase price of such right. Similarly, if the rights are not redeemed or exchanged and following the acquisition of 15% or more of the outstanding shares of the Company's common stock by a person or group of affiliated or associated persons, (i) the Company consolidates with or merges into another entity, (ii) another entity consolidates with or merges into the Company or (iii) the Company sells or otherwise transfers 50% or more of its consolidated assets or earning power, each right will then entitle the holder to receive, upon exercise of such right, a number of shares of common stock of the acquiring company having a then current value equal to two times the purchase price. For a limited period of time after the exercisability of the rights, each right, at the discretion of the board of directors, may be exchanged for one share of common stock per right. The Company has initially reserved 200,000 shares of preferred stock pursuant to the exercise of these rights. These rights expire on August 8, 2016.

NOTE 9—EQUITY INCENTIVE PLANS AND STOCK BASED COMPENSATION

2004 Equity Incentive Plan

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

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

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

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

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

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

At December 31, 2006, stock options outstanding and exercisable by exercise price were as follows:

Range of Exercise Prices	Number Outstanding	December 31, 2006		Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price			
\$ 0.16 – 2.29	240,132	8.50	\$ 1.23	76,731	\$ 0.36	
\$ 2.55 – 2.55	5,000	9.72	2.55	312	2.55	
\$ 2.57 – 2.57	1,556,732	9.10	2.57	198,093	2.57	
\$ 2.61 – 3.33	209,000	9.75	2.87	11,457	2.86	
\$ 3.45 – 3.45	35,000	9.79	3.45	1,874	3.45	
\$ 3.54 – 3.54	3,000	9.81	3.54	—	—	
\$ 6.26 – 6.26	5,000	8.38	6.26	5,000	6.26	

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Range of Exercise Prices	December 31, 2006				
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$14.04 – 14.04	937	9.19	14.04	937	14.04
\$14.98 – 14.98	20,000	9.16	14.98	7,500	14.98
	<u>2,074,801</u>	9.11	2.60	<u>301,904</u>	2.43

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2006 was \$2.5 million and \$0.5 million, respectively. As of December 31, 2006, the ending vested and expected to vest was 2,047,584 and the aggregate intrinsic value of these options was \$2.5 million. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at December 31, 2006.

The total intrinsic value of stock options exercised during the year ended December 31, 2006 was \$0.5 million determined at the date of the option exercise. Cash received from stock option exercises was \$0.1 million for the year ended December 31, 2006. The Company issues new shares of common stock upon exercise of options. In connection with these exercises, there was no tax benefit realized by the Company due to its current loss position.

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

Before the initial public offering in February 2005, the 2001 Plan allowed options to be exercised prior to vesting. Included in common stock at December 31, 2006 are 615,129 shares subject to repurchase related to options exercised prior to vesting.

2004 Employee Stock Purchase Plan

Effective with the initial public offering, the Board of Directors approved the 2004 Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan contains consecutive, overlapping 24 month offering periods. Each offering period includes four six-month purchase periods. The price of the common stock purchased will be the lower of 85% of the fair market value of the common stock at the beginning of an offering period or at the end of the purchase period. For the year ended December 31, 2006, employees had purchased 144,229 shares of common stock under the Purchase Plan at an average price of \$3.14. For the year ended December 31, 2005, employees had purchased 55,309 shares of common stock under the Purchase Plan at an average price of \$5.95 per share. At December 31, 2006, plan participants had \$0.2 million withheld to purchase stock on February 15, 2007, which is included in accrued liabilities on the accompanying balance sheet. At December 31, 2006, 922,377 shares were authorized and available for issuance under the ESPP.

Directors Compensation Program

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

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Stock based Compensation

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

On January 1, 2006, the Company adopted the fair value provisions of SFAS No.123(R) Share-Based Payment "SFAS 123(R)" using the modified prospective transition method, except for options granted prior to the Company's initial public offering in February 2005, for which the fair value was determined for disclosure purposes using the minimum value method. Under this transition method, stock-based compensation cost recognized for the year ended December 31, 2006 includes:

- compensation cost for all unvested stock-based awards as of January 1, 2006 that were granted subsequent to the Company's initial public offering in February 2005, and prior to January 1, 2006, that were earned during the year ended December 31, 2006 based on the recognition of the grant date fair value estimated in accordance with the original provisions of SFAS 123 over the service period, which is generally the vesting period;
- compensation cost for all stock-based awards granted or modified subsequent to January 1, 2006, that were earned during the year ended December 31, 2006 based on the recognition of the grant date fair value estimated in accordance with the provisions of SFAS 123(R) over the service period, which is generally the vesting period; and
- compensation cost for options granted prior to the Company's initial public offering in February 2005 that were earned during the year ended December 31, 2006, based on the grant date intrinsic value over the service period, which is generally the vesting period.

