North American Energy Partners Inc.
Form 6-K
August 19, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
under the Securities Exchange Act of 1934
For the month of August 2008
Commission File Number 001-33161
NORTH AMERICAN ENERGY PARTNERS INC.
Zone 3 Acheson Industrial Area
2-53016 Highway 60
Acheson, Alberta
Canada T7X 5A7
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): _____

Documents Included as Part of this Report

1. Notice of Annual Meeting and Management Information Circular

2. Form of Proxy

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.

NORTH AMERICAN ENERGY PARTNERS INC.

By: /s/ Peter Dodd
Name: Peter Dodd
Title: Chief Financial Officer

Date: August 19, 2008

NORTH AMERICAN ENERGY PARTNERS INC.
NOTICE OF ANNUAL MEETING
AND MANAGEMENT INFORMATION CIRCULAR

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD
ON
SEPTEMBER 17, 2008

AUGUST 11, 2008

NORTH AMERICAN ENERGY PARTNERS INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON SEPTEMBER 17, 2008

NOTICE IS HEREBY GIVEN that the annual meeting of holders of common shares (the NAEP Shareholders) of North American Energy Partners Inc. (the Corporation) will be held at the Calgary Petroleum Club, 319 5th Avenue SW, Calgary, Alberta T2P 0L5 on the 17th day of September, 2008, at 4:00 p.m. (Mountain Time) (the Meeting), for the following purposes:

1. to receive the financial statements of the Corporation for the year ended March 31, 2008 and the auditors report thereon;

2. to elect the directors of the Corporation for the ensuing year;

3. to re-appoint the auditors of the Corporation for the ensuing year and to authorize the directors to fix the remuneration of the auditors as such; and

4. to transact such other business as may properly come before the Meeting or any adjournments thereof.

The specific details of the foregoing matters to be put before the Meeting are set forth in the management information circular (the Information Circular). Capitalized terms used in this notice of annual meeting and not otherwise defined herein shall have the meanings ascribed to such terms in the Information Circular.

A copy of the 2008 Annual Report of the Corporation, the Information Circular and a form of proxy accompany this notice.

NAEP Shareholders who are unable to attend the Meeting are requested to complete, sign, date and return the enclosed form of proxy in accordance with the instructions set out in the form of proxy and in the Information Circular accompanying this notice. A proxy will not be valid unless it is deposited with CIBC Mellon Trust Company at Proxy Dept., CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1 (facsimile no. (416) 368-2502 or toll free in North America only at no. 1-866-781-3111) no later than 6:30 p.m. (Eastern Time) on September 15, 2008 and if the Meeting is adjourned, no later than 24 hours (excluding Saturdays and holidays) prior to the commencement of any adjournment thereof.

DATED at Acheson, Alberta, this 11th day of August, 2008.

BY ORDER OF THE BOARD OF DIRECTORS OF
NORTH AMERICAN ENERGY PARTNERS INC.

(signed) Peter Dodd
Chief Financial Officer

NORTH AMERICAN ENERGY PARTNERS INC.

MANAGEMENT INFORMATION CIRCULAR

SOLICITATION OF PROXIES

This management information circular (the Information Circular) and accompanying form of proxy (the Proxy) are furnished in connection with the solicitation of proxies by or on behalf of management of North American Energy Partners Inc. (the Corporation or NAEP) for use at the annual meeting (the Meeting) of holders of common shares of the Corporation (the NAEP Shareholders) to be held at the Calgary Petroleum Club, 319 5th Avenue SW, Calgary, Alberta T2P 0L5 on the 17th day of September, 2008, at 4:00 p.m. (Mountain Time), and at any adjournments thereof, for the purposes set forth in the accompanying notice of meeting dated August 11, 2008 (the Notice of Meeting).

It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers of the Corporation at nominal cost. The cost of this solicitation will be borne by the Corporation. The Corporation may pay the reasonable costs incurred by persons who are the registered but not beneficial owners of voting shares of the Corporation (such as brokers, dealers, other registrants under applicable securities laws, nominees and/or custodians) in sending or delivering copies of this Information Circular, the Notice of Meeting and Proxy to the beneficial owners of such shares. The Corporation will provide, without cost to such persons, upon request to the Secretary of the Corporation, additional copies of the foregoing documents required for this purpose. The Notice of Meeting, Proxy and this Information Circular will be mailed to NAEP Shareholders commencing on or about August 22, 2008. In this Information Circular, except where otherwise indicated, all dollar amounts are expressed in Canadian currency.

No person has been authorized by the Corporation to give any information or make any representations in connection with the matters contained herein other than those contained in this Information Circular and, if given or made, any such information or representation must not be relied upon as having been authorized by the Corporation.

This Information Circular does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful.

STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Information Circular may contain forward-looking information that is based on expectations and estimates as of the date of this Information Circular. Our forward-looking information is information that is subject to known and unknown risks and other factors that may cause future actions, conditions or events to differ materially from the anticipated actions, conditions or events expressed or implied by such forward-looking information. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by the use of the future tense or other forward-looking words such as believe , expect , anticipate , intend , plan , estimate , may , could, would, should, target, objective , projection , forecast , continue , strategy , intend, those terms or other variations of them or comparable terminology.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update any forward-looking information, except as required by applicable securities laws. **There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information.** See risk factors highlighted in materials filed with the securities regulatory authorities filed in the United States and Canada from time to time, including, but not limited to, our most recent annual management s discussion and analysis.

RECORD DATE

The record date (the Record Date) for determining which NAEP Shareholders shall be entitled to receive notice of and to vote at the Meeting is August 11, 2008. Only NAEP Shareholders of record as of the Record Date are entitled to receive notice of and to vote at the Meeting, unless after the Record Date such shareholder of record transfers its shares and the transferee (the Transferee), upon establishing that the Transferee owns such shares, requests in writing at least 10 days prior to the Meeting or any adjournments thereof that the Transferee may have his or her name included on the list of NAEP Shareholders entitled to vote at the Meeting, in which case the Transferee is entitled to vote such shares at the Meeting. Such written request by the Transferee shall be filed with CIBC Mellon Trust Company at Proxy Dept., CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1, together with a copy to the Secretary of the Corporation at North American Energy Partners Inc., - Zone 3, Acheson Industrial Area, 2-53016 Highway 60, Acheson, Alberta T7X 5A7.

Under normal conditions, confidentiality of voting is maintained by virtue of the fact that the Corporation s transfer agent tabulates proxies and votes. However, such confidentiality may be lost as to any proxy or ballot if a question arises as to its validity or revocation or any other like matter. Loss of confidentiality may also occur if the Board of Directors decides that disclosure is in the interest of the Corporation or its shareholders.

APPOINTMENT OF PROXYHOLDERS

The persons named in the accompanying Proxy as proxyholders are representatives of management of NAEP. **A NAEP Shareholder desiring to appoint some other person (who need not be a shareholder of NAEP) to represent him or her at the Meeting, may do so either by striking out the printed names and inserting the desired person s name in the blank space provided in the Proxy or by completing another proper proxy and, in either case, delivering the completed proxy to CIBC Mellon Trust Company at Proxy Dept., CIBC Mellon Trust Company, P.O. Box 721, Agincourt, Ontario M1S 0A1 (facsimile no. (416) 368-2502 or toll free in North America only at no. 1-866-781-3111) no later than 6:30 p.m. (Eastern Time) on September 15, 2008 and if the Meeting is adjourned, no later than 24 hours (excluding Saturdays and holidays) prior to the commencement of any adjournment thereof. A Proxy should be executed by a NAEP Shareholder or its attorney duly authorized in writing or, if a NAEP Shareholder is a corporation, by an officer or attorney thereof duly authorized in writing. If a proxy is given by joint shareholders, it must be executed by all such joint shareholders.**

VOTING OF PROXIES

If a Proxy is completed, signed and delivered to the Corporation in the manner specified above, the persons named as proxyholders therein shall vote or withhold from voting the shares in respect of which they are appointed as proxyholders at the Meeting, in accordance with the instructions of the NAEP Shareholder appointing them, on any show of hands or any ballot that may be called for and, if the NAEP Shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the persons appointed as proxyholders shall vote in accordance with the specification so made. **In the absence of such specification, or if the specification is not certain, the shares represented by such Proxy will be voted in favour of the matters to be acted upon as specified in the Notice of Meeting.**

A Proxy confers discretionary authority upon the persons named therein with respect to all other matters which may properly come before the Meeting or any adjournments thereof. As of the date of this Information Circular, the Board of Directors of the Corporation knows of no such amendments, variations or other matters to come before the Meeting, other than matters referred to in the Notice of Meeting. However, if other matters should properly come before the Meeting, the Proxy will be voted on such matters in accordance with the best judgment of the person or persons voting such Proxy.

