FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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TELIK INC

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED June 30, 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: 0-31265

TELIK, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**93-0987903**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

3165 PORTER DRIVE, PALO ALTO, CA 94304
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT' S TELEPHONE NUMBER, INCLUDING AREA CODE: (650) 845-7700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK $0.01 PAR VALUE
(TITLE OF CLASS)

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

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

Large accelerated filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐

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

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date.

Class: Common Stock $0.01 par value **Outstanding at July 31, 2006: 52,259,536 shares**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

TELIK, INC.
CONDENSED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30, 2006 (Unaudited)	December 31, 2005 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$94,486	$127,971
Short-term investments	59,157	75,876
Other receivables	755	687
Prepaids and other current assets	1,228	1,418
Total current assets	155,626	205,952
Property and equipment, net	4,829	5,042
Long-term investments	18,684	–
Restricted investments	1,347	1,796
Other assets	371	556
Total assets	$180,857	$213,346
Liabilities and Stockholders' Equity		
Current liabilities:		

Accounts payable	$1,989	$1,269
Accrued clinical trials	12,152	11,509
Accrued compensation	3,070	4,049
Accrued liabilities	920	948
Current portion of capital leases and equipment loans	466	901
Total current liabilities	18,597	18,676
Non-current portion of capital leases and equipment loans	14	145
Commitments		
Stockholders' equity:		
Common stock, $0.01 par value, 100,000,000 shares authorized; shares issued and outstanding: 52,259,531 at June 30, 2006 and 52,038,850 at December 31, 2005	523	520
Additional paid-in capital	516,885	507,585
Accumulated other comprehensive loss	(296)	(290)
Accumulated deficit	(354,866)	(313,290)
Total stockholders' equity	162,246	194,525
Total liabilities and stockholders' equity	$180,857	$213,346

See accompanying Notes to Condensed Financial Statements.

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TELIK, INC.
CONDENSED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Contract revenue from collaborations	$–	$–	$–	$19
Operating costs and expenses:				
Research and development	19,036	19,656	36,694	38,801
General and administrative	4,560	3,129	9,069	5,762
Total operating costs and expenses	23,596	22,785	45,763	44,563
Loss from operations	(23,596)	(22,785)	(45,763)	(44,544)
Interest income	2,106	1,871	4,213	3,248
Interest expense	(10)	(37)	(26)	(79)
Net loss	$(21,500)	$(20,951)	(41,576)	(41,375)
Basic and diluted net loss per share	$(0.41)	$(0.40)	$(0.80)	$(0.82)
Shares used to calculate basic and diluted net loss per share	52,255	51,964	52,209	50,473

See accompanying Notes to Condensed Financial Statements.

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TELIK, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$(41,576)	$(41,375)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	811	737
Share-based compensation expense	7,342	–
Changes in assets and liabilities:		
Other receivables	(68)	(13)
Prepaid expenses and other current assets	190	344
Accounts payable	720	(2,477)
Accrued clinical trials, compensation and other liabilities	(179)	1,002
Deferred revenue	–	(19)
Net cash used in operating activities	(32,760)	(41,801)
Cash flows from investing activities:		

Purchases of investments	(22,837)	(108,381)
Sales of investments	8,000	59,300
Maturities of investments	13,315	23,331
Purchases of property and equipment	(598)	(1,020)
Net cash used in investing activities	(2,120)	(26,770)
Cash flows from financing activities:		
Principal payments under capital leases and equipment loans	(566)	(659)
Proceeds from issuance of common stock	1,961	143,089
Net cash provided by financing activities	1,395	142,430
Net increase (decrease) in cash and cash equivalents	(33,485)	73,859
Cash and cash equivalents at beginning of period	127,971	56,221
Cash and cash equivalents at end of period	$94,486	$130,080
Supplementary information:		
Interest paid	$26	$79

See accompanying Notes to Condensed Financial Statements.

TELIK, INC.
Notes to Condensed Financial Statements
(Unaudited)

1. Basis of presentation and summary of significant accounting policies

We have prepared the accompanying condensed financial statements in accordance with U.S. generally accepted accounting principles, or GAAP, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Exchange Act. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included herein. Operating results for the three months and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or any other period. The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date. You should read these condensed financial statements and notes in conjunction with our audited financial statements for the year ended December 31, 2005, which are included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 3, 2006.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Cash Equivalents and Investments

We invest our excess cash in money market funds and in highly liquid debt instruments of the U.S. government, its agencies and municipalities and corporate notes. All highly liquid investments with stated maturities of three months or less from date of purchase are classified as cash equivalents. Debt securities with original maturities greater than approximately three months and remaining maturities less than one year are classified as short-term investments. Debt securities with remaining maturities greater than one year are classified as long-term investments.

We classify all cash equivalents and investments as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss). Any realized gains or losses on the sale of investments are determined on a specific identification method, and such gains and losses are reflected as a component of interest income or expense.

2. Employee stock-based compensation

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Accounting Standards No. 123R “Share-Based Payment” (“SFAS 123(R)”), which requires the measurement and recognition of compensation expense for all stock-based compensation payments. We adopted the provisions of SFAS 123(R) on January 1, 2006 which superseded our previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). Accordingly, compensation cost for all share-based payment awards to employees is measured based on the grant date fair value of those awards and recognized over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). We have no awards with market or performance conditions. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (“SAB 107”) relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

In November 2005, the FASB issued FASB Staff Position No. FAS123(R)-3, “Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards” (“FAS 123(R)-3”). We have adopted the simplified method to calculate the beginning balance of the additional paid-in-capital (or “APIC”) pool of the excess tax benefit, and to determine the subsequent impact on the APIC pool and Condensed Statements of Cash Flows of the tax effects of employee stock-based compensation awards that were outstanding upon our adoption of SFAS 123(R).

We adopted SFAS 123(R) using the modified prospective transition method, which provides for certain changes to the method for valuing stock-based compensation. The valuation provisions of SFAS 123(R) apply to new awards and to awards that are outstanding at the effective date and subsequently modified or cancelled. Estimated compensation expense for awards outstanding at the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Our financial statements as of and for the three and six months ended June 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, our financial statements for prior periods presented were not restated to reflect, and do not include, any stock-based compensation expense associated with employee stock awards.

Employee stock plans

We grant stock options to our employees, outside directors and consultants and provide employees the right to purchase our stock pursuant to stockholder approved stock option and employee stock purchase plans. As of June 30, 2006, we had four equity incentive plans (the "Plans"): the 2000 Equity Incentive Plan, the 2000 Non-Employee Directors' Stock Option Plan, the 1996 Stock Option Plan and the 2000 Employee Stock Purchase Plan. Under the Plans we had an aggregate of 12,344,218 shares of our common stock reserved for issuance as of June 30, 2006. Of those shares, 9,054,667 shares were subject to outstanding options and 3,289,551 shares were available for future grants of share-based payment awards.

2000 Equity Incentive Plan. Options granted under the 2000 Equity Incentive Plan (the "2000 Plan") may be either incentive stock options ("ISOs") or nonstatutory stock options ("NSOs"). For ISOs and NSOs, the option price shall be at least 100% and 85%, respectively, of the closing price of our common stock on the date of the grant, or in the event there is no public market for our common stock, of the fair value on the date of the grant, as determined by our board of directors. Options generally vest over a period of four years from the date of grant, one fourth vesting one year after the date of the grant and the balance vesting monthly thereafter. Options granted under the 2000 Plan expire no later than 10 years from the date of grant.

2000 Non-Employee Directors' Stock Option Plan. Under the 2000 Non-Employee Directors' Stock Option Plan (the "Directors' Plan"), each non-employee director who becomes a director of Telik is entitled to receive nonstatutory stock options grants. The exercise price of options under the Directors' Plan will be equal to the fair market value of the common stock on the date of grant. The maximum term of the options granted under the Directors' Plan is 10 years. All grants under the Directors' Plan will vest over a period of four years from date of grant, one fourth vesting one year after the date of the grant and thereafter the balance vesting monthly.

1996 Stock Option Plan. The 1996 Stock Option Plan (the "1996 Plan") was adopted in April 1996. The terms are similar to the 2000 Plan. The 1996 Plan was terminated upon our initial public offering on August 11, 2000, and no new options can be granted under this plan. The termination of the 1996 Plan had no effect upon outstanding options under the plan.

2000 Employee Stock Purchase Plan. Our 2000 Employee Stock Purchase Plan (the "Purchase Plan") permits eligible employees to purchase common stock at a discount through payroll deductions during defined offering periods. The price at which the stock is purchased is equal to the lower of 85% of the fair market value of the common stock on the first day of the offering or 85% of the fair market value of our common stock on the purchase date. A two-year look-back feature in our Purchase Plan causes the offering period to reset if the fair value of our common stock on the purchase date is less than that on the original offering date. Through the end of June 30, 2006, we have issued a total of 440,187 shares under the Purchase Plan, and 709,813 shares remain available for future issuance.

Adoption of SFAS 123(R)

Stock-based compensation expense is based on the fair value of that portion of employee stock options that is ultimately expected to vest during the period. Stock-based compensation expense recognized in our statements of operations for the three and six months ended June 30, 2006 included compensation expense for stock-based awards granted prior to, but not yet vested as of, December 31, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and share-based payment awards granted subsequent to December 31, 2005 based on the grant date fair value estimated in accordance with SFAS 123(R). For stock options granted after January 1, 2006, the fair value of each award is amortized using the straight-line single-option method. For share awards granted prior to 2006, the fair value of each award is amortized using the accelerated multiple-option valuation method prescribed by SFAS 123. Stock-based compensation expense is based on awards ultimately expected to vest, therefore, it has been reduced for estimated forfeitures. 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. We estimated forfeitures based on our historical experience. In our pro forma information required under SFAS 123 for the periods prior to 2006, we accounted for forfeitures as they occurred.

Total estimated stock-based compensation expense, related to all of our share-based payment awards, recognized under SFAS 123(R) was comprised of the following:

(In thousands except per share amount)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Research and development	$ 2,454	$ 4,729
General and administrative	1,265	2,613
Stock-based compensation expense before taxes	3,719	7,342
Related income tax benefits	–	–
Effect on net loss	$ 3,719	$ 7,342
Effect on earnings per basic and diluted common share	$ (0.07)	$ (0.14)

Because we have a net operating loss carryforward as of June 30, 2006, no excess tax benefits for the tax deductions related to stock-based compensation expense were recognized in our statement of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in the three and six months ended June 30, 2006, which would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities. Because we adopted the provisions of SFAS 123(R) on January 1, 2006, no stock-based compensation expense was recognized during the three and six months ended June 30, 2005. As of June 30, 2006, $19.7 million of total unrecognized compensation costs, net of forfeitures, related to non-vested awards is expected to be recognized over a weighted average period of 2.49 years.

Pro forma information under SFAS 123

Prior to January 1, 2006, we accounted for stock-based awards to employees using the intrinsic value method in accordance with APB 25 and related interpretations and provided the required pro forma disclosures of SFAS 123. Under the intrinsic value method, no stock-based compensation expense was recognized in our statement of operations for stock-based awards to employees, because the exercise price of our stock options granted to employees equaled the fair market value of the underlying stock at the date of grant. The following table summarizes the pro forma effect on our net loss and per share data if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation.

(in thousands except per share amounts)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net loss – as reported	$ (20,951)	$ (41,375)
Deduct: Total stock-based employee compensation expense under the fair value based method for all awards	(4,913)	(9,693)
Net loss – pro forma	$ (25,864)	$ (51,068)
Basic and diluted net loss per share – as reported	$ (0.40)	$ (0.82)
Basic and diluted net loss per share – pro forma	$ (0.50)	$ (1.01)

Valuation assumptions

The employee stock-based expense recognized under SFAS 123(R) and presented in the SFAS123 pro forma disclosure was determined using a Black-Scholes-Merton option valuation model ("Black-Scholes model"). Expected volatilities are based on historical volatility of our common stock. The expected term of options granted is based on the simplified method in accordance with SAB 107 as our historical share option exercise experience does not provide a reasonable basis for estimation. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Assumptions used in the Black-Scholes model were as follows:

	Stock Option Plans		Stock Purchase Plan	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2006	2005	2006	2005
Expected stock price volatility	62.3 %	66.7 %	37.4 %	67.9 %
Risk-free interest rate	5.01 %	3.63 %	4.68 %	3.06 %
Expected life (in years)	6.08	5.08	1.01	1.27
Expected dividend yield	–	–	–	–

	Stock Option Plans		Stock Purchase Plan	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Expected stock price volatility	63.0 %	67.5 %	37.4 %	70.4 %
Risk-free interest rate	4.62 %	3.86 %	4.68 %	2.69 %
Expected life (in years)	6.08	5.03	1.01	1.39
Expected dividend yield	–	–	–	–

Stock Option Activity

A summary of option activity under our Plans for the six months ended June 30, 2006 is presented below.