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

Stock-based compensation expense recognized under SFAS 123(R) and APB 25 in the Company's consolidated statement of operations for the year ended December 31, 2006 related to stock options and ESPP was \$10.1 million. The stock-based compensation expense for the year ended December 31, 2006, included \$4.4 million related to options granted prior to the initial public offering that were valued using the intrinsic value method in accordance with the provisions of APB 25. As a result of adopting SFAS 123(R) on January 1, 2006, the Company's loss from operations and net loss for the year ended December 31, 2006 was \$4.6 million, higher than if it had continued to account for stock-based compensation under APB 25. Basic and diluted net loss per share for the year ended December 31, 2006 would have been \$1.40 if the Company had not adopted SFAS 123(R). The implementation did not have an impact on cash flows during year ended December 31, 2006.

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Valuation Assumptions

The Company estimated the fair value of stock options granted using the Black-Scholes option-pricing formula and a single option award approach. This fair value is being amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. The fair value of employee stock options and employee purchase rights under the Company's ESPP was estimated using the following weighted-average assumptions for the years ended December 31, 2006, 2005 and 2004:

	Year ended December 31,		
	2006	2005	2004
Employee Stock Options			
Risk-free interest rate	4.59%	3.66%	2.77%
Expected life (in years)	5.73	4.0	4.0
Dividend yield	—	—	—
Volatility	77%	68%	—
Weighted-average fair value of stock options granted	\$4.49	\$7.35	\$9.01
Employee Stock Purchase Plan			
Risk-free interest rate	5.0	3.11%	—
Expected life (in years)	1.25	1.25	—
Dividend yield	—	—	—
Volatility	67%	67%	—
Weighted-average fair value of ESPP purchase rights	\$1.13	\$3.24	—

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

Employee Stock-based Compensation Expense

Deferred stock-based compensation There were no below-market grants subsequent to the initial public offering in February 2005. Prior to the initial public offering, the Company issued options to certain employees under the 2001 Plan with exercise prices below the fair market value of the Company's common stock at the date of grant, determined with hindsight. In accordance with the requirements of APB No. 25, the Company has recorded deferred stock-based compensation for the difference between the exercise price of the stock option and the fair market value of the Company's stock at the date of grant. This deferred stock-based compensation is amortized to expense on a straight-line basis over the period during which the Company's right to repurchase the stock lapses or the options vest, generally four years. In accordance with the requirements of APB 25, the Company recorded deferred stock-based compensation aggregating \$19.8 million, net of forfeitures (including \$(3.0) million, \$0.5 million and \$20.4 million in 2006, 2005 and 2004, respectively.) Through December 31, 2006, the Company amortized approximately \$15.8 million of such compensation expense, net of forfeitures, with approximately \$4.4 million, \$5.3 million and \$5.3 million being amortized for the years ended December 31, 2006, 2005 and 2004, respectively.

In May 2004, the Company granted 386,778 options to employees to purchase shares of common stock at \$0.53 per share. These options contained a call feature that allowed the Company to cancel the options by January 31, 2005 if the Company did not complete an initial public offering by December 31, 2004. If the Company had elected to exercise this call feature, the outstanding options would have been cancelled and any shares purchased pursuant to exercise of the options would be immediately repurchasable by the Company at the original purchase price. Stock compensation expense was amortized in accordance with the provisions of FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" for these awards subject to variable accounting. On December 14, 2004 the Company's Board of Directors eliminated the call feature.

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Prior to the elimination of the call feature the Company applied variable accounting to these options, resulting in deferred stock-based compensation of \$6.0 million and stock compensation expense of \$2.4 million during the year ended December 31, 2004. Beginning in 2005, the remaining deferred stock-based compensation related to these options is being amortized on a straight-line basis over the remaining option vesting period.