REVOCABILITY OF PROXY

Any NAEP Shareholder returning an enclosed Proxy may revoke the same at any time insofar as it has not been exercised. In addition to revocation in any other manner permitted by law, a Proxy may be revoked by instrument in writing executed by the NAEP Shareholder or by his or her attorney authorized in writing or, if the NAEP Shareholder is a corporation, by an officer or attorney thereof duly authorized, and deposited at the registered office of the Corporation to the attention of Kevin Rowand, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or with the chairperson of the Meeting, prior to the commencement of the Meeting. A NAEP Shareholder attending the Meeting has the right to vote in person and, if he or she does so, his or her proxy is nullified with respect to the matters such person votes upon and any subsequent matters thereafter to be voted upon at the Meeting or any adjournment thereof.

ADVICE TO BENEFICIAL HOLDERS OF COMMON SHARES

The information set forth in this section is of significant importance to many NAEP Shareholders, as a substantial number of NAEP Shareholders do not hold common shares of the Corporation (NAEP Common Shares) in their own name, and thus are considered non-registered shareholders. NAEP Shareholders who do not hold their NAEP Common Shares in their own name (Beneficial Shareholders) should note that only Proxies deposited by NAEP Shareholders whose names appear on the records of the Corporation as the registered holders of NAEP Common Shares can be recognized and acted upon at the Meeting. If NAEP Common Shares are listed in an account statement provided to a NAEP Shareholder by a broker, then, in almost all cases, those NAEP Common Shares will not be registered in the NAEP Shareholder s name on the records of the Corporation. Such NAEP Common Shares will more likely be registered under the name of the NAEP Shareholder s broker or an agent of that broker

or another similar entity (called an Intermediary). NAEP Common Shares held by an Intermediary can only be voted by the Intermediary (for, withheld or against resolutions) upon the instructions of the Beneficial Shareholder. Without specific instructions, Intermediaries are prohibited from voting NAEP Common Shares.

Beneficial Shareholders should ensure that instructions respecting the voting of their NAEP Common Shares are communicated in a timely manner and in accordance with the instructions provided by their Intermediary. Applicable regulatory rules require Intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders meetings. **Every Intermediary has its own mailing procedures and provides its own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their NAEP Common Shares are voted at the Meeting.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting NAEP Common Shares registered in the name of their Intermediary, a Beneficial Shareholder may attend at the Meeting as proxyholder for the Intermediary and vote the NAEP Common Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and indirectly vote their NAEP Common Shares as a proxyholder, should enter their own names in the blank space on the form of proxy provided to them by their Intermediary and timely return the same to their Intermediary in accordance with the instructions provided by their Intermediary, well in advance of the Meeting.**

NOTICE TO UNITED STATES SHAREHOLDERS

The solicitation of proxies by the Corporation is not subject to the requirements of Section 14(a) of the United States (US) Securities Exchange Act of 1934, as amended (the US Exchange Act), by virtue of an exemption applicable to proxy solicitations by foreign private issuers as defined in Rule 3b-4 under the US Exchange Act. Accordingly, this Information Circular has been prepared in accordance with the applicable disclosure requirements in Canada. Residents of the United States should be aware that such requirements may be different than those of the United States applicable to proxy statements under the US Exchange Act.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Corporation s authorized capital consists of an unlimited number of NAEP Common Shares, and an unlimited number of non-voting NAEP Common Shares. As at August 11, 2008, there were a total of 36,038,476 NAEP Common Shares outstanding. Each NAEP Common Share entitles the holder thereof to one vote in respect of each of the matters to be voted upon at the Meeting. For a list of persons or corporations who beneficially owns or controls or directs, directly or indirectly, securities carrying more than 10% of the voting rights attached to the NAEP Common Shares, please see the table included under the Section captioned Business to be Transacted at The Meeting - Election of Directors .

QUORUM

A quorum for the transaction of business at the Meeting shall consist of at least two persons holding or representing by proxy not less than twenty (20%) percent of the outstanding shares of the Corporation entitled to vote at the meeting.

If a quorum is not present at the opening the Meeting, the NAEP Shareholders present may adjourn the meeting to a fixed time and place but may not transact any other business. If a meeting of shareholders is adjourned by one or more adjournments for an aggregate of less than 30 days it is not necessary to give notice of the adjourned meeting other than by announcement at the time of an adjournment. If a meeting of NAEP Shareholders is adjourned by one or more adjournments for an aggregate of more than 29 days and not more than 90 days, notice of the adjourned meeting shall be given as for an original meeting but the management of the Corporation shall not be required to send a form of proxy in the form prescribed by applicable law to each NAEP Shareholder who is entitled to receive notice of the meeting. Those shareholders present at any duly adjourned meeting shall constitute a quorum.

The Corporation s list of NAEP Shareholders as of the Record Date has been used to deliver to NAEP Shareholders the Notice of Meeting and this Information Circular as well as to determine the NAEP Shareholders who are eligible to vote.

PRESENTATION OF FINANCIAL STATEMENTS

The audited comparative consolidated financial statements of the Corporation for the financial year ended March 31, 2008, together with the report of the auditors thereon, copies of which are contained in the Corporation s annual report, will be presented to the NAEP Shareholders at the Meeting. Receipt in the Meeting of the auditors report and the Corporation s financial statements for its last completed fiscal period will not constitute approval or disapproval of any matters referred to therein.

BUSINESS TO BE TRANSACTED AT THE MEETING

1. Election of Directors

The Board of Directors of the Corporation presently consists of 9 directors to be elected annually. All of the nominees are now directors of the Corporation and have been directors since the dates indicated below. Unless a NAEP Shareholder directs that his or her NAEP Common Shares be otherwise voted or withheld from voting in connection with the election of directors, the persons named in the enclosed form of proxy will vote for the election of the nine nominees whose names are set forth below. Management does not contemplate that any of the following nominees will be unable or unwilling to serve as a director but if that should occur for any reason prior to the Meeting, the persons named in the enclosed Proxy will have the right to vote for another nominee in their discretion. Each director elected at the Meeting will hold office until the next annual meeting or until his or her successor is duly elected or appointed.

For each nominee, the following table and the notes thereto state, as of August 11, 2008, the: (i) name, municipality and country of residence, and age; (ii) date of first becoming a director; (iii) current position(s) with the Corporation; (iv) number of NAEP Common Shares

and options beneficially owned, or controlled or directed, directly or indirectly; and (v) present principal occupation.

Name, Present Principal Occupation, Municipality and Country of Residence and Age	Director Since	Position(s) with the Corporation, if any	Number of Common Shares and Options Beneficially Owned, or Controlled or Directed, Directly or Indirectly [1]	Principal Occupation
George R. Brokaw [2][5] New York, N.Y., U.S.A., 40	June 28, 2006	Director	27,760 [6]	Managing Director, Perry Capital, L.L.C., an affiliate of Perry Corp., a private investment firm; Managing Director (Mergers & Acquisitions) of Lazard Frères & Co. LLC from January 2003 to May 2005.
John A. Brussa [3][4] Calgary, Alberta, Canada, 51	November 26, 2003	Director	140,160 [6]	Senior partner and head of the Tax Department at the law firm of Burnet, Duckworth & Palmer LLP; Chairman of Penn West Energy Trust, Crew Energy Inc. and Divestco Inc.; currently a director of a number of natural resource and energy companies and mutual fund trusts.
John D. Hawkins [2][4] Houston, Texas, U.S.A., 44	October 17, 2003	Director	27,760 [7]	Partner with The Sterling Group, L.P., a private equity investment firm, since 1999.