	Number of shares	Weighted average exercise	Weighted average remaining	Aggregate intrinsic value

		price per share	contractual term (in years)	(in millions)
Outstanding at December 31, 2005	8,465,649	$13.55		
Granted	737,500	$20.12		
Exercised	(173,298)	$7.71		
Forfeited or expired	(34,948)	$19.57		
Outstanding at March 31, 2006	8,994,903	$14.17		
Granted	131,500	$18.18		
Exercised	(6,308)	$11.88		
Forfeited or expired	(65,428)	$19.07		
Outstanding at June 30, 2006	9,054,667	$14.20	6.72	$ 37.5
Exercisable at June 30, 2006	5,365,938	$10.90	5.40	$ 36.5

The weighted average grant-date fair value of options granted during the three and six months ended June 30, 2006 were $11.31 and $12.32 per share and during the same periods in 2005 were $9.35 and $10.42 per share. The total intrinsic value of options exercised during the three and six months ended June 30, 2006 were $31,458 and $2,104,280 and for the same periods in 2005 were $126,480 and $341,294. The total fair value of shares vested during the three and six months ended June 30, 2006 were $3.1 million and $12.2 million.

The following table summarizes information about the stock options outstanding at June 30, 2006 (in thousands, except years and per-share amounts):

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price per Share	Aggregate Intrinsic Value
$ 1.60 - $ 2.00	1,110	2.29	$ 1.66	$ 16,479	1,110	$ 1.66	$ 16,479
$ 3.81 - $ 7.20	433	4.73	$ 4.93	5,010	433	$ 4.93	5,010
$ 7.21 - $11.00	1,612	5.43	$ 10.01	10,469	1,612	$ 10.01	10,469
$11.10 - $15.25	1,365	6.65	$ 12.57	5,362	1,072	$ 12.28	4,520
$15.30 - $18.86	1,809	8.62	$ 17.94	224	199	$ 18.07	25
$18.87 - $23.76	1,692	8.86	$ 20.01	–	313	$ 20.58	–
$24.13 - $29.04	1,034	7.56	$ 24.19	–	627	$ 24.19	–
$ 1.60 - $29.04	9,055	6.72	$ 14.20	$ 37,544	5,366	$ 10.90	$ 36,503

Accuracy of fair value estimates

Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in our opinion, the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

3. Comprehensive loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes changes in unrealized gains (losses) on investments. Comprehensive loss for the three and six months ended June 30, 2006 and 2005 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Net loss	$(21,500)	$(20,951)	$(41,576)	$(41,375)

Changes in unrealized gains(losses) on investments	10	118	(6)	(89)
Comprehensive loss	$(21,490)	$(20,833)	$(41,582)	$(41,464)

4. Basic and diluted net loss per share

We have computed net loss per common share according to SFAS No. 128, "Earnings Per Share," which requires disclosure of basic and diluted earnings per share. Basic earnings per share exclude any dilutive effects of options, shares subject to repurchase or warrants. Diluted earnings per share include the impact of potentially dilutive securities.

Outstanding options to purchase an aggregate of 9,054,667 and 8,223,097 shares of our common stock for the six months ending June 30, 2006 and 2005 were excluded from diluted net loss per common share calculations because inclusion of such options would have an anti-dilutive effect on losses in these periods.

5. Cash, cash equivalents, investments and restricted investments

The following is a summary of cash and cash equivalents, investments and restricted investments:

	June 30, 2006			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Certificate of deposits	$1,796	$ –	$ –	$1,796
Corporate notes	8,600	–	–	8,600
Municipal notes and bonds	23,800	–	–	23,800
Commercial paper	87,420	17	–	87,437
Government notes	45,305	–	(313)	44,992
Cash and money market funds	7,049	–	–	7,049
Total	$173,970	$ 17	$ (313)	$173,674
Reported as:				
Cash and cash equivalents				$94,486
Short term investments				59,157

Long-term investments	18,684
Restricted investments	1,347
Total	$173,674

	December 31, 2005			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Certificate of deposits	$1,796	$ –	$ –	$1,796
Corporate notes	38,366	–	(8)	38,358
Commercial paper	113,289	28	–	113,317
Government notes	42,167	–	(310)	41,857
Cash and money market funds	10,315	–	–	10,315
Total	$205,933	$ 28	$ (318)	$205,643
Reported as:				
Cash and cash equivalents				$127,971
Short term investments				75,876
Restricted investments				1,796
Total				$205,643

The net realized gains on sales of available-for-sale investments were not material for the six months ended June 30, 2006 and 2005. Realized gains and losses were calculated based on the specific identification method.

The following is a summary of the cost and estimated fair value of available-for-sale securities at June 30, 2006 and December 31, 2005, classified by stated maturity date of the security:

	June 30, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in thousands)			
Mature in less than one year	$122,481	$122,345	$153,713	$153,507
Mature in one to three years	18,844	18,684	13,609	13,525
Mature in over three years	23,800	23,800	26,500	26,500
Total	$165,125	$164,829	$193,822	$193,532

6. Property and equipment, net

Property and equipment consist of the following:

	June 30, 2006	December 31, 2005
	(in thousands)	
Computer and lab equipment	$7,635	$ 7,079
Capitalized software	547	547
Office furniture and fixtures	412	410
Leasehold improvements	3,256	3,219
	11,850	11,255
Less accumulated depreciation and amortization	(7,021)	(6,213)
Property and equipment, net	$4,829	$ 5,042

Item 2. Management' s Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Statements of Expected Future Performance

This Quarterly Report on Form 10-Q contains statements indicating expectations about future performance and other forward-looking statements that involve risks and uncertainties. We usually use words such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "future," "intend," "potential," or "continue" or the negative of these terms or similar expressions to identify forward-looking statements. These statements appear throughout this Quarterly Report on Form 10-Q and are statements regarding our current intent, belief or expectation, primarily with respect to our operations and related industry developments. Examples of these statements include, but are not limited to, statements regarding the following: the implications of positive interim results of our Phase 2 clinical trials, the progress of our research programs, including clinical testing, the extent to which our issued and pending patents may protect our products and technology, our ability to identify new product candidates using TRAP technology (our proprietary Target-Related Affinity Profiling technology), the potential of such product candidates to lead to the development of safer or more effective therapies, our ability to develop the technology derived from our collaborations, our anticipated timing for filing additional Investigational New Drug applications, or INDs, with the United States Food and Drug Administration, or FDA, or for the initiation or completion of Phase 1, Phase 2 or Phase 3 clinical trials for any of our product candidates, our future operating expenses, our future losses, our future expenditures for research and development and the sufficiency of our cash resources. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks faced by us and described in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the financial statements and notes thereto and Management' s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission on March 3, 2006.

"Telik," the Telik logo, TRAP, TELCYTA and TELINTRA are trademarks of Telik, Inc. All other brand names or trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

Overview

Telik is engaged in the discovery, development and commercialization of small molecule drugs. We have incurred net losses since inception and expect to incur substantial and increasing losses for the next several years as we expand our research and development activities and move our product candidates into later stages of development. As of June 30, 2006, we had an accumulated deficit of $354.9 million.

Our expenses have consisted primarily of those incurred for research and development and general and administrative costs associated with our operations. The process of carrying out the development of our product candidates to later stages of development and our research programs may require significant additional research and development expenditures, including for preclinical testing and clinical trials, as well as for manufacturing development efforts and obtaining regulatory approval. We outsource our clinical trials and our manufacturing development activities to third parties to maximize efficiency and minimize our internal overhead. To date, we have funded our operations primarily through the sale of equity securities, and, to a much lesser extent, non-equity payments from collaborative partners.

We are subject to risks common to biopharmaceutical companies, including risks inherent in our research, development and commercialization efforts, preclinical testing, clinical trials, uncertainty of regulatory and marketing approvals, enforcement of patent and proprietary rights, the need for future capital, potential competition, use of hazardous materials and retention of key employees. In order for a product to be commercialized, it will be necessary for us to conduct preclinical tests and clinical trials, demonstrate efficacy and safety of our product candidates to the satisfaction of regulatory authorities, obtain marketing approval,

enter into manufacturing, distribution and marketing arrangements, obtain market acceptance and, in many cases, obtain adequate reimbursement from government and private insurers. We cannot provide assurance that we will generate revenues or achieve and sustain profitability in the future.

We expect that our quarterly and annual results of operations will fluctuate for the foreseeable future due to several factors, including the timing and extent of our research and development efforts and the outcome of our clinical trial activities. The successful development of our products is uncertain. As such, an accurate prediction of future operating results is difficult or impossible.

Clinical Status

TELCYTA, our lead product candidate, is a small molecule tumor-activated cancer product candidate that we are evaluating initially to treat cancers that are resistant to standard chemotherapy drugs. We have three on-going Phase 3 registration trials with TELCYTA. The first Phase 3 clinical trial (ASSIST-1) is for the treatment of advanced ovarian cancer. The second Phase 3 clinical trial (ASSIST-2) is for the treatment of advanced non-small cell lung cancer. The third Phase 3 clinical trial (ASSIST-3) evaluates TELCYTA in combination with carboplatin for the treatment of second-line platinum resistant or refractory ovarian cancer. We completed patient enrollment in ASSIST-3 (244 patients) in May 2006. We also initiated a fourth Phase 3 clinical trial (ASSIST-5) in May 2006 that evaluates TELCYTA in combination with liposomal doxorubicin (Doxil/Caelyx) versus liposomal doxorubicin (Doxil/Caelyx) as second line therapy in platinum refractory or resistant ovarian cancer.

In addition, we have also conducted two Phase 2 clinical trials of TELCYTA for the treatment of Stage IIIb or IV non-small cell lung cancer for patients who have not previously received chemotherapy. One clinical trial is in combination with cisplatin, and the other clinical trial is in combination with carboplatin and paclitaxel. Platinum and taxane-based drug combinations are the current standard for the front-line chemotherapy of lung and ovarian cancer.

TELINTRA, our second product candidate, is a small molecule bone marrow stimulant we are developing for the treatment of blood disorders associated with low blood cell levels, such as neutropenia or anemia. Our Phase 2 clinical trial in patients with myelodysplastic syndrome, or MDS, a pre-leukemic condition, is completed and has not identified a dose limiting toxicity. MDS is a disease characterized by defects in the blood-producing cells of the bone marrow, in which low blood cell levels occur. We announced positive clinical results at the American Society of Hematology annual meeting in December 2005. In this study, clinically significant improvement was observed across all major MDS subtypes and in all blood cell lineages. TELINTRA was well-tolerated in this predominantly elderly patient population. We initiated a new Phase 2 study in MDS using a tablet formulation in February 2006.

We discovered all of our product candidates using our proprietary technology, Target-Related Affinity Profiling, or TRAP, which enables the rapid and efficient discovery of small molecule product candidates. We expect to enter into collaborative arrangements with third parties for clinical trials, development, manufacturing, regulatory approvals or commercialization of some of our products, particularly outside North America, or in disease areas requiring larger and longer clinical trials than required for cancer.

Critical Accounting Policies and Significant Judgments and Estimates

Our management' s discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods. On an on-going basis, we evaluate our estimates and judgments related to clinical development costs. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates under different assumptions or conditions.

We believe the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

Stock-based compensation expense

We grant stock options to our employees, outside directors and consultants and provide employees the right to purchase our stock pursuant to stockholder approved stock option and employee stock purchase plans. The benefits provided under these plans are share-based payment awards subject to the provisions of revised Statement of Financial Accounting Standards No. 123, "Share-Based Payment" ("SFAS 123 (R)"). Effective January 1, 2006, we adopted SFAS 123(R) and use the fair value method to account for share-based payment awards following the modified prospective method of adoption which provides for certain changes to the method for valuing stock-based compensation. The valuation provisions of SFAS 123(R) apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Under the modified prospective method of adoption, prior periods are not revised for comparative purposes. Total compensation cost for our share-based payment awards recognized in the three and six months ended June 30, 2006 was $3.7 million and $7.3 million. Because we adopted SFAS 123(R) on January 1, 2006, there was no stock-based compensation expense related to employee stock options and employee stock purchases recognized in the same periods in 2005. As of June 30, 2006, $19.7 million of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of 2.49 years.

We were required to make significant estimates related to the adoption of SFAS 123(R). Our expected stock-price volatility assumption is based on historical volatilities of the underlying stock which is obtained from public data sources. For stock options grants issued during the three and six month periods ended June 30, 2006, we used a weighted-average expected stock-price volatility of 62.3% and 63.0%, respectively. The expected term of options granted is based on the simplified method in accordance with the SEC' s Staff Accounting Bulletin No. 107 ("SAB 107") as our historical share option exercise experience does not provide a reasonable basis for estimation. As such, we used a weighted-average expected option life assumption of 6.08 years.