Stock-based compensation expense As required by SFAS 123(R) the Company recognized \$4.4 million of stock-based compensation expense related to stock options granted subsequent to the Company's initial public offering in February 2005, under the Company's stock option plans, for the year ended December 31, 2006, in addition to the amortization of deferred compensation above. As of December 31, 2006, the total unrecognized compensation cost related to unvested stock-based awards granted to employees under the Company's stock option plans was approximately \$9.0 million after forfeitures. This cost will be recorded as compensation expense on a straight-line basis over the remaining weighted average requisite service period of approximately 3.1 years.

Stock-based compensation expense in connection with the Purchase Plan for the year ended December 31, 2006 was \$0.3 million.

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Non-employee Stock-based Compensation Expense

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

	Years Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.63%	4.25%	4.38%
Expected life (in years)	6.12	10	10
Dividend yield	—	—	—
Expected volatility	77%	80%	70%

The stock-based compensation expense will fluctuate as the fair market value of the common stock fluctuates. In connection with the grant of stock options to non-employees, the Company recorded stock-based compensation of approximately \$1.1 million, \$4.1 million and \$0.7 million for the years ended December 31, 2006, 2005 and 2004, respectively. In August 2005, the president and founder of the Company resigned as president and entered into a consulting and stock vesting agreement. Under the terms of this agreement, the vesting of certain of his options accelerated at December 31, 2005, subject to certain conditions. Due to the change in status from that of an employee to a consultant, compensation expense associated with the accelerated vesting of these options was recorded for his services as a consultant through December 31, 2005.

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

	Year Ended December 31,		
	2006	2005	2004
Stock-based compensation expense:			
Research and development	\$ 5,008	\$5,951	\$2,960
General and administrative	5,141	3,470	3,015
	<u>\$10,149</u>	<u>\$9,421</u>	<u>\$5,975</u>

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Pro forma Disclosure

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

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

Disclosures for the year ended December 31, 2006 was not presented because stock-based employee compensation was accounted for under SFAS 123(R)'s fair-value method during this period. Additionally, the stock-based employee compensation determined under the fair-value method for the years ended December 31, 2005 has been adjusted to exclude the effect of the options granted prior to the Company's initial public offering in February 2005, as those options were valued for pro forma disclosure purposes using the minimum value method. Pro forma disclosure for the year end December 31, 2004 is not presented as all options granted during 2004 and preceding years were valued using the minimum value method. The total intrinsic value of stock options exercised during the years ended December 31, 2005 and 2004 were \$0.4 million and \$0.2 million, respectively, determined at the date of the option exercise. Cash received from stock option exercises was \$0.2 million and \$0.9 million for the years ended December 31, 2005 and 2004, respectively.

NOTE 10—INCOME TAXES

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

	2006	2005	2004
U.S. federal taxes (benefit) at statutory rate	\$(18,933)	\$(15,099)	\$(8,013)
State federal income tax benefit	(3,642)	(2,428)	(1,374)
Unutilized (utilized) net operating losses	20,316	16,944	6,075
Stock-based compensation	1,068	200	1,919
Research and development credits	(1,702)	(738)	(554)
Tax assets not benefited	2,884	1,112	1,947
Other	9	9	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

	December 31,		
	2006	2005	2004
Capitalized start-up costs	\$ 408	\$ 408	\$ 1,014
Net operating loss carryforwards	40,729	24,043	9,482
Research and development credits	5,250	2,112	874
Deferred stock compensation	6,620	3,829	—
Other (accruals, reserves, depreciation)	1,983	674	852
Total deferred tax assets	54,990	31,066	12,222
Less: Valuation allowance	(54,990)	(31,066)	(12,222)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2006, the Company had federal and state net operating loss carryforwards of approximately \$102.0 million available to offset future taxable income. The Company's federal and state net operating loss carryforwards will begin to expire in 2021 and 2013, respectively, if not used before such time to offset future taxable income or tax liabilities. For federal and state income tax purposes, a portion of the Company's net operating loss carryforward is subject to certain limitations on annual utilization in case of changes in ownership, as defined by federal and state tax laws. The annual limitation may result in the expiration of the net operating loss before utilization.

At December 31, 2006, the Company had federal research and development tax credits of approximately \$3.3 million, which will expire in years 2021 through 2026, and state research and development tax credits of approximately \$2.9 million, which will have no expiration date.