Ronald A. McIntosh [2][4][5] Calgary, Alberta, Canada, 66	May 20, 2004	Chairman of the Board	126,200 [8]	Chairman of NAV Energy Trust, a Calgary-based oil and natural gas investment fund, from January 2004 to August 2006; President and Chief Executive Officer of Navigo Energy Inc. from October 2002 and January 2004; Senior Vice President and Chief Operating Officer of Gulf Canada Resources Limited from December 2001 to July 2002.
William C. Oehmig [3][5] Houston, Texas, U.S.A., 59	May 20, 2004	Director	205,460 [9]	Formerly Chairman of the Corporation s Board of Directors from November 26, 2003 to May 20, 2004; Partner with The Sterling Group, L.P., a private equity investment firm; Mr. Oehmig currently serves on the boards of Propex Fabrics Inc., Panolam Industries International Incorporated and Universal Fiber Systems; previously served as Chairman of Royster-Clark, Purina Mills, and as a Director of Exopack and Sterling Diagnostic Imaging, and has served on the board of several portfolio companies since joining The Sterling Group L.P.
Rodney J. Ruston Edmonton, Alberta, Canada, 57	May 9, 2005	Director, President and Chief	588,600 [10]	Previously, Managing Director and Chief Executive Officer of

	Executive Officer	Ticor Limited; previously a Principal with Ruston Consulting Services Pty. Ltd.; Formerly held management positions with Pasminco Limited, Savage Resources Limited, Wambo Mining Corporation, Oakbridge Limited, and Kembla Coal & Coke Pty. Limited; Chairman of the Australian Minerals Tertiary Education Council from July 2003 until May 2005

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Name, Present Principal Occupation, Municipality and Country of Residence and Age	Director Since	Position(s) with the Corporation, if any	Number of Common Shares and Options Beneficially Owned, or Controlled or Directed, Directly or Indirectly (1)	Principal Occupation
Allen R. Sello (2)(3) West Vancouver, British Columbia, Canada, 69	January 26, 2006	Director	55,860 (11)	From 1999 until September 2004 Mr. Sello held the position of Senior Vice President and Chief Financial Officer for UMA Group Limited; currently Chair of the Vancouver Board of Trade Government Budget and Finance Committee; trustee of Sterling Shoes Income Fund.
Peter W. Tomsett (3)(4)(5) West Vancouver, British Columbia, Canada, 50	September 19, 2006	Director	27,760 (12)	Company Director. From September 2004 to January 2006, President and CEO of Placer Dome Inc, prior thereto, Executive Vice President of Placer Dome Inc.; currently Chairman of Silver Standard Resources Inc., and Chairman of Equinox Minerals Limited.
K. Rick Turner (2)(4) Houston, Texas, U.S.A., 50	November 26, 2003	Director	52,406 (7)(13)	Employed by Stephens family entities since 1983; currently Senior Managing Director of The Stephens Group,

					LLC., private equity investment firm; currently serves on the board of two other publicly-held companies: Energy Transfer Partners and Energy Transfer Equity; serves on numerous private company boards.

(1) The information as to NAEP Common Shares beneficially owned or over which control is exercised, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually, effective as of August 11, 2008.

(2) Member of the Audit Committee. (See 2008 Annual Information Form under the heading The Board and the Board Committees for further disclosure on information on the Audit Committee). (Mr. McIntosh was in the last financial year

and is currently a member of the Audit Committee. Mr. McIntosh s name was inadvertently omitted from the relevant section of the 2008 Annual Information Form as a member of the Audit Committee).

(3) Member of the Compensation Committee.

(4) Member of the Governance Committee.

(5) Member of the Health, Safety, Environment and Business Risk Committee.

(6) Includes currently exercisable options to purchase 22,208 NAEP Common Shares and currently unvested options to purchase 5,552 NAEP Common Shares.

(7) Includes currently unvested options to purchase 5,552

NAEP Common Shares.

(8) Includes currently exercisable options to purchase 56,000 NAEP Common Shares and currently unvested options to purchase 14,000 NAEP Common Shares.

(9) Includes 22,870 shares that have been donated by Mr. Oehmig but over which Mr. Oehmig retains sole voting power.

(10) Includes currently exercisable options to purchase 220,000 shares and currently unvested options to purchase 351,900 NAEP Common Shares.

(11) Includes currently exercisable options to purchase 11,104 NAEP Common Shares and currently unvested options to purchase 16,656

NAEP Common Shares.

(12) Includes currently exercisable options to purchase 5,552 NAEP Common Shares and currently unvested options to purchase 22,208 NAEP Common Shares.

(13) Includes 13,484 shares held in an individual retirement account, 27,818 shares held in a joint brokerage account.

The following persons or entities beneficially own, or control or direct, directly or indirectly, securities carrying more than 10% of the voting rights attached to the NAEP Common Shares based on information available on August 6, 2008.

Name of Beneficial Owner	Number of NAEP Common Shares	% of Outstanding NAEP Common Shares
Sterling Group Partners I, L.P. (a)	4,626,265	12.9
Richard Perry (b)	4,598,466	12.8
Massachusetts Financial Services Company (c)	4,474,650	12.4
FMR Corp.(d)	3,716,400	10.3

(a) Sterling Group Partners I GP, L.P. is the sole general partner of Sterling Group Partners I, L.P. Sterling Group Partners I GP, L.P. has five general partners, each of which is wholly-owned by one of Frank J. Hevrdejs, William C. Oehmig, T. Hunter Nelson, John D. Hawkins and C. Kevin Garland. Each of these individuals disclaims beneficial ownership of the shares owned by Sterling Group Partners I, L.P. Sterling Group Partners I, L.P. is an affiliate of The Sterling Group, L.P.

(b) Perry Partners, L.P. directly holds 2,161,361 NAEP Common Shares. Perry Luxco S.A.R.L. directly holds 1,718,443 NAEP Common Shares. Perry Partners International, Inc. directly holds 718,662 NAEP Common Shares. Richard Perry is the President and sole shareholder of Perry Corp., which is the investment manager of Perry Partners International, Inc. and the managing general partner of Perry Partners, L.P. Perry Partners International, Inc. is the indirect sole shareholder of the class of securities owned by Perry Luxco S.A.R.L. As such, Mr. Perry may be deemed to have beneficial ownership over the respective NAEP Common Shares owned by Perry Luxco S.A.R.L., Perry Partners, L.P. and Perry Partners International, Inc.; however, Mr. Perry disclaims such beneficial ownership, except to the extent of his pecuniary interest, if any, therein. Perry Corp. is an affiliate of Perry Strategic Capital Inc.

(c) Massachusetts Financial Services Company is doing business as MFS Investment Management (MFS). Sun Life Financial, Inc. is a majority shareholder of MFS.

(d) FMR Corp. is now known as FMR LLC. Fidelity Management & Research Company, Pyramis Global Advisors, LLC and Pyramis Global Advisors Trust Company are wholly-owned subsidiaries of FMR LLC.

Unless a NAEP Shareholder otherwise directs, or directs that his or her NAEP Common Shares are to be withheld from voting in connection with the election of the directors as specified above, the persons named in the enclosed form of Proxy intend to vote for the election of the directors as specified above, such directors to hold office until the next annual meeting or until his or her successor is appointed.

2. Re-appointment of Independent Auditors and Authorization of Directors to fix their Remuneration

At the Meeting, NAEP Shareholders will be requested to vote on the re-appointment of KPMG LLP (KPMG) as the independent auditors of the Corporation to hold office until the next annual meeting of shareholders or until a successor is appointed, and to authorize the Board of Directors to fix the auditors remuneration. KPMG have been the auditors of the Corporation, or its predecessor NACG Holdings Inc., since October 31, 2003.

Recommendation of the Board of Directors

The Board of Directors recommends a vote for the re-appointment of KPMG as independent auditors of the Corporation for the fiscal year ending March 31, 2009 and authorizing the Board of Directors to fix the auditor s remuneration.

Unless a NAEP Shareholder otherwise directs, or directs that his or her NAEP Common Shares are to be withheld from voting in connection with the appointment of auditors, the persons named in the enclosed form of Proxy intend to vote for the reappointment of KPMG as auditors of the Corporation until the next annual meeting of shareholders and to authorize the directors to fix their remuneration.

3. Other Matters

Management of the Corporation know of no matters to come before the Meeting other than as set forth in the Notice of Meeting. However, if other matters which are not currently known to management should properly come before the Meeting, the accompanying proxy will be voted on such matters in accordance with the best judgment of the persons voting the proxy.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth all compensation earned during the fiscal years ended March 31, 2008, March 31, 2007 and March 31, 2006 by Rodney J. Ruston, Peter Dodd, Miles W. Safranovich, Bob Harris, Kevin Mather and Christopher J. Hayman, (collectively, the Named Executive Officers).