If factors change and we develop different assumptions in the application of SFAS 123(R) in future periods, the compensation expense that we record under SFAS 123(R) may differ significantly from what we have recorded in the current period. There is a high degree of subjectivity involved when using option pricing models to estimate stock-based compensation under SFAS 123(R). Because changes in the subjective input assumptions can materially affect our estimates of fair values of our stock-based compensation, in our opinion, existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based payment awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, early termination or forfeiture of those share-based payment awards in the future. Certain share-based payment awards, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, values may be realized from these instruments that are significantly in excess of the fair values originally estimated on the grant date and reported in our financial statements. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the fair value of employee share-based awards is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Research and development expenses

Our research and development expenses include salaries and benefits costs, fees for contractors, consultants and third-party contract research organizations and an allocation of facility and administrative costs. Research and development expenses consist of costs incurred for drug and product development, manufacturing, clinical activities, discovery research, screening and identification of product candidates, and preclinical studies. All such costs are charged to research and development expenses as incurred.

Clinical development costs are a significant component of research and development expenses. We have a history of contracting with third parties that perform various clinical trial activities on our behalf in the on-going development of our product candidates. The financial terms of these contracts are subject to negotiation and may vary from contract to contract and may result in uneven payment flows. We accrue and expense costs for clinical trial activities performed by third parties based upon estimates of the percentage of work completed over the life of the individual study in accordance with agreements established with contract research organizations and clinical trial sites. We determine our estimates through discussion with internal clinical personnel and outside service providers as to progress or stage of completion of trials or services and the agreed upon fee to be paid for such services. These estimates may or may not match the actual services performed by the organizations as determined by patient enrollment levels and related activities. We monitor patient enrollment levels and related activities to the extent possible; however, if we underestimate activity levels associated with various studies at a given point in time, we could record significant research and development expenses in future periods.

Use of estimates

In preparing our financial statements to conform with GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results may differ from these estimates.

Results of operations

Revenues

	Three months ended June 30,		%	Six months ended June 30,		%
	2006	2005	Change	2006	2005	Change
	(in thousands, except percentages)					
Revenues	$ –	$ –	–	$ –	$ 19	(100)%

Revenue in the six months ended June 30, 2005 resulted from our collaborative agreement and the completion of our compound identification revenue amortization with Hoffman La-Roche, Inc. We have no collaborative research agreements in 2006.

We expect revenues, if any, to fluctuate primarily depending upon the extent to which we enter into new collaborative research agreements and the amounts of payments relating to such agreements.

Research and development expenses

Research and development expenses for the three months ended June 30, 2006 and 2005 were $19.0 million and $19.7 million. Research and development expenses for the six months ended June 30, 2006 and 2005 were $36.7 million and $38.8 million. Our research and development activities consist primarily of drug development, clinical supply manufacturing, clinical activities, discovery research, screening and identification of product candidates and preclinical studies. We group these activities into two major categories: “research and preclinical” and “clinical development.”

The approximate costs associated with research and preclinical and clinical development activities were as follows:

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2006	2005	Change	2006	2005	Change
	(In thousands, except percentages)					
Research and preclinical	$5,580	$4,510	24 %	$11,113	$9,234	20 %

Clinical development	13,456	15,146	(11)%	25,581	29,567	(13)%
Total research and development	$19,036	$19,656	(3)%	$36,694	$38,801	(5)%

The decrease of 3%, or $620,000, in research and development expenses for the three months ended June 30, 2006 compared to the same period in 2005 was principally due to the following:

- decreased costs associated with our Phase 3 clinical trials in ovarian cancer and non-small cell lung cancer of approximately $2.6 million following the completion of patient enrollment in our ASSIST-1 and ASSIST-2 clinical trials, partially offset by increased costs of approximately $1.3 million associated with our ASSIST-3 clinical trial and initial start-up costs related to our ASSIST-5 clinical trial;
- corresponding decreased costs in our clinical drug supply manufacturing cost of approximately $2.4 million;
- offset by approximately $621,000 associated with headcount growth and increased expenses to support clinical activities; and
- stock-based compensation expense of approximately $2.5 million.

The decrease of 5%, or $2.1 million, in research and development expenses for the six months ended June 30, 2006 compared to the same period in 2005 was principally due to the following:

- decreased costs associated with our Phase 3 clinical trials in ovarian cancer and non-small cell lung cancer of approximately $7.5 million following the completion of patient enrollment in our ASSIST-1 and ASSIST-2 clinical trials, partially offset by increased costs of approximately $2.2 million associated with our ASSIST-3 clinical trial and initial start-up costs related to our ASSIST-5 clinical trial;
- corresponding decreased costs in our clinical drug supply manufacturing cost of approximately $3.4 million;
- offset by approximately $1.7 million associated with headcount growth and increased expenses to support clinical activities; and
- stock-based compensation expense of approximately $4.7 million.

We expect research and development expenditures to increase in the future as a result of increased manufacturing and clinical development costs primarily relating to development of our TELCYTA and TELINTRA product candidates. The timing and the amount of these expenditures will depend upon the outcome of our on-going clinical trials, the costs associated with the Phase 3 clinical trials of TELCYTA, including related expansion of our research and development organization, regulatory requirements, advancement of our preclinical programs and product manufacturing costs.

The following table summarizes our principal product candidate development initiatives, including the related stages of development for each product in development and the research and development expenses recognized in connection with each product candidate. The information in the column labeled “Estimated or Actual Completion of Enrollment” is our current estimate of the timing of completion of enrollment. The actual timing of completion of enrollment could differ materially from the estimates provided in the table. For a discussion of the risks and uncertainties associated with the timing of completing a product development phase, see the risk factors “All of our product candidates are in research and development. If clinical trials of TELCYTA or TELINTRA are delayed or unsuccessful or if we are unable to complete the preclinical development of our other preclinical product candidates, our business may suffer,” “If we do not obtain regulatory approval to market products in the United States and foreign countries, we or our collaborators will not be permitted to commercialize our product candidates,” “As our product programs advance, we will need to hire additional scientific and management personnel. Our research and development efforts will be seriously jeopardized if we are unable to attract and retain key personnel,” and “If we are unable to enter into or maintain existing contracts with third parties to manufacture our product candidates or any products that we may develop in sufficient quantities and at an acceptable cost, clinical development of product candidates could be

delayed and we may be unable to meet demand for any products that we may develop and lose potential revenue" as described in Part II, Item 1A Risk Factors below.

Product	Description	Phase of Development	Estimated or Actual Completion of Enrollment	Related R&D Expenses Six Months Ended June 30, 2006	2005
				(in thousands)	
TELCYTA				$24,633	$28,358
	Ovarian, ASSIST-1	Phase 3	2004		
	Non-small cell lung, ASSIST-2	Phase 3	2005		
	Ovarian, ASSIST-3	Phase 3	2006		
	Ovarian, ASSIST-5	Phase 3	2007		
	Combination (with other drugs)	Phase 2	2006		
TELINTRA					
	MDS	Phase 1-2	2005	2,609	2,439
	MDS tablet formulation	Phase 2	2007		
Other (1)				9,452	8,004
Total research and development expense				$36,694	$38,801

(1) "Other" constitutes research and development activities performed by our Chemistry, Biology, preclinical and Quality Assurance departments as these costs cannot be allocated to any individual project.

The largest component of our total operating expenses is our on-going investments in our research and development activities and, in particular, the clinical development of our product candidate pipeline. The process of conducting the clinical research necessary to obtain FDA approval is costly and time consuming. Current FDA requirements for a new human drug to be marketed in the United States include:

the successful conclusion of preclinical laboratory and animal tests, if appropriate, to gain preliminary information on the drug product candidate' s safety;

filing with the FDA of an Investigational New Drug application, or IND, to conduct initial human clinical trials for drug candidates;

the successful completion of adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug product candidate; and

filing by us and acceptance and approval by the FDA of a New Drug Application, or NDA, for a drug product candidate to allow commercial distribution of the drug.

In light of the factors mentioned above, we consider the active management and development of our clinical pipeline to be crucial to our long-term success. The actual probability of success for each candidate and clinical program may be impacted by a variety of factors, including, among others, the quality of the candidate, the validity of the target and disease indication, early clinical data, investment in the program, competition, manufacturing capability and commercial viability. Due to these and other factors, it is difficult to give accurate guidance on the anticipated proportion of our research and development investments or the future cash inflows from these programs.

General and administrative expenses

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2006	2005	Change	2006	2005	Change
	(In thousands, except percentages)					
General and administrative	$4,560	$3,129	46 %	$9,069	$5,762	57 %

The increase in general and administrative expenses of 46%, or $1.4 million in the three months ended June 30, 2006 compared to the same period in 2005 was primarily due to stock-based compensation expense of $1.3 million.

The increase in general and administrative expenses of 57%, or $3.3 million in the six months ended June 30, 2006 compared to the same period in 2005 was primarily due to stock-based compensation expense of $2.6 million, $340,000 in marketing expenses due to increased marketing program activities for TELCYTA and approximately $281,000 associated with headcount growth.

We expect future general and administrative expenses to increase in support of expanded business activities including costs associated with our marketing efforts to support our commercialization strategy for TELCYTA.

Interest income and interest expense

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
	2006	2005	Change	2006	2005	Change
	(In thousands, except percentages)					
Interest income	$2,106	$1,871	13 %	$4,213	$3,248	30 %
Interest expense	(10)	(37)	(73)%	(26)	(79)	(67)%

Interest income resulted primarily from earnings on investments. Interest income increased by $235,000, or 13%, for the three months ended June 30, 2006 and $965,000, or 30%, for the six months ended June 30, 2006 compared to the same periods in 2005. The increases in the three-month and six-month periods ended June 30, 2006 were due to higher average interest rates in 2006.

Interest expense decreased by $27,000, or 73%, for the three months ended June 30, 2006 and $53,000, or 67%, for the six months ended June 30, 2006 compared to the same periods in 2005. The decreases in interest expense were a result of decreasing outstanding principal balance as a result of payments on our lease and loan obligations and no new borrowings. We expect interest expenditures to continue to decrease in the future as we pay down our lease and loan obligations.

Liquidity and capital resources

	June 30, 2006	December 31, 2005
	(In millions, except ratios)	
Cash, cash equivalents, investments and restricted cash	$ 173.7	$ 205.6
Working capital	$ 137.0	$ 187.3
Current ratio	8.4 : 1	11.0 : 1

	Six Months Ended June 30,	
	2006	2005
	(In millions)	

Cash (used in) / provided by:		
Operating activities	$ (32.8)	$ (41.8)
Investing activities	$ (2.1)	$ (26.8)
Financing activities	$ 1.4	$ 142.4
Capital expenditures (included in investing activities above)	$ (0.6)	$ (1.0)

Sources and Uses of Cash. Due to the significant research and development expenditures and the lack of any approved products to generate revenue, we have not been profitable and have generated operating losses since we incorporated in 1988. As such, we have funded our research and development operations through sale of equity securities, non-equity payments from corporate partners, interest earned on investments and equipment lease and loan financings. At June 30, 2006, we had available cash, cash equivalents, investments and restricted investments of $173.7 million. Our cash and investment balances are held in a variety of interest-bearing instruments including obligations of U.S. government agencies, high-grade corporate and municipal bonds, commercial paper, auction rate securities and money market accounts. Cash in excess of immediate requirements is invested with regard to liquidity and capital preservation. Wherever possible, we seek to minimize the potential effects of concentration and degrees of risk.

Cash Flows from Operating Activities. Cash used in operations for the six months ended June 30, 2006 was $32.8 million compared with $41.8 million for the same period in 2005. Net loss of $41.6 million in 2006 included non-cash charges of $7.3 million for stock-based compensation and $811,000 for depreciation and amortization. Cash used in operations was further impacted by decreases of $979,000 in accrued compensation expense due to bonus payouts to employees. Cash outflows were offset by increases of $643,000 in accrued clinical trial expenses related primarily to our Phase 3 clinical trials and by an increase of $720,000 in accounts payable. Operating cash outflows for the same period in 2005 consisted of net loss of $41.4 million and included non-cash charges of $737,000 for depreciation and amortization. Cash used in operations was further impacted by decreases of $868,000 in accrued compensation expense due to bonus payouts to employees and a $2.5 million decrease in accounts payable primarily due to clinical development activities. Cash outflows were offset by increases of $1.8 million in accrued clinical trial expenses related primarily to our Phase 3 clinical trials.