The Company has established a valuation allowance against its deferred tax assets due to the uncertainty surrounding the realization of such assets. The valuation allowance increased by \$23.9 million, \$18.8 million and \$7.8 million for the years ended December 31, 2006, 2005 and 2004.

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, 2006, the Company has not made any contributions to the 401(k) Plan.

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The following table presents certain unaudited quarterly financial information for the eight quarters ended December 31, 2006. This information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments necessary to state fairly the unaudited quarterly results of operations.

	<u>2006</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
(in thousands, except per share data)					
Revenue		\$ 359	\$ 359	\$ 359	\$ 384
Net loss attributable to common stockholders		\$(13,826)	\$(15,527)	\$(16,713)	\$(9,620)
Basic and diluted net loss per share attributable to common stockholders		\$ (0.38)	\$ (0.43)	\$ (0.46)	\$ (0.26)
Shares used in computation of basic and diluted net loss per share		35,949	36,178	36,502	36,711
	<u>2005</u>				
(in thousands, except per share data)					
Revenue		\$ —	\$ —	\$ 331	\$ 359
(in thousands, except per share data)					
Net loss attributable to common stockholders		\$ (7,540)	\$(10,186)	\$(11,526)	\$(15,156)
Basic and diluted net loss per share attributable to common stockholders		\$ (0.46)	\$ (0.36)	\$ (0.40)	\$ (0.44)
Shares used in computation of basic and diluted net loss per share		16,340	28,679	28,961	34,452

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

We refer you to Part IV, Item 15 of the Original 10-K.

Exhibit Number	Description of Documents
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934.
32.1	Certification of Principal Executive Officer in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

January 18, 2008

THRESHOLD PHARMACEUTICALS, INC.

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

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-126276, No. 333-134598, and No. 333-143130) of Threshold Pharmaceuticals, Inc. of our report dated March 15, 2007 relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K/A.

/s/ PricewaterhouseCoopers LLP

San Jose, California
January 17, 2008

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

I, Harold E. Selick, certify that:

1. I have reviewed this Form 10-K/A (Amendment No.1) of Threshold Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 18, 2008

/s/ Harold E. Selick

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

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

I, Joel A. Fernandes, certify that:

1. I have reviewed this Form 10-K/A (Amendment No. 1) of Threshold Pharmaceuticals, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 18, 2008

/s/ Joel A. Fernandes

Joel A. Fernandes
Senior Director, Finance and Controller

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

In connection with the Annual Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harold E. Selick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: January 18, 2008

/s/ Harold E. Selick

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

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

In connection with the Annual Report of Threshold Pharmaceuticals, Inc (the "Company") on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joel A. Fernandes, Senior Director, Finance and Controller of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: January 18, 2008

/s/ Joel A. Fernandes

Joel A. Fernandes

Senior Director, Finance and Controller

January 18, 2008

CONFIDENTIAL

Via Overnight Courier and Filed by Edgar

Mr. Jim B. Rosenberg
Senior Assistant Chief Accountant
Division of Corporate Finance, Mail Stop 6010
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

RE: Threshold Pharmaceuticals, Inc.
Form 10-K for the fiscal year ended December 31, 2006
Filed March 15, 2007
File No. 001-32979

Dear Mr. Rosenberg:

On behalf of Threshold Pharmaceuticals, Inc. ("Threshold" or the "Company"), this letter responds to the comments of the staff of the Securities and Exchange Commission (the "Staff") set forth in the letter dated December 28, 2007 in connection with the Company's Form 10-K for the fiscal year ended December 31, 2006 (the "2006 10-K"). The responses below are preceded by the Staff's comments.

"Item 8: Financial Statements And Supplementary Data, page 58

Report of Independent Registered Public Accounting Firm, page 59

1. PricewaterhouseCoopers's report included in the filing does not cover the "Cumulative Period from October 17, 2001 (date of inception) to December 31, 2006. Please have PricewaterhouseCoopers provide a revised report covering this period and include it in the filing as required by rule 2-05 of Regulation S-X.

Response:

The Company respectfully advises the staff that the original report delivered by PricewaterhouseCoopers to the Company stated that such report covered the cumulative period from October 17, 2001 (date of inception) to December 31, 2006. However, due to a typographical error, the report as filed did not include this statement. The Company is today filing an amendment to the 2006 10-K to correct this error. PricewaterhouseCoopers has provided an updated consent in connection with the revised filing of their report.