		Annual Compensation			Long-Term Compensation		All Other Compensation
					Securities Underlying Options	Shares Subject to Resale Restrictions	
Name and Principal Position	**Year**	**Salary (a)**	**Bonus (b)**	**Other Annual Compensation**	**(c)**	**(d)**	
Rodney J. Ruston						10,938 PSUs valued at	
President and Chief Executive	2008	$ 518,750	$562,170	(e)	21,900	$171,945	
Officer	2007	$ 500,000	$386,615	(e)			Nil
(Hired May 2005)	2006	$ 536,539	$300,000	(e)	550,000		
Peter Dodd						4,667 PSUs	
	2008	$ 280,000	$70,483	(e)	109,400	valued at	
Chief Financial Officer	2007					$73,365	
(Hired February 2008)	2006						Nil
Miles W. Safranovich						3,780 PSUs	
	2008	$ 239,960	$252,289	(e)	8,700	valued at	
Vice President, Operations	2007	$ 218,000	$164,355	(e)		$59,422	Nil
(Hired November 2004)	2006	$ 195,808	$210,384	(e)	40,000		
Bob Harris							
Vice President, Human							
Resources, Health, Safety &	2008	$ 222,600	$234,921	(e)	7,600		

						3,667 PSUs valued at	
Environment	2007	$ 166,250	$150,897	(e)	100,000	$57,645	Nil
(Hired June 2006)	2006						
Kevin Mather						4,333 PSUs	
	2008	$ 190,749	$201,853	(e)	47,400	valued at	
Vice President, Supply Chain	2007(f)	$ 171,250	$89,027	(e)		$68,115	Nil
(Hired April 1997)	2006	$ 160,000	$111,320	(e)			
Chris Hayman (g)							
Former Vice President, Supply	2008	$ 227,164	$0	(e)			
Chain	2007	$ 207,100	$150,313	(e)			Nil
(Hired January 2005)	2006	$ 183,641	$186,910	(e)	40,000		

(a) Annual salaries are typically adjusted in July of each year.

(b) Bonus pursuant to the Corporation s Annual Incentive Plan. Bonuses relating to performance in a particular fiscal year are paid in July of the following fiscal year.

(c) Consists of options to purchase NAEP Common Shares.

(d) PSUs refer to Performance Share Units (see Executive Compensation PSU Plan). Reflects the value of the PSUs (rounded to nearest dollar) granted on April 1, 2008 using the closing market price on the Toronto Stock Exchange on the grant date, which was $15.72. The number PSUs, by their terms, are adjusted to take into account any dividends paid on NAEP Common Shares.

(e) The amount of other annual compensation does not exceed the lesser of $50,000 and 10% of the salary and bonus for the fiscal year.

(f) Mr. Mather became an executive officer on December 1, 2007. Prior to that he was a general manager of the Heavy Construction and Mining segment.

(g) Mr. Hayman resigned from the Corporation effective March 31, 2008.

The Corporation does not have a pension plan. For the fiscal year ended March 31, 2008, the total amount the Corporation set aside for pension, retirement and similar benefits for the executive officers and directors was $50,015, consisting of employer matching contributions to the executive officers Registered Retirement Savings Plans.

Share Option Plan

The Board of Directors has approved the Corporation s Amended and Restated 2004 Share Option Plan (the Share Option Plan). The Share Option Plan is part of the Corporation s Long Term Incentive Plan. The Share Option Plan was approved by the Corporation s shareholders on November 3, 2006 and became effective on November 28, 2006. The Share Option Plan is administered by the Compensation Committee. Option grants under the Share Option Plan may be made to the Corporation s directors, officers, employees and consultants selected by the Compensation Committee. The Share Option Plan provides for the discretionary grant of options to purchase NAEP Common Shares. Options granted under the Share Option Plan are evidenced by an agreement, specifying the vesting, exercise price and expiration of such options, which terms are determined for each optionee by the Compensation Committee. Options to be granted under the Share Option Plan will have an exercise price of not less than the volume weighted average trading price of the NAEP Common Shares on the Toronto Stock Exchange or the New York Stock Exchange at the time of grant. The Share Option Plan provides that up to 10% of the Corporation s issued and outstanding NAEP Common Shares from time to time may be reserved for issuance or issued from treasury and also provides that the maximum number of NAEP Common Shares issuable to insiders under the Share Option Plan (and any other security based compensation arrangements of the Corporation) is 10% of the Corporation s issued and outstanding NAEP Common Shares. In the event of certain change of control events as defined in the Share Option Plan, all outstanding options will become immediately vested and exercisable.

The Share Option Plan provides that each option includes a cashless exercise alternative which provides a holder of an option with the right to elect to receive cash in lieu of purchasing the number of shares under the option. Notwithstanding such right, the Share Option Plan provides that the Corporation may elect, at its sole discretion, to net settle the option with stock. As of March 31, 2008 there were 2,036,364 NAEP Common Shares issuable upon the exercise of outstanding options, of which 804,192 of such options were vested.

The Share Option Plan provides that, in the event of the termination (with or without cause) or retirement of an optionee, the options held by an optionee cease to be exercisable 30 days after the termination or retirement date, subject to adjustment by the Compensation

Committee. The Corporation does not provide financial assistance to participants under the Share Option Plan to facilitate the purchase of securities under the Share Option Plan. Options granted under the Share Option Plan are not transferable by an optionee, except by an optionee s will or by the laws of descent and distribution. During the lifetime of an optionee, the options are exercisable by only him or her (or, in the case of the optionee s disability, by his or her legal representative(s), if applicable). If an optionee dies, the options held by such optionee may be exercised by the legal representative of the deceased optionee. Such options cease to be exercisable on such date that is the earlier of: (a) 365 days after the optionee s death, and (b) the expiry date set out in the deceased optionee s option agreement. Notwithstanding the foregoing, the Share Option Plan allows the expiry date to be extended by determination of the Compensation Committee or as permitted under the option agreement. If the expiry date falls within or immediately after a blackout period or a lock-up period, the expiry date would be automatically extended for five business days after the blackout period or lock-up period.

Amendments to the Share Option Plan

The Share Option Plan provides that subject to receipt of shareholder and regulatory approval, the Board of Directors may make certain specified amendments to the Share Option Plan, including (i) any amendment to the number of securities issuable under the Share Option Plan, (ii) any changes in the participants in the plan that have the potential of broadening or increasing insider participation, (iii) the introduction of, or amendments to, any form of financial assistance and (iv) any other amendments that may lead to significant or unreasonable dilution in the Corporation s outstanding securities or may provide additional benefits to eligible participants, especially to participants who are insiders. The Share Option Plan authorizes the Board of Directors to make other amendments to the plan, subject only to regulatory approval (i.e. without shareholder approval, unless specifically required by applicable law), including (i) amendments of a housekeeping nature (i.e. amendments for the purpose of curing any ambiguity, error or omission in the Share Option Plan, or to comply with applicable law or the requirements of any stock exchange on which the NAEP Common Shares are listed), (ii) changes any change to the vesting provisions, (iii) any changes in the termination provisions of an option or of the Share Option Plan which does which does not entail an extension beyond the original expiry date, (iv) a discontinuance of the Share Option Plan and (v) the addition of provisions relating to phantom share units, such as restricted share units and deferred share units, which result in participants receiving cash payments, and the terms governing such features.

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Option Grants to Named Executive Officers in Fiscal 2008

The following table summarizes individual grants of options to purchase or acquire securities of the Corporation during fiscal 2008 to each named executive officer

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price ($/Security) (a)	Market Value of Securities Underlying Options on the Date of Grant ($/Security) (b)	Expiration Date
Rodney J. Ruston	21,900	4.6%	13.50	279,882	27-November-17
Peter Dodd	109,400	22.7%	13.50	1,398,132	27-November-17
Miles W. Safranovich	8,700	1.81%	13.50	111,186	27-November-17
Bob Harris	7,600	1.58%	13.50	97,128	27-November-17
Kevin Mather	40,000		15.37	601,200	18-March-18
	7,400	9.85%	13.50	94,572	27-November-17
Chris Hayman [(c)]	0	0%	0		

(a) With respect to each grant of options, 20% of such grant vests each anniversary date of the grant

(b) Value is based on the closing price of the underlying NAEP Common Shares on the Toronto Stock Exchange on the date of the grant.

(c) Mr. Hayman resigned from the Corporation effective

March 31, 2008.