Cash Flows from Investing Activities. Cash used in investing activities for the six months ended June 30, 2006 was $2.1 million compared with cash used in investing activities of $26.8 million for the same period in 2005. Cash used for the six months ended June 30, 2006 was primarily for $23.3 million in purchases of available-for-sale investments offset by $21.3 million in sales and maturities of investments. Capital expenditures for the same period in 2006 were $598,000 primarily for laboratory equipment, computer equipment and software purchases. Investing activities for the same period in 2005 were primarily related to the $82.6 million of sales and maturities of investments offset by $108.4 million of purchases, and $1.0 million of equipment purchases.

Cash Flows from Financing Activities. Cash provided by financing activities for the six month ended June 30, 2006 was approximately $1.4 million compared with $142.4 million for the same period in 2005. Financing activities for the six months ended June 30, 2006 was comprised primarily of $2.0 million in proceeds from stock option exercises and our employee stock purchase plan, offset by $566,000 in payments under capital leases and equipment loans. Financing activities for the same period in 2005 was comprised primarily of approximately $142.2 million in net proceeds from our follow-on public offering of common stock completed in February 2005.

Working Capital. Working capital decreased to $137.0 million at June 30, 2006 from $221.3 million at June 30, 2005. The decrease in working capital was primarily due to our use of cash in operations due to the expansion of our TELCYTA development program, reclassification to non-current assets of certain long-term investments and costs associated with headcount growth.

In February 2005, we completed a follow-on public offering of 8,050,000 shares of common stock, including shares issued in connection with the underwriters' exercise in full of their over-allotment option, at a public offering price of $18.75 per share, raising net proceeds of approximately $142.2 million after deducting underwriters' discounts and commissions, and related offering expenses.

We believe our existing cash and investment securities will be sufficient to support our current operating plan until the end of 2007. We expect the clinical development expenses as a result of our Phase 3 clinical trials to consume a large portion of our existing cash resources. Changes in our research and development plans or other changes affecting our operating expenses may affect actual future consumption of existing cash resources as well. In any event, we will require substantial additional financing to fund our operations in the future. We may seek to raise any necessary additional funds through equity or debt financings, collaborative arrangements with corporate partners or other sources. To the extent that we raise additional capital by issuing

equity securities, our stockholders may experience dilution. Debt financing may subject us to restrictive covenants that may adversely affect our operations. To the extent that we raise additional capital through licensing arrangements or arrangements with collaborative partners, we may be required to relinquish, on terms that are not favorable to us, rights to some of our technologies or product candidates that we would otherwise seek to develop or commercialize ourselves. Our future capital uses and requirements depend on numerous factors, including the following:

- the progress and success of preclinical studies and clinical trials of our product candidates;
- the progress and number of research programs in development;
- the costs associated with conducting Phase 3 clinical trials;
- the costs and timing of obtaining regulatory approvals;
- our ability to establish, and the scope of, any new collaborations;
- our ability to meet the milestones identified in our collaborative agreements that trigger payments;
- the costs and timing of obtaining, enforcing and defending our patent and intellectual property rights;
- competing technological and market developments; and
- the timing and scope of commercialization expenses for our product candidates as they approach regulatory approval.

We currently have no commitments for any additional financings. If we need to raise additional money to fund our operations, funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed, we may not be able to continue development of our product candidates, or we could be required to delay, scale back or eliminate some or all of our research and development programs.

Our future contractual obligations at June 30, 2006 were as follows:

	Total	2006	2007-2008	2009-2010	After 2010
			(In thousands)		
Capital lease obligations	$112	$112	$–	$–	$–
Equipment loans	454	252	202	–	–
Operating leases	29,493	2,486	6,913	7,284	12,810
Total contractual cash obligations	$30,059	$2,850	$7,115	$7,284	$12,810

We have a contractual obligation under the terms of our manufacturing supply agreement with Organichem Corporation, wherein we are obligated to purchase a significant percentage of our United States requirements for the active ingredient in TELCYTA for a number of years. We have agreed on a pricing schedule for such supply, which will be subject to future renegotiation after a defined time period.

We have no material off-balance sheet arrangements as defined in Regulation 5-K 303(a)(4)(ii).

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discussion about our market risk exposure involves forward-looking statements. We are exposed to market risk related mainly to changes in interest rates and we believe our exposure to market risk is immaterial. We do not use or hold derivative financial instruments.

Our investment policy is to manage our marketable securities portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio. To minimize the exposure due to adverse shifts in interest rates we generally maintain investments of shorter maturities. Our marketable securities portfolio is primarily invested in corporate debt securities and commercial papers with an average maturity of under one year and a minimum investment grade rating of A or A-1 or better to minimize credit risk. Although changes in interest rates may affect the fair value of the marketable securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments were sold prior to maturity. Through our money managers, we maintain risk management control systems to monitor interest rate risk. The risk

management control systems use analytical techniques, including sensitivity analysis. We have operated primarily in the United States and all funding activities with our collaborators to date have been made in U.S. dollars. Accordingly, we do not have any exposure to foreign currency rate fluctuations.

The table below presents the principal amounts and weighted-average interest rates by year of stated maturity for our investment portfolio:

	2006	2007	2008 and Beyond	Total	Fair Value at June 30, 2006
	(In thousands, except percentages)				
Available-for-sale securities	$114,517	$21,309	$29,299	$165,125	$164,829
Average interest rate	4.93 %	4.62 %	5.36 %	4.97 %	

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Based on our management' s evaluation (with the participation of our chief executive officer and chief financial officer), our chief executive officer and chief financial officer have concluded that, subject to limitations described below, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), were effective as of June 30, 2006 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission' s rules and forms.

Changes in internal control over financial reporting. There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Limitations on the effectiveness of controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our chief executive officer and chief financial officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Included below is a description of risk factors related to our business to enable readers to assess, and be appropriately apprised of, many of the risks and uncertainties applicable to the forward-looking statements made in this Quarterly Report on Form 10-Q. The risks and uncertainties set forth below are not all of the risks and uncertainties facing our business, but we do believe that they reflect the more important ones. You should carefully consider these risk factors as each of these risks could adversely affect our business, operating results and financial condition. Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements.

The risk factors described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the SEC on March 3, 2006, are set forth below. These risk factors have not substantively changed, except for those identified by asterisk and restated below.

We have a history of net losses, which we expect to continue for the next several years. We will never be profitable unless we develop, and obtain regulatory approval and market acceptance of, our product candidates.*

Due to the significant research and development expenditures required to develop our TRAP technology and identify new product candidates, and the lack of any products to generate revenue, we have not been profitable and have incurred operating losses since we were incorporated in 1988. As of June 30, 2006, we had an accumulated deficit of $354.9 million. We expect to incur losses for the next several years as we continue our research and development activities and incur significant clinical testing and drug supply manufacturing costs. We do not anticipate that we will generate product revenue for several years. Our losses, among other things, have caused and will cause our stockholders' equity and working capital to decrease. To date, we have derived substantially all of our revenues, which have not been significant, from project initiation fees and research reimbursement paid pursuant to existing collaborative agreements with third parties and achievement of milestones under current collaborations. We expect that this trend will continue until we develop, and obtain regulatory approval and market acceptance of, our product candidates, if at all. We may never generate product revenue sufficient to become profitable.

All of our product candidates are in research and development. If clinical trials of TELCYTA or TELINTRA are delayed or unsuccessful or if we are unable to complete the preclinical development of our other preclinical product candidates, our business may suffer.*

Preclinical testing and clinical trials are long, expensive and uncertain processes. It may take us or our collaborators several years to complete this testing, and failure can occur at any stage of the process. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and interim results of clinical trials do not necessarily predict final results. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after promising results in earlier clinical trials.

TELCYTA has to date been evaluated in Phase 1 and Phase 2 clinical trials. We have four ongoing Phase 3 registration trials of TELCYTA. These Phase 3 clinical trials test TELCYTA against a control arm consisting of currently established standard drug treatments for ovarian and lung cancers. Changes in standards of care during our Phase 3 clinical trials may cause us to, or the FDA may require us to, perform additional clinical testing of TELCYTA against a different control arm prior to filing an NDA, for marketing approval. Our short-term success depends to a significant extent on the outcome of these trials. If the results of one or more of these trials do not demonstrate sufficient efficacy to support our NDA, then our business may suffer.

We completed a Phase 2 clinical trial of TELINTRA in MDS, a form of pre-leukemia, to evaluate safety, pharmacokinetics, pharmacodynamics and efficacy. We received permission to proceed, under an IND application filed with the FDA, with the clinical study of a tablet formulation of TELINTRA. Our success depends, in part, on our ability to complete clinical development of TELINTRA or other preclinical product candidates and take them through early clinical trials.

Any clinical trial may fail to produce results satisfactory to the FDA. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be repeated or a program to be terminated. We typically rely on third-party clinical investigators to conduct our clinical trials and, as a result, we may face additional delays outside our control. We have engaged contract research organizations, or CROs, to facilitate the administration of our Phase 3 clinical trials of TELCYTA. Dependence on a CRO subjects us to a number of risks. We may not be able to control the amount and timing of resources the CRO may devote to our clinical trials. Should the CRO fail to administer our Phase 3 clinical trials properly, regulatory approval, development and commercialization of TELCYTA will be delayed.

We do not know whether we will begin planned clinical trials on time or whether we will complete any of our on-going clinical trials on schedule, if at all. We do not know whether any clinical trials will result in marketable products. Typically, there is a high rate of failure for product candidates in preclinical and clinical trials. We do not anticipate that any of our product candidates will reach the market for several years.

Significant delays in clinical testing could materially impact our clinical trials. We do not know whether planned clinical trials will begin on time, will need to be revamped or will be completed on schedule, if at all. In addition to the reasons stated above, clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a study, delays in reaching agreement on acceptable clinical study agreement terms with prospective clinical sites, delays in obtaining institutional review board approval to conduct a study at a prospective clinical site and delays in recruiting subjects to participate in a study.

Delays can also materially impact our product development costs. If we experience delays in testing or approvals, our product development costs will increase. For example, we may need to make additional payments to third-party investigators and organizations to retain their services or we may need to pay recruitment incentives. If the delays are significant, our financial results and the commercial prospects for our product candidates will be harmed, and our ability to become profitable will be delayed.

We believe that our ability to compete depends, in part, on our ability to use our proprietary TRAP technology to discover new pharmaceutical products.

TRAP, our proprietary drug discovery technology, is a relatively new drug discovery method that uses a protein panel of approximately 20 proteins selected for their distinct patterns of interacting with small molecules. This panel may lack essential types of interactions that we have not yet identified, which may result in our inability to identify active compounds that we could potentially develop into commercially viable drugs.

If we are unable to raise adequate funds in the future, we will not be able to continue to fund our operations, research programs, preclinical testing and clinical trials to develop and manufacture our product candidates.*

The process of carrying out the development of our own unpartnered product candidates to later stages of development and developing other research programs to the stage that they may be partnered will require significant additional expenditures, including the expenses associated with preclinical testing, clinical trials and obtaining regulatory approval. We believe that our existing cash and investment securities will be sufficient to support our current operating plan until the end of 2007. Changes in our research and development plans or other changes affecting our operating expenses may affect actual future consumption of existing cash resources as well. In any event, we will require substantial additional financing to fund our operations in the future. We do not know whether additional financing will be available when needed or that, if available, we will obtain financing on terms favorable to our stockholders. As of June 30, 2006, our accumulated deficit was $354.9 million, and we expect capital outlays and operating expenditures to increase over the next several years as we expand our clinical, research and development activities. The extent of any actual increase in operating or capital spending will depend in part on the clinical success of our product candidates. If we fail to raise adequate funds on terms acceptable to us, if at all, we will not be able to continue to fund our operations, research programs, preclinical testing, clinical trials and manufacturing.

Raising additional capital by issuing securities or through collaboration and licensing arrangements may cause dilution to existing stockholders or require us to relinquish rights to our technologies or product candidates.

We may seek to raise any necessary additional funds through equity or debt financings, collaborative arrangements with corporate partners or other sources. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience dilution. To the extent that we raise additional capital through licensing arrangements or arrangements with collaborative partners, we may be required to relinquish, on terms that are not favorable to us, rights to some of our technologies or product candidates that we would otherwise seek to develop or commercialize ourselves.

If our competitors develop and market products that are more effective than our product candidates or any products that we may develop, or obtain marketing approval before we do, our commercial opportunity will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Some of the drugs that we are attempting to develop will have to compete with existing therapies. In addition, a large number of companies are pursuing the development of pharmaceuticals that target the same diseases and conditions that we are targeting. We face competition from pharmaceutical and biotechnology companies in the United States and abroad. Our competitors may develop new screening technologies and may utilize discovery techniques or partner with collaborators in order to develop products more rapidly or successfully than we or our collaborators are able to do.