Balance Sheet, page 61

2. Please explain to us what consideration you gave to the guidance in paragraph 74 of SFAS 123R in your decision to continue to include as a separate "contra-equity" account the line item "Deferred stock-based compensation."

Response:

The Company respectfully informs the staff that the Company considered paragraphs 74 and 83 of SFAS 123R in its decision to continue to include as a separate "contra-equity" account the line item "Deferred stock-based compensation." Paragraph 74 provides guidance for elimination of "Deferred stock-based compensation" for awards whose compensation cost was calculated based on a grant-date fair value either for recognition purposes or for pro forma disclosures under SFAS 123. The "Deferred stock-based compensation" on the Company's balance sheet pertains to awards granted prior to the Company's initial public offering and whose compensation cost was calculated using the minimum value method, not the grant-date fair value method, for pro forma disclosure purposes under SFAS 123.

As such, the Company followed the guidance provided by paragraph 83 of SFAS 123R, which requires entities that used the minimum value method of measuring equity share options and similar instruments for either recognition purposes or for pro forma disclosure purposes under SFAS 123 to continue to account for any portion of awards outstanding at the date of initial application using the original accounting principles applied to those awards. Those awards were originally accounted for under APB No. 25 and its interpretations and, accordingly, the Company continued to record deferred stock-based compensation for those awards as a contra-equity line in its balance sheet.

Note-2 – Net Loss per Share, page 70

3. Please explain to us how shares included in the calculation in the line item “Less: Weighted-average shares subject to repurchases” in this document and the amounts included in your Form 10-Q for September 30, 2007 in a similar note on page 7 of that document reflect the assertion made in note 8 on page 75 that there are no “restricted awards subject to the Company’s right of repurchase.” If these represent other shares that are similarly subject to repurchase, please provide us a discussion of those shares. Also provide us your analysis under the applicable authoritative describes the treatment applied to the repurchase feature of these shares including the specific terms of the repurchase.

Response:

The Company respectfully advises the staff that the assertion made in note 8 on page 75 of the Company’s Form 10-K for the fiscal period year ended December 31, 2006 that there are no “restricted awards subject to the Company’s right of repurchase” applied only to the two restricted stock awards granted on October 24, 2001 to the Company’s Founder and member of the Board of Directors disclosed in note 8 on page 75. The Company supplementally informs the staff that Company will revise the disclosure in Company’s Form 10-K for the fiscal year ended December 31, 2007 as follows:

“As of December 31, 2007 and 2006, for both awards there were no shares subject to the Company’s right of repurchase.”

The Company supplementally advises the staff that the shares included in the net loss per common share calculation in the line item “Less: Weighted – average shares subject to repurchases” in note 2 on page 70 of the Company’s Form 10-K for the fiscal year ended December 31, 2006, and the amounts included in a similar disclosure in note 2 on page 7 of the Company’s Form 10-Q for quarter ended September 30, 2007, related to options granted before the Company’s initial public offering under the 2001 Equity Incentive Plan, which allowed the options to be exercised prior to vesting. The unvested shares are included in common stock and are subject to the Company’s right of repurchase as disclosed in note 9 on page 78 of the Company’s Form 10-K for the fiscal year ended December 31, 2006. The unvested shares are subject to the Company’s right of repurchase at the lesser of the purchase price of the shares and the fair market value of the shares as of the date of termination of the employee. In accordance with paragraph 151 of Issue 33(b) of EITF 00-23 these unvested shares were treated as common stock as the exercise of the options prior to vesting was deemed to be a substantive exercise because the Company’s repurchase right was at the lesser of the purchase price and the fair market value of shares at the date of termination of the employee. In addition, the Company considered paragraphs 10, 17 and 20 of SFAS 128 and excluded these unvested shares from the basic net loss per share calculation. The non-vested shares contain future service conditions necessary for vesting and therefore do not meet the paragraph 10 definition of contingently issuable shares and are therefore excluded from the computation of the basic net loss per share calculation.

The Company hereby acknowledges that:

- the Company is responsible for the adequacy and accuracy of the disclosure in the filings;
- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filings; and

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- the Company may not assert staff comments as a defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

Please contact the undersigned at (650) 813-5640, if you have any questions regarding the responses to the staff comment letter.

Sincerely,

/s/ Stephen Thau

cc: Harold E. Selick, Ph.D.
Mr. Joel A. Fernandes