Aggregated Option Exercises in Fiscal 2008 and Fiscal Year End Option Values

The following table summarizes each exercise of options during fiscal 2008 by each named executive officer and the financial year-end value of unexercised options, on an aggregated basis

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at March 31, 2008 Exercisable/Unexercisable (#)	Value of Unexercised in-the-Money Options at March 31, 2008) Exercisable/ Unexercisable (a) ($)
Rodney J. Ruston			220,000/351,900	3,531,000/5,647,995
Peter Dodd			0/109,400	0/1,755,870
Miles W. Safranovich			52,000/56,700	834,600/910,035
Bob Harris			20,000/87,600	321,000/1,405,980
Kevin Mather			44,000/63,400	706,200/1,017,570
Chris Hayman (b)			52,000/48,000	834,600/770,400

(a) March 31, 2008 option values are determined using the Friday, March 28, 2008 closing price on the Toronto Stock Exchange.

(b) Mr. Hayman resigned from the Corporation effective March 31, 2008.

PSU Plan

The Board of Directors has approved the Corporation s Performance Share Unit Plan (the PSU Plan). The PSU Plan is part of the Corporation s Long Term Incentive Plan. Each year the Chief Executive Officer and the Compensation Committee recommends, to the Board of

Directors for approval, employees (the Participants) for participation in the Corporation s PSU Plan. Under the PSU Plan the Corporation credits a Performance Share Unit (a PSU), being a right granted to a Participant to receive a cash payment equivalent to the fair market value of a NAEP Common Share, or at the discretion of the Corporation, in a number of NAEP Common Shares purchased on the open market. After the third fiscal year-end following the date of the grant of the PSUs (the Maturity Date), the Compensation Committee will assess the Participant against the performance criteria established as part of the grant and determine the number of such PSUs that have vested. The cash payment or delivery of NAEP Common Shares is then based on these vested PSUs.

If any dividends are paid on the NAEP Common Shares, additional PSUs will be credited to the Participant to reflect such dividends. The PSU Plan provides that, in the event of the termination (with or without cause), all PSUs that are not vested are immediately forfeited. In the event of retirement or disability of a Participant, all vested PSUs will be redeemed within 30 days of the Maturity Date. Any PSUs which have not completed their prescribed term shall continue to be eligible to become vested PSUs, subject to the performance criteria, as if the Participant was still employed by the Corporation. On the death of a Participant, all granted PSUs will vest and will be redeemed within 90 days of the date of the Participant s death. Rights respecting PSUs are not transferable or assignable other than by will or the laws of descent and distribution. The Compensation Committee, on recommendation to and approval of the Board of Directors, may amend, suspend or terminate the PSU Plan or any portion thereof at any time. However, no amendment, suspension or termination may materially adversely affect any PSUs, or any rights pursuant thereto, granted previously to any Participant without the consent of that Participant.

Performance Share Units (PSUs)

The table below outlines the number of PSUs granted to each named executive officer with respect to fiscal 2008

			Estimated Future Payouts Under Non-Securities Price Based Plans [(a)]		
Name	**Securities, Units, or Other Rights (#)**	**Performance or Other Period Until Maturation or Payout**	**Minimum (#)**	**Target (#)**	**Maximum (#)**
Rodney J. Ruston	10,938	Performance	nil	(b)	10,938
Peter Dodd	4,667	Performance	nil	(b)	4,667
Miles W. Safranovich	3,780	Performance	nil	(b)	3,780
Bob Harris	3,667	Performance	nil	(b)	3,667
Kevin Mather	4,333	Performance	nil	(b)	4,333
Chris Hayman	0				

(a) The total value of PSUs granted on April 1, 2008, is shown in the Summary Compensation Table. The number of PSUs, by their terms, are adjusted to take into account any

dividends paid on NAEP Common Shares.

(b) Depending on actual performance against the performance measures, the number of vested PSUs (including accumulated dividend equivalent units) may be reduced to zero or may be 100% of the number granted. For a description of the three-year performance measures and the vesting schedule based on various performance targets, refer to the PSU Plan section in the Report on Executive Compensation.

Termination of Employment and Employment Contracts

The Corporation has an employment agreement with Rodney Ruston, its President and Chief Executive Officer. The initial term of Mr. Ruston s employment is five years, beginning

May 2005, unless earlier terminated. If his employment is terminated by the Corporation without cause or if his employment is not renewed at the end of the initial five year term, Mr. Ruston will receive a severance payment equal to his then-annual salary plus the amount of his bonus payment in the year preceding the termination date. The arrangement provided for a $500,000 annual salary, to be reviewed annually by the Board of Directors, plus an initial grant of options to purchase 550,000 NAEP Common Shares, with an exercise price of $5 per share and subject to vesting at the rate of 20% per year. During the term of the agreement, Mr. Ruston is eligible for an annual cash bonus targeted at 100% of his annual salary upon achievement of performance targets approved by the board, receives a monthly vehicle allowance of $800, receives reimbursement of the annual fee for membership in one health or sports club and receives an annual travel allowance of $25,000 to cover the costs of traveling to and from his home country of Australia.

The Corporation also has an employment agreement with each of Peter Dodd, Chief Financial Officer, Miles Safranovich, Vice President, Operations, Bob Harris, Vice President, Human Resources, Health, Safety & Environment, Finance and Kevin Mather, Vice President, Supply Chain.

In each case, the executive officer s employment will continue until terminated by him or by the Corporation in accordance with the provisions of his respective agreement. In the cases of Messr. Safranovich and Mather, if his employment is terminated by the Corporation without cause, he will receive a payment equal to one year annual base salary if terminated on or prior to his fifth anniversary of employment with the Corporation or one of its predecessors, a payment equal to one and a quarter times his annual base salary if terminated after his fifth anniversary but on or before his tenth anniversary or a payment of one and a half times his annual base salary if terminated after the tenth anniversary of employment with the Corporation or one of its predecessors plus a payment equal to 90% of the amount of his target bonus payment for the current fiscal year pro rated to the date of termination. In the case of Mr. Dodd, if his employment is terminated by the Corporation without cause, he will receive a payment equal to one and a quarter year annual base salary if terminated on or prior to his tenth anniversary of employment with the Corporation or one of its predecessors, a payment equal to one and a half times his annual base salary if terminated after his tenth anniversary plus a payment equal to 90% of the amount of his target bonus payment for the current fiscal year pro rated to the date of termination.

These agreements provided for an annual salary of $280,000 for Mr. Dodd, $226,800 for Mr. Harris, $245,280 for Mr. Safranovich and $220,000 for Mr. Mather, each to be reviewed annually by the Compensation Committee, plus the initial grant of options to purchase 109,400 NAEP Common Shares with an exercise price of $13.50 per share for Mr. Dodd, options to purchase 100,000 NAEP Common Shares with an exercise price of $5.00 per share for Mr. Harris and options to purchase 100,000 NAEP Common Shares with an exercise price of $5.00 per share for Mr. Safranovich. Mr. Mather s agreement entered into in connection with his recent promotions, confirms his previously granted options to purchase 60,000 NAEP Common Shares with an exercise price of $5.00 per share, options to purchase 7,400 NAEP Common Shares with an exercise price of $13.50 per share and options to purchase 40,000 NAEP Common Shares with an exercise price of $15.37 per share. All of these options expire 10 years from the date of grant.

During the term of the agreement, each executive officer is eligible for an annual cash bonus of up to 100% of his annual salary upon achievement of performance targets approved by the Board of Directors, receives a monthly vehicle allowance of $800 and receives reimbursement of the annual fee for membership in one club or an allowance for similar expenditures.

Each executive officer has agreed that, for a period of two years after the termination of his respective employment, regardless of the reason for the cessation of such employment, he will not interfere with the employment of or attempt to hire any of the Corporation s employees or consultants.

The Corporation had an employment agreement with Christopher Hayman; however, Mr. Hayman resigned from the Corporation effective March 31, 2008. Mr. Hayman s employment agreement provided for an annual salary of $231,952 and contained terms and provisions similar to those in the employment contracts with Mr. Mather described above. As of the date of Mr. Hayman s resignation, he was entitled to exercise options to purchase 52,000 NAEP Common Shares with an exercise price of $5.00 per share and subsequent to his resignation, he exercised all options in full.