Many of our competitors, particularly large pharmaceutical companies, have substantially greater financial, technical and human resources than we do. These organizations also compete with us to attract qualified personnel and parties for acquisitions, joint ventures, licensing arrangements or other collaborations. In addition, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competing products or technologies and may establish exclusive collaborative or licensing relationships with our competitors.

Our competitors may succeed in developing technologies and drugs that are more effective, better tolerated or less costly than any which are being developed by us or which would render our technology and potential drugs obsolete and noncompetitive. In addition, our competitors may succeed in obtaining FDA or other regulatory approvals for product candidates more rapidly than us or our collaborators. Any drugs resulting from our research and development efforts, or from our joint efforts with our existing or future collaborative partners, may not be able to compete successfully with our competitors' existing products or products under development or may not obtain regulatory approval in the United States or elsewhere.

If we do not obtain regulatory approval to market products in the United States and foreign countries, we or our collaborators will not be permitted to commercialize our product candidates.*

Even if we are able to achieve success in our preclinical testing, we, or our collaborators, must provide the FDA and foreign regulatory authorities with clinical data that demonstrate the safety and efficacy of our product candidates in humans before they can be approved for commercial sale. Failure to obtain regulatory approval will prevent commercialization of our product candidates.

The pharmaceutical industry is subject to stringent regulation by a wide range of regulatory authorities. We cannot predict whether regulatory clearance will be obtained for any product candidate that we are developing or hope to develop. A pharmaceutical product cannot be marketed in the United States until it has completed rigorous preclinical testing and clinical trials and an extensive regulatory clearance process implemented by the FDA. Satisfaction of regulatory requirements typically takes many years and depends on the type, complexity and novelty of the product and requires the expenditure of substantial resources. Of particular significance are the requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use.

Before commencing clinical trials in humans, we, or our collaborators, must submit and receive approval from the FDA of an IND application. We must comply with FDA "Good Laboratory Practices" regulations in our preclinical studies. Clinical trials are subject to oversight by institutional review boards of participating clinical sites and the FDA and:

- must be conducted in conformance with the FDA regulations;

must meet requirements for institutional review board approval;

must meet requirements for informed consent;

must meet requirements for Good Clinical Practices;

may require large numbers of participants; and

may be suspended by us, our collaborators or the FDA at any time if it is believed that the subjects participating in these trials are being exposed to unacceptable health risks or if the FDA finds deficiencies in the IND application or the conduct of these trials.

Before receiving FDA clearance to market a product, we, or our collaborators must demonstrate that the product candidate is safe and effective in the patient population that will be treated. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be repeated, a program to be terminated and could delay approval. We typically rely on third-party clinical investigators to conduct our clinical trials and other third-party organizations to perform data collection and analysis. As a result, we may face additional delaying factors outside our control. In addition, we may encounter delays or rejections based upon additional government regulation from future legislation or administrative action or changes in FDA policy or interpretation during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other applicable regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approval.

If regulatory clearance of a product is granted, this clearance will be limited to those disease states and conditions for which the product is demonstrated through clinical trials to be safe and efficacious, which could limit our market opportunity. Furthermore, product approvals, once granted, may be withdrawn if problems occur after initial marketing. We cannot ensure that any compound developed by us, alone or with others, will prove to be safe and efficacious in clinical trials and will meet all of the applicable regulatory requirements needed to receive marketing clearance. Regulatory clearance may also contain requirements for costly post-marketing testing and surveillance to monitor the safety and efficacy of the product. If problems occur after initial marketing, such as the discovery of previously unknown problems with our product candidates, including unanticipated adverse events or adverse events of unanticipated severity or frequency, or manufacturer or manufacturing issues, marketing approval can be withdrawn.

Outside the United States, the ability to market a product depends on receiving a marketing authorization from the appropriate regulatory authorities. Most foreign regulatory approval processes include all of the risks associated with FDA clearance described above and some may include additional risks.

As our product programs advance, we will need to hire additional scientific and management personnel. Our research and development efforts will be seriously jeopardized if we are unable to attract and retain key personnel.

Our success depends in part on the continued contributions of our principal management and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, scientists and companies in the face of intense competition for such personnel. As we plan for and commence additional advanced clinical trials, including Phase 2 and Phase 3, we will also need to further expand our clinical development personnel. In addition, our research programs depend on our ability to attract and retain highly skilled chemists and other scientists. If we lose the services of Dr. Wick or any of our other key personnel, our research and development efforts could be seriously and adversely affected. We have generally entered into consulting or other agreements with our scientific and clinical collaborators and advisors. We do not carry key person insurance that covers Dr. Wick or any of our other key employees. There is currently a shortage of skilled executives and employees with technical expertise in the biotechnology industry and this shortage is likely to continue. As a result, competition among numerous companies, academic and other research institutions for skilled personnel and experienced scientists is intense and turnover rates are high. The cost of living in the San Francisco Bay Area is very high compared to other parts of the country, which may adversely affect our ability to compete for qualified personnel and will increase costs. Because of this competitive environment, we have encountered and may continue to encounter increasing difficulty in attracting qualified personnel as our operations expand and the demand for these professionals increases and this difficulty could significantly impede the achievement of our research and development objectives.

If physicians and patients do not accept products that we may develop, our ability to generate product revenue in the future will be adversely affected.

Products that we may develop may not gain market acceptance among physicians, healthcare payors, patients and the medical community. Market acceptance of and demand for any products that we may develop will depend on many factors, including the following:

- our ability to provide acceptable evidence of safety and efficacy;
- convenience and ease of administration;
- cost effectiveness;
- the effectiveness of our marketing strategy and the pricing of any products that we may develop;
- our ability to obtain third-party coverage or reimbursement; and
- the prevalence and severity of adverse side effects.

Physicians may elect not to recommend products that we may develop even if our products meet the above criteria. If any product that we may develop fails to achieve market acceptance, we may not be able to successfully market and sell that product, which would limit our ability to generate revenue and adversely affect our operations.

If we or our licensees cannot obtain and defend our respective intellectual property rights, or if our product candidates, technologies or any products that we may develop are found to infringe patents of third parties, we could become involved in lengthy and costly legal proceedings that could adversely affect our business.

Our success will depend in a large part on our own and our licensees' ability to obtain and defend patents for each party' s respective technologies and the compounds and other products, if any, resulting from the application of these technologies. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions. As a result, the degree of future protection for our proprietary rights is uncertain, and we cannot assure you that:

- we were the first to make the inventions covered by each of our pending patent applications;
- we were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any of our pending patent applications will result in issued patents;
- any patents issued to us or our collaborators will provide a basis for commercially viable products, will provide us with any competitive advantages or will not be challenged by third parties;
- any of our issued patents will be valid or enforceable; or
- we will develop additional proprietary technologies that are patentable.

Accordingly, we cannot predict the breadth of claims allowed in our or other companies' patents.

For TRAP, we hold patents in the United States and internationally, including a pending foreign application. These patents, and any patent that may issue on the pending application, will expire between 2014 and 2015. For TELCYTA, we hold compound patents in the United States and internationally, including a pending foreign application. These patents, and any patent that may issue on the pending application, will expire in 2013 and 2014. For TELINTRA, we hold compound patents in the United States and internationally, including a pending foreign application. These patents, and any patent that may issue on the pending application, will expire in 2014. We can generally apply for patent term extensions on the patents for TELCYTA and TELINTRA when and if marketing approvals for these compounds are obtained in the relevant countries.

Our success will also depend, in part, on our ability to operate without infringing the intellectual property rights of others. We cannot assure you that our activities will not infringe patents owned by others. As of the

date of this quarterly report, we have not received any communications with the owners of related patents alleging that our activities infringe their patents. However, if our product candidates, technologies or any products that we may develop are found to infringe patents issued to third parties, the manufacture, use and sale of any products that we may develop could be enjoined, and we could be required to pay substantial damages. In addition, we may be required to obtain licenses to patents or other proprietary rights of third parties. We cannot assure you that any licenses required under any such patents or proprietary rights would be made available on terms acceptable to us, if at all. Failure to obtain such licenses could negatively affect our business.

Others may have filed and in the future may file patent applications covering small molecules or therapeutic products that are similar to ours. We cannot assure you that our patent applications will have priority over patent applications filed by others. Any legal action against us or our collaborators claiming damages and seeking to enjoin commercial activities relating to the affected products and processes could, in addition to subjecting us to potential liability for damages, require us or our collaborators to obtain a license to continue to manufacture or market the affected products and processes. We cannot predict whether we, or our collaborators, would prevail in any of these actions or that any license required under any of these patents would be made available on commercially acceptable terms, if at all. We believe that there may be significant litigation in the industry regarding patent and other intellectual property rights. If we become involved in litigation, it could consume a substantial portion of our managerial and financial resources, and we may not be successful in any such litigation.

In addition, we could incur substantial costs and use of our key employees' time and efforts in litigation if we are required to defend against patent suits brought by third parties or if we initiate these suits, and we cannot predict whether we would be able to prevail in any of these suits.

Furthermore, some of our patents and intellectual property rights are owned jointly by us and our collaborators. While there are legal and contractual restraints on the rights of these joint owners, they may use these patents and other intellectual property in ways that may harm our business. We may not be able to prevent this type of use.

We also rely on trade secrets to protect technology, including aspects of our TRAP technology, where we believe patent protection is not appropriate or obtainable. However, trade secrets are difficult to protect. While we require employees, academic collaborators and consultants to enter into confidentiality agreements, we may not be able to adequately protect our trade secrets or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If the identity of specific proteins or other elements of our TRAP technology become known, our competitive advantage in drug discovery could be reduced.

Many of our collaborators and scientific advisors have publication and other rights to certain information and data gained from their collaborations and research with us. Any publication or other use could limit our ability to secure intellectual property rights or impair any competitive advantage that we may possess or realize by maintaining the confidentiality of that information or data.

We will depend on collaborative arrangements to complete the development and commercialization of some of our product candidates. These collaborative arrangements may place the development of our product candidates outside of our control, may require us to relinquish important rights or may otherwise not be on terms favorable to us.

We expect to enter into collaborative arrangements with third parties for clinical trials, development, manufacturing, regulatory approvals or commercialization of some of our product candidates, particularly outside North America, or in disease areas requiring larger and longer clinical trials. Dependence on collaborative arrangements will subject us to a number of risks. We may not be able to control the amount and timing of resources our collaborative partners may devote to the product candidates. Our collaborative partners may experience financial difficulties. Should a collaborative partner fail to develop or commercialize a compound or product candidate to which it has rights from us, we may not receive any future milestone payments and will not receive any royalties for that compound or product candidate. Business combinations or significant changes in a collaborative partner' s business strategy may also adversely affect a partner' s

willingness or ability to complete its obligations under an arrangement. If we fail to enter into additional collaborative agreements on favorable terms, our business, financial condition and results of operations could be materially adversely affected.

Some of our collaborations are for early stage programs and allow partners significant discretion in electing whether to pursue any of the planned activities. We do not anticipate significant revenues to result from these relationships until the collaborator has advanced product candidates into clinical trials, which will not occur for several years, if at all. These arrangements are subject to numerous risks, including the right of the collaboration partner to control the timing of the research and development efforts, the advancement of lead product candidates to clinical trials and the commercialization of product candidates. In addition, a collaborative partner could independently move forward with a competing lead candidate developed either independently or in collaboration with others, including our competitors.

If we are unable to enter into or maintain existing contracts with third parties to manufacture our product candidates or any products that we may develop in sufficient quantities and at an acceptable cost, clinical development of product candidates could be delayed and we may be unable to meet demand for any products that we may develop and lose potential revenue.

We do not currently operate manufacturing facilities for clinical or commercial production of our product candidates. We expect to continue to rely on third parties for the manufacture of our product candidates and any products that we may develop. We currently lack the resources and capability to manufacture any of our product candidates on a clinical scale or any products that we may develop on a commercial scale. As a result, we will be dependent on corporate partners, licensees or other third parties for the manufacturing of clinical and commercial scale quantities of our product candidates and any products that we may develop. Our product candidates and any products that we may develop may be in competition with other product candidates and products for access to these facilities. For this and other reasons, our collaborators or third parties may not be able to manufacture these product candidates and products in a cost effective or timely manner. While we currently possess sufficient inventory of TELCYTA and TELINTRA that are stored in multiple locations and an additional, substantial quantity of the active ingredient in TELCYTA, if these inventories are lost or damaged, the clinical development of our product candidates or their submission for regulatory approval could be delayed, and our ability to deliver any products that we may develop on a timely basis could be impaired or precluded.

We are currently dependent on a single source of supply of the active ingredient in TELCYTA, Organichem Corporation. While we have entered into an agreement with, and are working to qualify, an additional supplier, there is no certainty this will occur. We currently depend upon two sources for the drug product manufacture of TELCYTA.

We currently depend upon two sources of supply for clinical quantities of the active ingredient in TELINTRA. We depend upon a single source of supply for key excipients used in the manufacture of TELINTRA, Lipoid GmbH. While we are evaluating potential alternative sources of these materials, we have no such alternative sources that are immediately available. We currently depend upon two sources for the drug product manufacture of TELINTRA.

If manufacturing is not performed in a timely manner, if our suppliers fail to perform or if our relationships with our suppliers or manufacturers should terminate, our clinical trials and commercialization of TELCYTA and TELINTRA could be delayed. We may not be able to enter into or maintain any necessary third-party manufacturing arrangements on acceptable terms, if at all. Our current dependence upon others for the manufacture of our product candidates and our anticipated dependence upon others for the manufacture of any products that we may develop may adversely affect our future profit margins and our ability to commercialize any products that we may develop on a timely and competitive basis.

If we are unable to create sales, marketing and distribution capabilities or enter into agreements with third parties to perform these functions, we will not be able to commercialize any products that we may develop.

We currently have no sales, marketing or distribution capabilities. In order to commercialize any products that we may develop, we must internally develop sales, marketing and distribution capabilities or establish

collaborations or other arrangements with third parties to perform these services. We intend to market some products that we may develop directly in North America and rely on relationships with one or more pharmaceutical companies with established distribution systems and direct sales forces to market other products that we may develop and address other markets. We may not be able to establish in-house sales and distribution capabilities or relationships with third parties. To the extent that we enter into co-promotion or other licensing arrangements, any product revenues are likely to be lower than if we directly marketed and sold any products that we may develop, and any revenues we receive will depend upon the efforts of third parties, whose efforts may not be successful.

Budget constraints may force us to delay our efforts to develop certain product candidates in favor of developing others, which may prevent us from commercializing all product candidates as quickly as possible.

Because we have limited resources, and because research and development is an expensive process, we must regularly assess the most efficient allocation of our research and development budget. As a result, we may have to prioritize development candidates and may not be able to fully realize the value of some of our product candidates in a timely manner, as they will be delayed in reaching the market, if at all.

If product liability lawsuits are successfully brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates and any products that we may develop.

The testing and marketing of medical products entail an inherent risk of product liability. Although we are not aware of any historical or anticipated product liability claims or specific causes for concern, if we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates and any products that we may develop. In addition, product liability claims may also result in withdrawal of clinical trial volunteers, injury to our reputation and decreased demand for any products that we may commercialize. We currently carry product liability insurance that covers our clinical trials up to a $10 million annual aggregate limit. We will need to increase the amount of coverage if and when we have a product that is commercially available. If we are unable to obtain sufficient product liability insurance at an acceptable cost, potential product liability claims could prevent or inhibit the commercialization of any products that we may develop, alone or with corporate collaborators.

If we use biological and hazardous materials in a manner that causes injury, we may be liable for damages.*

Our research and development activities involve the controlled use of potentially harmful biological materials, hazardous materials, chemicals and various radioactive compounds, and are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. We cannot eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. We currently have insurance applying to various types of biological and pollution exposures for a total amount of $350,000 in coverage. However, in the event of contamination or injury, we could be held liable for damages that result from our use of hazardous materials, and any liability could significantly exceed our coverage and resources.

We have implemented anti-takeover provisions which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third-party to acquire us, even if doing so would be beneficial to our stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Because our board of directors is responsible for appointing the members of our management team, these provisions could in turn affect any attempt by our stockholders to replace current members of our management team. These provisions include:

- establishing a classified board of directors requiring that members of the board be elected in different years, which lengthens the time needed to elect a new majority of the board;

authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares or change the balance of voting control and thwart a takeover attempt;

prohibiting cumulative voting in the election of directors, which would otherwise allow for less than a majority of stockholders to elect director candidates;

limiting the ability of stockholders to call special meetings of the stockholders;

prohibiting stockholder action by written consent and requiring all stockholder actions to be taken at a meeting of our stockholders; and

establishing 90 to 120 day advance notice requirements for nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at stockholder meetings.

We adopted a stockholder rights plan that may discourage, delay or prevent a merger or acquisition that is beneficial to our stockholders.*

In November 2001, our board of directors adopted a stockholder rights plan that may have the effect of discouraging, delaying or preventing a merger or acquisition that is beneficial to our stockholders by diluting the ability of a potential acquiror to acquire us. Pursuant to the terms of our plan, when a person or group, except under certain circumstances, acquires 20% or more of our outstanding common stock or 10 business days after commencement or announcement of a tender or exchange offer for 20% or more of our outstanding common stock (an "Acquiring Person"), the rights (except those rights held by the person or group who has acquired or announced an offer to acquire 20% or more of our outstanding common stock) would generally become exercisable for shares of our common stock at a discount. In May 2006, we amended the stockholder rights plan to exclude Eastbourne Capital Management, L.L.C. and certain related persons and entities from the definition of Acquiring Person so long as none of them, nor their affiliates or associates, either individually or in the aggregate, becomes the beneficial owner of 25% or more of the common stock then outstanding. Because the potential acquiror' s rights would not become exercisable for our shares of common stock at a discount, the potential acquiror would suffer substantial dilution and may lose its ability to acquire us. In addition, the existence of the plan itself may deter a potential acquiror from acquiring us. As a result, either by operation of the plan or by its potential deterrent effect, mergers and acquisitions of us that our stockholders may consider in their best interests may not occur.

Substantial future sales of our common stock by us or by our existing stockholders could cause our stock price to fall.*

Additional equity financings or other share issuances by us, including shares issued in connection with strategic alliances, could adversely affect the market price of our common stock. Sales by existing stockholders of a large number of shares of our common stock in the public market or the perception that additional sales could occur could cause the market price of our common stock to drop. As of June 30, 2006, 52,259,531 shares of our common stock were outstanding, of which 51,952,248 shares were freely tradable and 307,283 shares were transferable in accordance with certain volume, notice and manner of sale restrictions under Rule 144 of the Securities Act of 1933.

If we do not progress in our programs as anticipated, our stock price could decrease.

For planning purposes, we estimate the timing of a variety of clinical, regulatory and other milestones, such as when a certain product candidate will enter clinical development, when a clinical trial will be completed or when an application for regulatory approval will be filed. Some of our estimates are included in this quarterly report. Our estimates are based on present facts and a variety of assumptions. Many of the underlying assumptions are outside of our control. If milestones are not achieved when we estimated that they would be, investors could be disappointed, and our stock price may decrease.

Our stock price may be volatile, and you may not be able to resell your shares at or above your purchase price.*

Our stock prices and the market prices for securities of biotechnology companies in general have been highly volatile, with recent significant price and volume fluctuations, and may continue to be highly volatile in the future. During the first half of 2006, our common stock traded between $22.70 and $14.37. You may not be able to sell your shares quickly or at the market price if trading in our stock is not active or the volume is low. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock, some of which are beyond our control:

- developments regarding, or the results of, our clinical trials, including TELCYTA clinical trials;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- developments concerning our collaborations; publicity regarding actual or potential medical results relating to products under development by our competitors or us;
- regulatory developments in the United States and foreign countries;
- litigation;
- economic and other external factors or other disaster or crisis; or
- period-to-period fluctuations in our financial results.

We are required to recognize expense for stock based compensation related to employee stock options and employee stock purchases, and there is no assurance that the expense we are required to recognize measures accurately the value of our share-based payment awards, and the recognition of this expense could cause the trading price of our common stock to decline.*

On January 1, 2006, we adopted SFAS 123(R) which requires the measurement and recognition of compensation expense for all stock-based compensation based on estimated fair values. As a result, our operating results will contain a charge for stock-based compensation related to employee stock options and employee stock purchases. The application of SFAS 123(R) requires the use of an option-pricing model to determine the fair value of share-based payment awards. This determination of fair value is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because our employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management' s opinion the existing valuation models may not provide an accurate measure of the fair value of our employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Our adoption of SFAS 123(R) has had a material impact on our financial statements and results of operations and we expect that this will continue to be the case for future periods. We cannot predict the effect that this adverse impact on our reported operating results will have on the trading price of our common stock.

Item 4. Submission of Matters To a Vote of Security Holders

We held our 2006 Annual Meeting of Stockholders on May 25, 2006. The results of the voting were as follows:

1. To approve the election of Stefan Ryser, Ph.D., to hold office as a director until the 2009 Annual Meeting of Stockholders.

   FOR: 45,640,476 WITHHOLD: 3,780,482

   To approve the election of Robert W. Frick, to hold office as a director until the 2009 Annual Meeting of Stockholders.

   FOR: 47,050,416 WITHHOLD: 2,370,542

   To approve the election of Mary Ann Gray, Ph.D., to hold office as a director until the 2009 Annual Meeting of Stockholders.

   FOR: 47,055,066 WITHHOLD: 2,365,892

   The other directors whose term of office as a director continued after the Annual Meeting of Stockholders are Michael M. Wick, M.D., Ph.D., Richard B. Newman, Herwig von Morzé, Ph.D., Edward W. Cantrall, Ph.D. and Steven R. Goldring, M.D.

2. To ratify the selection of Ernst & Young LLP as the independent registered public accounting firm of Telik for its fiscal year ending December 31, 2006.

   FOR: 46,511,133 WITHHOLD: 851,219 ABSTAIN: 2,058,606

   BROKER NON-VOTES: -0-

3. To approve an amendment to the Company' s 2000 Non-Employee Directors' Stock Option Plan to increase the number of shares of Common Stock reserved for future issuance by 300,000 shares.

   FOR: 30,239,277 WITHHOLD: 7,611,517 ABSTAIN: 2,029,972

   BROKER NON-VOTES: 9,540,192

Item 6. Exhibits.

3.1	Amended and Restated Certificate of Incorporation. (1)
3.2	Amended and Restated Bylaws. (1)
4.1	Specimen Stock Certificate. (1)
4.2	Amended and Restated Registration Rights Agreement, dated March 31, 2000, between Telik and holders of Telik' s Series B, Series E, Series F, Series G, Series H, Series I, Series J and Series K preferred stock. (1)
4.3	Right Agreement dated November 2, 2001, by and between Telik and Wells Fargo Bank Minnesota, N.A., replaced by EquiServe Trust Company, N.A., as Rights Agent (the "Rights Agreement"). (2)
4.4	Amendment, dated as of May 18, 2006, to Rights Agreement. (3)
4.5	Telik' s Certificate of Designation of Series A Junior Participating Preferred Stock. (2)
10.1	2000 Non-Employee Director' s Stock Option Plan, as amended to date. (4)
10.2	Agreement, dated May 18, 2006, by and among Telik and Eastbourne Capital Management, L.L.C., Black Bear Offshore Master Fund, L.P., Black Bear Fund I, L.P., Black Bear Fund II, L.L.C., and Richard J. Barry.
31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

(1) Incorporated by reference to exhibits to our Registration Statement on Form S-1 filed on April 4, 2000, as amended (File No. 333-33868).

(2) Incorporated by reference to exhibits to our Current Report on Form 8-K dated November 2, 2001, as filed on November 5, 2001 (File No. 000-31265).

(3) Incorporated by reference to exhibits on our Current Report on Form 8-K, dated and filed on May 18, 2006 (File No. 000-31265).

(4) Incorporated in reference to exhibits on our Current Report on Form 8-K, dated May 30, 2006, as filed on May 31, 2006 (File No. 000-31265).

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SIGNATURES

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

TELIK, INC.

/s/ CYNTHIA M. BUTITTA

Cynthia M. Butitta

Chief Operating Officer and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Date: August 3, 2006

EXHIBIT INDEX

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Exhibit 10.2

AGREEMENT

This Agreement (this "Agreement") is entered into effective as of May 18, 2006, by and among Eastbourne Capital Management, L.L.C. ("ECM"), Black Bear Offshore Master Fund, L.P., a Cayman Islands limited partnership ("BBOM"), Black Bear Fund I, L.P., a California limited partnership ("BB I"), Black Bear Fund II, L.L.C., a California limited liability company ("BB II"), and Richard J. Barry ("Barry," and together with ECM, BBOM, BB I and BB II, "Eastbourne") and Telik, Inc., a Delaware corporation (the "Company"). Capitalized terms not defined herein will have the meaning given in the Rights Agreement, dated November 2, 2001, by and between the Company and Wells Fargo Bank Minnesota, N.A., replaced by Computershare Shareholder Services, Inc. and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agreement").

A. As of May 17, 2006, Eastbourne had Beneficial Ownership, in the aggregate, of approximately 10,449,084 shares of the Company' s Common Stock, $0.01 par value per share (the "Common Stock").