Composition of the Compensation Committee

The Compensation Committee is currently composed of Messrs. Brussa, Oehmig, Sello and Tomsett, with Mr. Tomsett serving as Chairman, replacing Mr. Paterson, the previous Chairman of the Compensation Committee during fiscal 2008. None of the members of the Compensation Committee is or has been an officer or employee of the Corporation, and none of the executive officers of the Corporation served during fiscal 2008 on a board of directors of another entity which has employed any of the members of the Compensation Committee.

REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee is responsible for reviewing and recommending to the Board of Directors for approval, the Corporation s philosophy, policies and guidelines on Board of Directors and executive compensation. The Compensation Committee reviews and recommends to the Board of Directors for approval: (i) the recruitment, evaluation and succession plans for the President and Chief Executive Officer, (ii) the compensation package for the chairs of the committees of the Board of Directors and other directors of the Corporation, and (iii) the structure of, implementation of, participation in, amendments to or termination of all long-term incentive programs including, but not limited to, the Share Option Plan, the DSU Plan (see Compensation of Directors Directors Deferred Share Unit Plan) and the PSU Plan. The Compensation Committee also reviews and approves: (i) the recruitment, evaluation and succession plans for all individuals reporting directly to the Chief Executive Officer (the executive management), and (ii) the compensation package, including base salaries, annual incentive compensation, all retirement, health and welfare benefits and perquisites for executive management, and with respect to the Chief Executive Officer, the Compensation Committee recommends such matters to the Board of Directors for approval. The Compensation Committee may review any and all aspects of total compensation at its discretion, however a formal review is undertaken annually with base salary adjustments and short-term bonus payments processed in

July of each year. Short-term bonuses awarded and paid out in July 2008 were for the achievement of results in fiscal 2008.

Compensation Principles

The Compensation Committee s executive compensation philosophy is premised upon three objectives:

(i) recruitment and retention of the best available executive leadership;

(ii) performance and accountability of executives; and

(iii) alignment of shareholder and executive interests.

Recruitment & Retention

The Compensation Committee recognizes the highly competitive market for talented executives in Alberta as a result of the continued economic prosperity and growth of the Alberta economy, particularly in the energy sector. Accordingly, the Compensation Committee has recommended a market competitive total executive compensation package consisting of base salary with annual increases based on performance, short-term bonus with a target payout of 100% of base salary based on actual results compared to the Corporation s planned Consolidated EBITDA (as defined in the credit agreement)¨ performance and specific divisional and individual metrics, long-term incentives consisting of stock option grants and performance share units (PSUs) and a perquisite program providing a vehicle allowance and club membership or equivalent consideration. The Compensation Committee is committed to ensuring that the Corporation s compensation plans are market competitive and, as such, commissioned a review by independent specialized compensation consultants, Hewitt Associates and Wynford Group, to evaluate the Corporation s total compensation against that of leading corporations within Alberta in the industries in which the Corporation operates (the Comparator Group). With respect to long-term incentive plans for executives (namely, the Share Option Plan and the PSU Plan) and compensation for directors (including the DSU Plan), the Committee also utilizes specialized compensation consulting services provided by Hewitt Associates to assist with the structure and design of these plans.

Performance & Accountability

The Compensation Committee believes that executive compensation should be correlated to performance, as the financial vitality of the business is dependent upon the results achieved by the executives, the key decision-makers of the Corporation. Thus, the annual Management Incentive Plan (the MIP), which is discussed further below, was introduced in 2006 with the key underlying principle of ensuring that executives are held accountable to stakeholders by measuring the performance of the Corporation against the Corporation s Consolidated EBITDA (as defined in the credit agreement)¨ forecast in the approved annual budget.

¨ Consolidated EBITDA (as defined in the credit agreement) is not a recognized measure under generally accepted accounting principles. For a definition of Consolidated EBITDA (as defined in the credit agreement) see our management s

discussion and analysis for the year ended March 31, 2008, which can be found at www.sedar.com and www.sec.gov.

Alignment of Executive and Shareholder Interests

It is in the Corporation s best interests to meet shareholder expectations and ensure continued access to capital on favourable terms. Accordingly the MIP was designed to ensure that the continued profitability of the Corporation results in increased financial reward for shareholders and executives alike. Executives are rewarded through the MIP based on three criteria: (i) organizational performance; (ii) divisional performance; and (iii) individual performance. The Chief Executive Officer is rewarded through the MIP based on two criteria: (i) organizational performance and (ii) individual performance. This approach ensures that the role of the individual within the team is appropriately recognized. The MIP is a key mechanism utilized in realizing the compensation principles, particularly the latter two. The target MIP remuneration structure for fiscal 2008 is set out below and remains unchanged for fiscal 2009 (based on the actual performance of the Corporation, the percentage attributable to the Corporation s performance may be higher than 100%):

Management Level	Company Performance	Business Unit or Divisional Performance	Individual Performance	Proportion of Salary Payable at Target
President and Chief Executive Officer	70%	-	30%	100%
Vice Presidents	50%	30%	20%	100%

The Corporation s Key Performance Indicator (KPI) is based on the Corporation s total Consolidated EBITDA (as defined in the credit agreement)¨, while business unit and divisional KPIs are selected measures specific to a division based on key business drivers of that division examples of which include production efficiencies, equipment utilization and safety. Individual KPIs are related to the development of the team and development of key individuals within the division.

Compensation Structure

The compensation of executives, excluding the Chief Executive Officer, is based on three key components:

Base Salary

The Compensation Committee will review and recommend to the Board of Directors on the adequacy and form of base salaries for executive management.

Base salaries for executive management were reviewed and approved by the Compensation Committee. The Chief Executive Officer provided his recommendations to the Compensation Committee for base salary adjustments for each executive, excluding himself, within a specified range, based on the performance of each executive. The base salary ranges

¨ Consolidated EBITDA (as defined in the credit agreement) is not a recognized measure

under generally accepted accounting principles. For a definition of Consolidated EBITDA (as defined in the credit agreement) see our management s discussion and analysis for the year ended March 31, 2008, which can be found at www.sedar.com and www.sec.gov.

were determined by salary data from a market study conducted by specialized compensation consultants, the Wynford Group. The Wynford Group conducted market research comparing the Corporation s base salaries within the total compensation framework to that of a selected comparator group of corporations.

Base salary was adjusted effective July 1, 2007 for Mr. Harris from $210,000 to $226,800, for Mr. Safranovich from $224,000 to $245,280, for Mr. Mather from $175,000 to $196,000 and for Mr. Hayman from $212,800 to $231,952. As a result of promotion to new executive roles, Mr. Safranovich s fiscal 2008 base salary was further adjusted effective September 1, 2007 from $245,280 to $260,000 and Mr. Mather s base salary was further adjusted effective August 1, 2007 from $196,000 to $220,000.

Short-Term Incentives (STI)

The Compensation Committee reviews and approves the adequacy and form of STIs for executive management.

The framework for STI for executive management, also known as the MIP, is described above in Alignment of Executive and Shareholder Interests and is intended to deliver annual compensation targeted at 100% of base salary based on the achievement of performance metrics as approved by the Board of Directors. The Compensation Committee approved MIP payments in July 2008 upon the recommendations made by the Chief Executive Officer based on corporate, divisional and individual results achieved by the following executives in fiscal 2008. MIP payments were made in the amount of $70,483 for Mr. Dodd, $234,921 for Mr. Harris, $252,289 for Mr. Safranovich and $201,853 for Mr. Mather.

Long-Term Incentive Plan (LTIP)

The Compensation Committee reviews and recommends to the Board of Directors on the adequacy and the form of LTIP for executive management. The LTIP for executive management is designed to deliver annual compensation equivalent to 40% of base salary to executive management through the use of two vehicles, those being grants of stock options and grants of PSUs. Fifty percent of the LTIP compensation is delivered in November of each year through grants of stock options recommended by the Chief Executive Officer and the Compensation Committee for approval by the Board of Directors in accordance with the Corporation s Share Option Plan. The other 50% of the LTIP compensation is delivered in April of each year through grants of PSUs recommended by the Chief Executive Officer and the Compensation Committee for approval by the Board of Directors in accordance with the Corporation s PSU Plan.

Share Option Plan

For a detailed discussion of the Share Option Plan, see above in Executive Compensation Share Option Plan . In the past fiscal year, a total of 173,100 stock options were granted to the named executive officers, other than the Chief Executive Officer, and approved by the Board of Directors. Of these grants, 33,100 options, which were granted in November 2007, represented approximately 50% of the LTIP compensation grants to such individuals. The remaining 50% granted under the LTIP program was delivered by way of PSU grants. Of the remaining 140,000 stock option grants, 100,000 was granted to Mr. Dodd in

November 2007 as a sign-on grant and 40,000 was granted to Mr. Mather in March 2008 to reflect Mr. Mather s promotion in December 2007.

PSU Plan

For a detailed discussion of the PSU Plan, see above in Executive Compensation PSU Plan . On April 1, 2008, as part of the remaining 50% of the grants under the LTIP program, a total of 16,447 PSUs were granted to the named executive officers, other than the Chief Executive Officer. The PSU s were granted under the terms of the PSU Plan with three (3) year cliff vesting . The business performance measure incorporated into the PSU Plan to determine the number of PSU that will vest at the end of the three (3) year period is Return on Invested Capital (ROIC). The target set for full vesting of the April 1, 2008 PSU grant is a cumulative three-year average ROIC of 22%. Partial vesting will occur if certain levels of ROIC are achieved according to the following table.

Cumulative ROIC 3 years	**PSUs Vesting**
22%	100%
20%	75%
18%	50%
16%	25%
14%	10%
<14%	Nil

Chief Executive Officer Compensation

The Compensation Committee reviews and provides recommendations to the Board of Directors on the Chief Executive Officer s position description and the position s annual goals and objectives. The discussion above with respect to the Compensation Principles is applicable to the Chief Executive Officer.

The Chief Executive Officer s base compensation and short-term bonus are evaluated annually by the Compensation Committee based on an assessment of performance against the Corporation s performance, namely the Corporation s Consolidated EBITDA (as defined in the credit agreement)¨ and performance against individual objectives previously agreed upon by the Board of Directors and the Chief Executive Officer. The Compensation Committee also had for reference the market research conducted by specialized compensation consultants, the Wynford Group as described above. This report provided comments and recommendations regarding trends in base salary and variable short and long term compensation for the Chief Executive Officer. The Compensation Committee considered the report by the Wynford Group, the performance of the Corporation, performance of the Chief Executive Officer against individual objectives and factors related to the Alberta labour market in general in making the

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EBITDA (as defined in the credit agreement) see our management s discussion and analysis for the year ended March 31, 2008, which can be found at www.sedar.com and www.sec.gov.	

determination of the base salary increase for fiscal 2008 and the amount of fiscal 2008 short term bonus paid under the MIP. Base salary was adjusted effective July 1, 2007 for Mr. Ruston from $500,000 to $525,000. A short-term bonus payment for fiscal 2008, recommended by the Compensation Committee and approved by the Board of Directors, for the Chief Executive Officer was processed on July 25, 2008 in the amount of $562,170.

The LTIP for the Chief Executive Officer is designed to deliver annual compensation equivalent to 50% of base salary through the use of two vehicles, those being grants of stock options and grants of PSUs. The Chief Executive Officer was granted 21,900 stock options in November 2007 and 10,938 PSUs on April 1, 2008. The performance metrics for the PSUs are the same as those detailed above for the other named executive officers.

Report Presented by the Compensation Committee:

John Brussa
William Oehmig
Allen Sello
Peter Tomsett (Chairman)

PERFORMANCE GRAPH

The following graph compares the percentage change in the cumulative NAEP Shareholder return for $100 invested in NAEP Common Shares at the closing price of $18.59 on the first day of trading in connection with the IPO for each NAEP Common Share with the total cumulative return of the S&P/TSX Composite Index for the period from November 22, 2006 to March 31, 2008. On March 31, 2008, the NAEP Common Shares closed at $16.05 per NAEP Common Share on the TSX.

The following table shows the value of $100 invested in NAEP Common Shares at the closing price on November 22, 2006 compared to $100 invested in the S&P/TSX Composite Index*:

For the Financial Years Ended:	November 22, 2006	March 31, 2007	March 31, 2008
North American Energy Partners Inc.	$100.00	$129.10	$86.34
S&P/TSX Composite Index	$100.00	$105.85	$110.09

*Assuming reinvestment of dividends/distributions.

COMPENSATION OF DIRECTORS

The Corporation s directors, other than Messrs. McIntosh and Ruston, each receive an annual aggregate retainer of $32,500 and a fee of $1,500 for each meeting of the Board of Directors or any committee of the Board that they attend, and are reimbursed for reasonable out-of-pocket expenses incurred in connection with their services pursuant to the Corporation s policies. Effective January 1, 2008, the annual aggregate retainer of $32,500 was increased to $110,000 of which at least 50% of the retainer must be taken in the form of Deferred Share Units (DSUs) in accordance with the DSU Plan. The Chair of the Corporation s Audit Committee receives an additional annual retainer of $12,000. The Chair of the Corporation s Compensation Committee receives an additional annual retainer of $9,000 and the Chair of the Corporation s Governance Committee and Health, Safety, Environment and Business Risk Committee receives an additional annual retainer of $5,000. The Chair of each Committee must take 50% of their additional annual retainer for serving as Chair in DSUs. Mr. McIntosh, the Chairman of the Board received a retainer from April 1, 2007 to December 31, 2007 paid at a rate of $157,500 per annum. From January 1, 2008 to March 31, 2008, Mr. McIntosh received a retainer paid at a rate of $220,000 per annum. In addition, Mr. McIntosh received a bonus of $31,200 in fiscal 2007. The Board of Directors approved on November 27, 2007 upon recommendation by the Compensation Committee that the Chairman would no longer be eligible to receive bonuses in fiscal 2008 and that at least 50% of his annual retainer would be paid in DSUs. Mr. Ruston doesn t receive director compensation.

In addition, the Corporation s directors have received grants of stock options under the 2004 Share Option Plan. Effective November 2003, each director, excluding Messrs. Brokaw, Tomsett, McIntosh, Sello and Ruston, received options to purchase 27,760 NAEP Common Shares. Mr. McIntosh received options to acquire 70,000 NAEP Common Shares in May 2004, Mr. Sello received options to purchase 27,760 NAEP Common Shares in February 2006 and Mr. Brokaw received options to purchase 27,760 NAEP Common Shares in June 2006. All the options have an exercise price of $5 per share, vest at the rate of 20% per year over five years and expire ten years after their grant date. The vesting of the options granted to Mr. Brokaw has been accelerated as if they had been issued effective November 2003. Mr. Tomsett was granted options to acquire 27,760 NAEP Common Shares in September 2006. These options have an exercise price of $16.75 per share, vest at the rate of 20% per year over five years and expire ten years after their grant date. On June 29, 2006, NACG Holdings Inc., the predecessor to the Corporation, offered each director holding stock options, excluding Messrs. McIntosh and Ruston, the option to have all of his options become immediately exercisable on the condition

that he exercise all such options by September 30, 2006. One director, Mr. Oehmig, accepted this option. In fiscal 2008, each of Mr. Hawkins and Mr. Turner exercised 22,208 options.

In November 2007, Mr. Ruston also received options to purchase 21,900 NAEP Common Shares. These options have an exercise price of $13.50 per share, vest at the rate of 20% per year over five years and expire ten years after their grant date.

Directors and Officers Insurance

The Corporation maintains directors and officers insurance for an aggregate amount of $25,000,000. The policy provides primary coverage of $10,000,000 for the one-year period from June 1, 2008 to June 1, 2009 at a premium of $133,000 and a deductible of $500,000. An excess layer of coverage for $10,000,000 has also been purchased at a premium of $85,500 for the one-year period from June 1, 2008 to June 1, 2009. The excess layer does not have a deductible. There is also a second excess layer of coverage for $5,000,000, which has been purchased at a premium of $32,000 for the one-year period from June 1, 2008 to June 1, 2009, and for which there is no deductible.

Indemnification

The Corporation has entered into indemnity agreements with its directors and officers, whereby it has agreed to indemnify its directors, officers and certain other employees from all liabilities, obligations, charges and expenses, reasonably incurred by such director, officer or other employee in respect of any civil, criminal, investigative, administrative action or other proceeding in which such individual is involved by reason of being or having been a director, officer or employee of the Corporation (or a direct or indirect affiliate) of the Corporation, provided that (i) he or she acted honestly and in good faith with a view to the best interests of the Corporation, or (ii) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, he or she had reasonable grounds for believing that his conduct was lawful, and (iii) in the case of an action by or on behalf of the Corporation or other entity to procure a judgment in its favour, the Corporation obtains any approval required under the *Canada Business Corporations Act* in respect of such indemnification.