B. Except as otherwise disclosed in the most recent Schedule 13G filed by Eastbourne, Eastbourne' s Beneficial Ownership of the Common Stock is primarily attributable to investment power exercisable by ECM with respect to shares of the Common Stock managed for its clients.

C. Eastbourne has indicated to the Company that it desires to purchase additional shares of the Common Stock on behalf of its clients and itself in amounts likely to cause Eastbourne' s Beneficial Ownership to exceed 20% of the issued and outstanding shares of the Common Stock.

D. Pursuant to Section 1 of the Rights Agreement, a Person who or which, together with all Affiliates and Associates (each as defined in the Rights Agreement), becomes the Beneficial Owner of 20% or more of the issued and outstanding Common Stock is an "Acquiring Person" for purposes of the Rights Agreement.

E. The Company has determined that purchases of a limited number of additional shares of the Common Stock by Eastbourne pursuant to the terms of this Agreement would not currently be adverse or hostile to the Company or inconsistent with the purpose and intent of the Board of Directors of the Company in adopting the Rights Agreement.

Accordingly, in consideration of the foregoing premises and the mutual covenants, representations and warranties contained in this Agreement, Eastbourne and the Company agree as follows:

1. Representations and Warranties of Eastbourne. ECM, BBOM, BB I, BB II and Barry jointly and severally represent and warrant to, and agree with, the Company as follows:

(a) Assuming that a report pursuant to Section 13(g) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Exchange Act") were required to have been filed as of May 17, 2006, Eastbourne would have reported Beneficial

Ownership of an aggregate of 10,449,084 shares of the Common Stock (the "Original Shares") consisting of approximately 19.9% of the issued and outstanding shares of the Common Stock as of such date (assuming that 52,253,223 shares of Common Stock are issued and outstanding), subject to such disclaimers of Beneficial Ownership by Eastbourne that may have been made pursuant to such Section and the rules and regulations thereunder.

(b) As of the date hereof, Eastbourne' s Beneficial Ownership of the Common Stock does not exceed 20% of the issued and outstanding Common Stock, assuming that 52,253,223 shares of Common Stock are issued and outstanding.

(c) Each Eastbourne entity has been provided with access to, or has received, a copy of, and is familiar with the terms of, the Rights Agreement.

(d) The Original Shares were acquired (i) in the ordinary course of business solely for investment purposes, (ii) not for the purpose of, and do not have the effect of, changing or influencing the control of the Company and (iii) not in connection with or as a participant in any transaction having such purposes or effect.

(e) With the exception of ECM' s other clients, and their fiduciaries, to the knowledge of ECM, BBOM, BB I, BB II and Barry, no Person other than Eastbourne is a Beneficial Owner of any of the Original Shares.

(f) Any additional shares of the Common Stock purchased by ECM, BBOM, BB I, BB II or Barry or their affiliates after the date hereof (the "Additional Shares," and together with the Original Shares, the "Eastbourne Shares") will be acquired (i) in the ordinary course of business solely for investment purposes, (ii) not for the purpose of, or with the effect of, changing or influencing the control of the Company and (iii) not in connection with or as a participant in any transaction having such purpose or effect.

(g) The Company has not induced, and is not inducing, Eastbourne or their affiliates, or the clients of ECM, to purchase any additional shares of the Common Stock and has not made and is not making any representation to Eastbourne or the clients of ECM as to the value of the Common Stock, the suitability of the Common Stock for investment by Eastbourne or the clients of ECM, or the past or future results of the Company' s business and operations.

(h) ECM has sole voting and investment control over all of the Original Shares and will have sole voting and investment control over any Additional Shares.

2. Voting of Shares. ECM shall vote the Original Shares in the manner in which the Board of Directors of the Company has recommended generally in any proxy or consent solicitation to the stockholders of the Company, subject to ECM' s fiduciary duty to its clients. ECM shall vote the Additional Shares in the manner in which the Board of Directors of the Company has recommended generally in any proxy or consent solicitation to the stockholders of the Company.

3. Sale of Shares. In the event that, within five (5) years after the date hereof, any of ECM, BBOM, BB I, BB II or Barry proposes to sell in a bona fide transaction any shares of the Common Stock (other than (i) a sale in a "broker' s transaction" or in a transaction directly with a

"market maker," in either case as defined in and in a manner of sale consistent with paragraphs (f) and (g) of Rule 144 promulgated under the Securities Act of 1933, as amended (the "1933 Act"), or (ii) in a sale from one ECM client to another ECM client), then Eastbourne shall provide to the Company not less than ten (10) days prior written notice of such proposed transaction, specifying the number of shares of the Common Stock proposed to be sold, the price at which such shares are to be sold and the proposed purchaser of such shares, and shall only complete such sale with the written consent of the Company (the "Consent"), such Consent to be provided or withheld at the Company' s sole discretion and without regard to the economic consequences of providing or withholding such Consent. ECM, BBOM, BB I, BB II and Barry shall jointly and severally indemnify and hold harmless the Company and its representatives and employees from and against any liability, demand, cost of judgment or claim to which the Company may become subject (regardless of whether or not such liability, demand, cost or claim relates to any third party claim) that arises out of or relates to the providing or withholding of any Consent. The obligations of ECM, BBOM, BB I, BB II and Barry in the preceding sentence shall be in effect regardless of whether this Section 3 is otherwise in effect and survive the expiration or termination of this Agreement. The parties acknowledge that nothing in this Agreement, including, without limitation, this section 3, implies that Eastbourne is an affiliate of the Company as that term is defined in Rule 144 under the 1933 Act.

4. Standstill. ECM, BBOM, BB I, BB II and Barry jointly and severally agree with the Company that none of them shall:

(a) make, offer or propose (whether publicly or otherwise) to effect, initiate, cause or participate in (i) any acquisition of Beneficial Ownership of the Common Stock resulting in an increase in its aggregate Beneficial Ownership of the Common Stock to a number of shares representing 25% or more of the outstanding shares of the Common Stock at any time without the prior written consent of the Company, (ii) any acquisition of any assets, indebtedness or businesses of the Company or any assets, indebtedness or businesses of any subsidiary or other affiliate of the Company, (iii) any tender offer, exchange offer, merger, business combination, recapitalization, restructuring, liquidation, dissolution or extraordinary transaction involving the Company or any subsidiary or other affiliate of the Company, or involving any securities, assets, indebtedness or businesses of the Company or any securities, assets, indebtedness or businesses of any subsidiary or other affiliate of the Company (it being understood that "participate" does not preclude Eastbourne and its clients from tendering shares in any transaction described in this clause (iii) as long as Eastbourne is passive in such transaction and otherwise has complied with this section 4 with respect to such transaction), (iv) any "solicitation" of "proxies" or stockholder consents (as such terms are defined under Regulation 14A of the Exchange Act) with respect to any securities of the Company or any of its subsidiaries or other affiliates of the Company or (v) any stockholder proposals or recommendations or nominations for election to the Board of Directors of the Company that would require disclosure in the Company' s proxy statement prepared in connection with its annual meetings of stockholders;

(b) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any securities of the Company or any of its subsidiaries, or otherwise act in concert with any person in respect to any such securities, except that the ECM clients may be considered to be a "group";

(c) otherwise act, whether alone or in concert with others, to seek to propose to the Company, any subsidiary of the Company or any of their stockholders any merger, business combination, restructuring, recapitalization or similar transaction to or with the Company or any of its subsidiaries or otherwise seek or propose to influence or control the Company' s management, Board of Directors or policies or to obtain representation on the Company' s Board of Directors;

(d) take any action that might require the Company to make a public announcement regarding any of the types of matters set forth in clause "(a)" of this sentence;

(e) agree or offer to take, or encourage or propose (publicly or otherwise) the taking of, any action referred to in clause "(a)", "(b)", "(c)" or "(d)" of this sentence;

(f) assist, induce or encourage any other Person to take any action of the type referred to in clause "(a)", "(b)", "(c)", "(d)" or "(e)" of this sentence;

(g) enter into any discussions, negotiations, arrangement or agreement with any other Person relating to any of the foregoing; or

(h) request or propose that the Company or any of the Company' s representatives amend, waive or consider the amendment or waiver of any provision set forth in this section 4.

ECM, BBOM, BB I, BB II and Barry jointly and severally agree that, if any of them or its representatives are approached by any third party concerning any of their participation in a transaction involving any assets, indebtedness or business of, or securities issued by, the Company or any of its subsidiaries or other affiliates, Eastbourne will promptly inform the Company of the nature of such transaction and the parties involved.

Notwithstanding anything in this section 4 to the contrary, ECM, BBOM, BB I, BB II or Barry may take any action or enter into any agreement, if recommended or approved by the Board of Directors of the Company.

5. Amendment to Rights Agreement. Subject to the terms and conditions of this Agreement and in reliance upon the representations and warranties of ECM, BBOM, BB I, BB II and Barry contained in this Agreement, the Company agrees to amend the definition of "Acquiring Person" in the Rights Agreement to provide that the percentage Beneficial Ownership of the outstanding Common Stock used to determine whether a Person constitutes an "Acquiring Person" will be 25% or more in the case of Eastbourne. Promptly following the effective date of this Agreement and approval by the Board of Directors of the Company, appropriate officers of the Company will execute an amendment to the Rights Agreement in substantially the form attached hereto as **Exhibit A** (the "Amendment"), instruct the Rights Agent to execute the Amendment and notify Eastbourne when the Amendment has been fully executed. ECM, BBOM, BB I, BB II and Barry hereby covenant and agree not to effect any purchases or sales of the Common Stock before the first business day after the date of filing by the Company of a Form 8-K with the Securities and Exchange Commission reporting such Amendment. Notwithstanding any other provision hereof or of such Amendment, the Amendment will have no effect on the definition of "Acquiring Person" with respect to any client of ECM other than BBOM, BB I and BB II.

6. Certain Provisions Unaffected. It is expressly understood and agreed that, notwithstanding the terms of this Agreement or the Amendment, the Company shall not be precluded from a determination that ECM, BBOM, BB I, BB II or Barry or any client of ECM, is a Person causing the occurrence of a Section 11(a)(ii) event under Section 11(a)(ii) of the Rights Agreement.

7. Certain Statutory Matters. ECM, BBOM, BB I, BB II and Barry understand and agree that the provisions of Section 203 of the Delaware General Corporation Law, as amended, will continue to apply to Eastbourne entities, as well as the clients of ECM, and that execution and delivery of this Agreement and the Amendment on behalf of the Company do not constitute approval of any acquisition of shares of the Common Stock by ECM, BBOM, BB I, BB II, Barry or the clients of ECM, or any other transaction, for the purposes of such Section 203 and do not result in Eastbourne entities or the clients of ECM, not being, collectively or individually, an "interested stockholder" or "associate" as defined therein. ECM, BBOM, BB I, BB II and Barry acknowledge and agree that, except with respect to the matters contemplated by this Agreement, the Company has not disclosed material nonpublic information to Eastbourne or any of ECM' s clients and that the Company is under no obligation to disclose such information to Eastbourne or any of ECM' s clients.

8. Entire Agreement and Amendment. This Agreement contains the entire agreement among the parties with respect to the subject matter of this Agreement. All prior and contemporaneous agreements, discussions or understandings, whether oral or written, are expressly superseded by this Agreement and are null and void. This Agreement may not be modified, waived, discharged or amended, in whole or in part, except in writing signed by the parties.

9. Termination and Effect Thereof.

(a) Except to the extent provided by Section 3 of this Agreement, Sections 2, 3 and 4 of this Agreement will not be in effect at any time that Eastbourne Beneficially Owns less than 20% of the outstanding shares of the Common Stock, and, from and after the second anniversary hereof, the Company shall have the right to terminate this Agreement and reverse the Amendment, in its sole discretion, from and after the date on which Eastbourne has not Beneficially Owned 20% or more of the outstanding shares of the Common Stock for a period of at least 20 trading days.

(b) If any of ECM, BBOM, BB I, BB II or Barry breaches its covenants, representations or agreements in this Agreement, the Company will have the right to terminate this Agreement and to reverse the Amendment; *provided, however,* that any such termination will not prejudice any claim that the Company may have with respect to any breach of any representation, warranty or covenant hereunder occurring prior to such termination.

10. No Third Party Beneficiaries. This Agreement is solely for the benefit of the parties hereto and is not intended to confer upon any other person any rights or remedies hereunder.

11. Governing Law and Venue. This Agreement and the legal relations among the parties hereto will be governed by, construed and enforced according to the internal laws of the State of Delaware (without regard to the laws of conflict of any jurisdiction) as to all matters, including, without limitation, matters of validity, interpretation, construction, effect, performance and remedies. The parties to this Agreement hereby consent to the personal jurisdiction of the state and federal courts located in the State of Delaware in connection with any controversy related to this Agreement.

12. Counterparts; Facsimile. This Agreement may be executed in one or more counterparts, and each such counterpart will be deemed an original, but all such counterparts together will constitute one and the same instrument. Facsimile signatures shall be treated the same as originals.

The parties have caused this Agreement to be duly executed as of the day and year first above written.

EASTBOURNE CAPITAL MANAGEMENT, L.L.C.

By:

/s/ Eric M. Sippel
Eric M. Sippel

Its: Chief Operating Officer

/s/ Richard J. Barry
Richard J. Barry

TELIK, INC.

By: /s/ Michael M. Wick
Dr. Michael M. Wick

Its: Chairman, President and Chief Executive Officer

BLACK BEAR OFFSHORE MASTER FUND, L.P.

By Eastbourne Capital Management, L.L.C., its general partner

By:

/s/ Eric M. Sippel
Eric M. Sippel

Its: Chief Operating Officer

BLACK BEAR FUND I, L.P.

By Eastbourne Capital Management, L.L.C., its general partner

By:

/s/ Eric M. Sippel

Eric M. Sippel

Its: Chief Operating Officer

BLACK BEAR FUND II, L.L.C.

By Eastbourne Capital Management, L.L.C., its managing member

By:

/s/ Eric M. Sippel

Eric M. Sippel

Its: Chief Operating Officer

EXHIBIT A

AMENDMENT TO RIGHTS AGREEMENT
BETWEEN TELIK, INC. AND
COMPUTERSHARE SHAREHOLDER SERVICES, INC. AND
COMPUTERSHARE TRUST COMPANY, N.A.

THIS AMENDMENT TO RIGHTS AGREEMENT (the "Amendment") is made this 18th day of May, 2006, by and between **TELIK, INC.,** a Delaware corporation (the "Company"), and **COMPUTERSHARE SHAREHOLDER SERVICES, INC. AND COMPUTERSHARE TRUST COMPANY, N.A.** (the "Rights Agent") to amend the Rights Agreement, dated November 2, 2001, by and between the Company and Wells Fargo Bank Minnesota, N.A., replaced by Computershare Shareholder Services, Inc. and Computershare Trust Company, N.A., as Rights Agent (the "Rights Agreement").

WHEREAS, pursuant to the Rights Agreement, certain rights to purchase shares of the Company' s Series A Junior Participating Preferred Stock, par value $0.01 per share, become exercisable, subject to the terms and conditions set forth in the Rights Agreement, if there is a public announcement that a person, entity or group of affiliated or associated persons have acquired beneficial ownership of 20% or more of the outstanding Common Shares of the Company (an "Acquiring Person") or 10 business days following the commencement of, or announcement of an intention to commence, a tender offer or exchange offer, the consummation of which would result in any person or entity becoming an Acquiring Person;

WHEREAS, Eastbourne Capital Management, L.L.C. ("ECM"), Black Bear Offshore Master Fund, L.P., a Cayman Islands limited partnership ("BBOM"), and Richard J. Barry ("Barry," and together with ECM, BBOM, Black Bear Fund I, L.P., a California limited partnership, and Black Bear Fund II, L.L.C., a California limited liability company, the "Eastbourne Entities") have reported that they beneficially owned in the aggregate 19.9% of the Common Shares of the Company;

WHEREAS, pursuant to Section 27 of the Rights Agreement, the Board of Directors of the Company has determined that it is in the best interest of the Company and its stockholders to amend the Rights Agreement to exclude from the definition of an "Acquiring Person" the Eastbourne Entities, but only so long as none of the Eastbourne Entities, together with any of their respective affiliates or associates, either individually or collectively, is the beneficial owner of 25% or more of the Common Shares then outstanding; and

WHEREAS, the Board of Directors of the Company has approved this Amendment and authorized its appropriate officers to execute and deliver the same to the Rights Agent.

NOW, THEREFORE, in accordance with the procedures for amendment of the Rights Agreement set forth in Section 27 thereof, and in consideration of the foregoing and the mutual agreements herein set forth, the parties hereby agree as follows:

1. Capitalized terms that are not otherwise defined herein shall have the meanings ascribed to them in the Rights Agreement.

2. The definition of "Acquiring Person" set forth in Section 1(a) of the Rights Agreement is amended in its entirety to read as follows:

"Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates and Associates (as such terms are hereinafter defined)

of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 20% or more of the Common Shares then outstanding. Notwithstanding the foregoing, (A) the term Acquiring Person shall not include (i) the Company, (ii) any Subsidiary (as such term is hereinafter defined) of the Company, (iii) any employee benefit or compensation plan of the Company or any Subsidiary of the Company, (iv) any entity holding Common Shares for or pursuant to the terms of any such employee benefit or compensation plan, or (v) any of Eastbourne Capital Management, L.L.C. (solely in connection with investment power exercisable by Eastbourne Capital Management, L.L.C. with respect to Common Shares managed for Black Bear Offshore Master Fund, L.P., a Cayman Islands limited partnership, Black Bear Fund I, L.P., a California limited partnership, and Black Bear Fund II, L.L.C., a California limited liability company), Black Bear Offshore Master Fund, L.P., a Cayman Islands limited partnership, Black Bear Fund I, L.P., a California limited partnership, Black Bear Fund II, L.L.C., a California limited liability company, and Richard J. Barry (collectively the "Eastbourne Entities"), but only so long as none of the Persons described in this clause (v), together with any of their respective Affiliates or Associates, either individually or collectively, is the Beneficial Owner of 25% or more of the Common Shares then outstanding, and (B) no Person shall become an "Acquiring Person" either (x) as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 20% (or 25% with respect to the Eastbourne Entities) or more of the Common Shares then outstanding; provided, however, that if a Person shall become the Beneficial Owner of 20% (or 25% with respect to the Eastbourne Entities) or more of the Common Shares then outstanding by reason of share purchases by the Company and shall, following written notice from, or public disclosure by the Company of such share purchases by the Company, become the Beneficial Owner of any additional Common Shares without the prior consent of the Company and shall then Beneficially Own more than 20% (or 25% with respect to the Eastbourne Entities) of the Common Shares then outstanding, then such Person shall be deemed to be an "Acquiring Person," (y) as the result of the acquisition of Common Shares directly from the Company, provided, however that if a Person shall become the Beneficial Owner of 20% (or 25% with respect to the Eastbourne Entities) or more of the Common Shares then outstanding by reason of share purchases directly from the Company and shall, after that date, become Beneficial Owner of any additional Common Shares without the prior written consent of the Company and shall then Beneficially Own more than 20% (or 25% with respect to the Eastbourne Entities) of the Common Shares then outstanding, then such Person shall be deemed to be an "Acquiring Person" or (z) if the Board of Directors determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests, as promptly as practicable (as determined in good faith by the Board of Directors), but in any event within five Business Days, following receipt of written notice from the Company of such event, of Beneficial Ownership of a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person, as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an "Acquiring Person" for any purposes of this Agreement; provided, however, that if such Person shall again become the Beneficial Owner of 20% (or 25% with respect to the Eastbourne Entities) or more of the Common Shares then outstanding, such Person shall be deemed an "Acquiring Person," subject to the exceptions set forth in this Section 1(a)."

3. Section 2 of the Rights Agreement is hereby amended to read in its entirety as follows: "**APPOINTMENT OF RIGHTS AGENT.** The Company hereby appoints the Rights Agent to act as agent for the Company in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Company may from time to time appoint such co-Rights Agents as it may deem necessary or desirable upon ten (10) days' prior written notice to the Rights Agent. The Rights Agent shall have no duty to supervise, and in no event be liable for, the acts or omissions of any such co-Rights Agent."

4. The second sentence of Section 18 of the Rights Agreement is hereby amended to read in its entirety as follows:

"The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without gross negligence, bad faith or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending against any claim of liability in the premises."

5. Section 21 of the Rights Agreement is hereby amended to read in its entirety as follows:

"**CHANGE OF RIGHTS AGENT**. The Rights Agent or any successor Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days' notice in writing mailed to the Company and to each transfer agent for the Common Shares or Preferred Shares by registered or certified mail, and to the holders of the Right Certificates by first-class mail. Unless this Agreement is otherwise terminated by the parties, in the event the transfer agency relationship in effect between the Company and the Rights Agent terminates, the Rights Agent will be deemed to resign automatically on the effective date of such termination; and any required notice will be sent by the Company. The Company may remove the Rights Agent or any successor Rights Agent upon 30 days' notice in writing, mailed to the Rights Agent or successor Rights Agent, as the case may be, and to each transfer agent for the Common Shares or Preferred Shares by registered or certified mail, and to the holders of the Right Certificates by first-class mail. If the Rights Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Rights Agent. If the Company shall fail to make such appointment within a period of 30 days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent or by the holder of a Right Certificate (who shall, with such notice, submit his Right Certificate for inspection by the Company), then the registered holder of any Right Certificate may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Company or by such a court, shall be either (a) a corporation business trust or limited liability company organized and doing business under the laws of the United States or of any other state of the United States which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and which has at the time of its appointment as Rights Agent a combined capital and surplus of at least $50 million or (b) a direct or indirect wholly owned subsidiary of such an entity or its wholly-owning parent. After appointment, the successor Rights Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and

deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment the Company shall file notice thereof in writing with the predecessor Rights Agent and each transfer agent for the Common Shares or Preferred Shares, and mail a notice thereof in writing to the registered holders of the Right Certificates. Failure to give any notice provided for in this Section 21, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be."

6. Section 26 of the Rights Agreement is hereby amended to read in its entirety as follows:

"**NOTICES**. Notices or demands authorized by this Agreement to be given or made by the Rights Agent or by the holder of any Right Certificate to or on the Company shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Rights Agent) as follows:

Telik, Inc.
3165 Porter Drive
Palo Alto, CA 94304-1213
Attn: Chief Executive Officer

Subject to the provisions of Section 21 hereof, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Right Certificate to or on the Rights Agent shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed (until another address is filed in writing with the Company) as follows:

Attn: Client Administration
Computershare Trust Company, N.A.
250 Royall Street, MS 3B
Canton, MA 02021

Notices or demands authorized by this Agreement to be given or made by the Company or the Rights Agent to the holder of any Right Certificate shall be sufficiently given or made if sent by first-class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company."

7. A new Section 35 hereby added to the Rights Agreement and shall read in its entirety as follows:

"**FORCE MAJEURE**. Notwithstanding anything to the contrary contained herein, Rights Agent shall not be liable for any delays or failures in performance resulting from acts beyond its reasonable control including, without limitation, acts of God, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunction of computer facilities, or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war, or civil unrest."

8. All references in the Rights Agreement to "20%" shall be followed by "(or 25% with respect to the Eastbourne Entities)", other than in the definition of "Acquiring Person" set forth in Section 1(a), which is amended as provided above.

9. Computershare Shareholder Services, Inc. (f/k/a EquiServe, Inc.) is hereby removed as Rights Agent from and after the date hereof.

10. Except as expressly set forth herein, this Amendment shall not alter, modify, amend or in any affect any of the terms, conditions, covenants, obligations or agreements contained in the Rights Agreement, all of which are ratified and affirmed in all respects and shall continue to be in full force and effect.

11. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

12. This Amendment shall be deemed to be a contract made under the laws of the State of Delaware and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts to be made and performed entirely within such State.

13. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties herein have caused this Amendment to be duly executed and attested, all as of the date and year first above written.

TELIK, INC.

By: _____

Name:

Title:

COMPUTERSHARE SHAREHOLDER SERVICES, INC.

By: _____

Name:

Title:

COMPUTERSHARE TRUST COMPANY, N.A.

By: _____

Name:

Title:

Exhibit 31.1

CERTIFICATIONS

I, Michael M. Wick, M.D., Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telik, 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 Rule 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 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(s) 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 functions):

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: August 3, 2006

/s/ MICHAEL M. WICK

Michael M. Wick, M.D., Ph.D.

Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Cynthia M. Butitta, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telik, 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 Rule 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 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(s) 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 functions):

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: August 3, 2006

/s/ CYNTHIA M. BUTITTA

Cynthia M. Butitta

Chief Operating Officer and Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350), Michael M. Wick, M.D., Ph.D., the Chairman and Chief Executive Officer of Telik, Inc. (the "Company"), and Cynthia M. Butitta, the Chief Operating Officer and Chief Financial Officer of the Company, each hereby certifies that, his or her knowledge:

1. The Company' s Quarterly Report on Form 10-Q for the period ended June 30, 2006, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 3rd day of August, 2006.

/s/ MICHAEL M. WICK	/s/ CYNTHIA M. BUTITTA
Michael M. Wick, M.D., Ph.D.	Cynthia M. Butitta
Chairman and Chief Executive Officer	Chief Operating Officer and Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.