Directors Deferred Share Unit Plan

The Corporation s Directors Deferred Share Unit Plan was approved on November 27, 2007 by the Corporation s Board of Directors and became effective on January 1, 2008 (the DSU Plan). The DSU Plan is administered by the Compensation Committee. Under the DSU Plan, the Corporation grants annual equity compensation in the form of DSUs, replacing the previous practice of granting options. DSUs under the DSU Plan may be granted to each member of the board of directors of the Corporation (the Participant) who is not an employee or officer of the Corporation and its affiliated entities. The DSU Plan provides that the Participant receives 50% of his or her fixed remuneration payable in respect of the services in his or her capacity as a board or committee member in a calendar year (Participant s Annual Fixed Remuneration) in the form of DSUs and may elect to receive all or a part of the Participant s Annual Fixed Remuneration in excess of 50% in the form of DSUs. In addition, directors may elect any amount of their variable compensation (i.e. per meeting fees) (Annual Variable

Remuneration) to be paid in DSUs. This election must be made by December 31 each calendar year for effect the following year. The DSUs may be redeemed in cash or, at the discretion of the Corporation, in a number of NAEP Common Shares which may be shares purchased on the open market. Payment is based on the number of DSUs held, plus dividend equivalents (if any) multiplied by the NAEP Common Share price at the time of maturity. When dividends are paid on NAEP Common Shares, additional DSUs (Dividend Equivalents) will be credited to the Participant s to reflect such dividends. DSUs, vest immediately upon grant. The DSU Plan provides that, in the event of termination (with or without cause), including retirement, all DSUs and Dividend Equivalents will be redeemed by the Corporation within 21 days following: (a) in the case of directors that are U.S. taxpayers, the date of such termination; and (b) in the case of all other directors, by December 1 of the calendar year immediately following the year by which such termination takes place (unless an earlier date is elected by the director after termination). The DSU Plan provides that, in the event of termination (with or without cause), including retirement, all DSUs and Dividend Equivalents will be redeemed by the Corporation. A Participant has no further rights respecting any DSU or Dividend Equivalent which has been redeemed.

Deferred Share Units (DSUs)

The table below summarizes the DSUs grants to the directors based on their elections with respect to fiscal 2008

Name	% of Annual Fixed Remuneration paid in DSUs	% of Annual Variable Remuneration paid in DSUs	# of DSUs/dollar value based on $16.01 (a)
George R. Brokaw	100	0	1,718/$27,574
John A. Brussa	50	50	953/$15,296
John D. Hawkins	50	0	898/$14,413
Ronald A. McIntosh	50	0	1,946/$31,233
William C. Oehmig	100	100	2,170/$34,829
Allen R. Sello	50	0	953/$15,296
Peter W. Tomsett	100	100	2,327/$37,348
K. Rick Turner	50	0	859/$13,787

(a) Reflects the value of the DSUs granted on March 31, 2008 using the closing market price on the Toronto Stock Exchange which was $16.05. The number of DSUs, by their

terms, are adjusted to take into account any dividends paid on NAEP Common Shares.

Share Ownership Guidelines

The Board of Directors adopted and approved, on November 27, 2007, for implementation effective January 1, 2008 guidelines for the ownership by the directors of the Corporation of equity in the Corporation (the Share Ownership Guidelines). The Share Ownership Guidelines require the Chair of the Board of Directors to own $400,000 of equity in the Corporation and the remaining directors to own $250,000 of equity in the Corporation, in each case represented by NAEP Common Shares and DSUs. Such ownership level must be achieved within five years of the later of the implementation of the Share Ownership Guidelines and the initial appointment or election as a director. The achievement of the share ownership threshold is facilitated by the requirement for the directors to receive 50% of their Annual Fixed Remuneration in the form of DSUs. Once the share ownership threshold is achieved, the number of NAEP Common Shares and DSUs representing the compliance level must be held for at least 30 days to qualify. Thereafter that number of NAEP Common Shares or DSUs must be

maintained in order to remain compliant, regardless of a subsequent decrease in NAEP Common Share price.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Figure in column (a) as a percentage of issued and outstanding NAEP Common Shares (b)	Weighted-average exercise price of outstanding options, warrants and rights (c)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))[(A)] (d)	Figure in column (d) as a percentage of issued and outstanding NAEP Common Shares (e)
Equity compensation plans approved by securityholders	1,826,364	5.07%	$ 7.44	1,777,483	4.93
Equity compensation plans not approved by securityholders	N/A	N/A	N/A	N/A	N/A
Total	**1,826,364**	**5.07%**	**$ 7.44**	**1,777,483**	**4.93**

(A) The Share Option Plan states that the Compensation Committee may issue options, provided that the aggregate number of NAEP Common Shares that may be issued from treasury under the plan may not exceed 10% of the number of issued and outstanding NAEP Common Shares on a non-diluted basis immediately prior to the proposed option issuance.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

None of the directors or officers of the Corporation had any outstanding indebtedness to the Corporation or any of its subsidiaries during fiscal 2008 or as at the date hereof.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No director or executive officer of the Corporation at any time since the beginning of the Corporation s last completed financial year, no proposed nominee for election as a director nor any associate or any affiliate of any such director, officer or nominee, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, except as disclosed below. Furthermore, no informed person (as such term is defined under applicable securities laws), proposed nominee for election as a director of the Corporation or any associate or affiliate of any informed person or proposed nominee has or had a material interest, direct or indirect, in any transaction since the beginning of the Corporation s last financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries or affiliates, except as disclosed below.

Certain Selling Shareholders

Certain of the Corporation s shareholders sold shares in the secondary offering of NAEP Common Shares in August, 2007 (the 2007 Offering), as more particularly described in the

Corporation s short form prospectus dated July 31, 2007 (the 2007 Prospectus) in connection with such offering. The shareholders of the Corporation who sold NAEP Common Shares in the 2007 Offering sold, as a group, an aggregate of 8,358,604 NAEP Common Shares in the 2007 Offering (including the over-allotment option in connection therewith). Certain of the Corporation s directors are affiliated with the Selling Shareholders, as more particularly described in the 2007 Prospectus, copies of which can be accessed at www.sedar.com and www.sec.gov.

REPORT ON CORPORATE GOVERNANCE PRACTICES

Board of Directors

The National Policy 58-201 Corporate Governance Guidelines of the Canadian Securities Administrators recommends that boards of directors of reporting issuers be composed of a majority of independent directors. With eight of the nine directors proposed to be nominated considered independent, the Board of Directors is composed of a majority of independent directors. The Chairman of the Board, Mr. McIntosh, is an independent director. Rod Ruston is considered to have a material relation with the Corporation by virtue of his executive officer position with the Corporation and is therefore not independent. Although Messrs Brokaw, Hawkins, Oehmig and Turner have relationships with shareholders of the Corporation and such shareholders provide consulting services to the Corporation, the shareholders do not receive any payments in relation to such consulting services but have an interest in providing such services since they have an investment in the Corporation. Messrs Brokaw, Hawkins, Oehmig and Turner do not in their individual capacities provide any consulting services to the Corporation, for a fee or otherwise. In addition, in the facts and circumstances applicable to these individuals, none of them are affiliated entities of the Corporation. The Board of Directors has determined that each of the directors, other than Rod Ruston, is an independent director within the meaning of the rules of the New York Stock Exchange applicable to U.S. domestic listed companies and applicable Canadian securities laws.

In order to facilitate open and candid discussion among the Corporation s independent directors, the board holds in-camera sessions which exclude the non-independent director, Rod Ruston. In-camera meetings are held whenever necessary as part of the regularly scheduled board meetings. In fiscal 2008 five of the nine board meetings included such in-camera sessions, and except for the in-camera sessions, there were no separate meetings of independent board members that took place.

Directorships with Other Issuers

Currently, the following directors serve on the boards or act as trustees of other public companies, as listed below:

Name	Name of Reporting Issuer	Exchange	From
Ronald A. McIntosh	Advantage Oil & Gas Ltd. (a)	TSX	September 1998
John A. Brussa	Penn West Energy Trust,	NYSE	April 1995
	Crew Energy Inc.	TSX	July 2003
	Divestco Inc.	TSX	September 2003
	Baytex Energy Ltd. (a wholly owned subsidiary of Baytex Energy Trust)	TSX	July 2003
	BlackWatch Energy Services Ltd. (a wholly owned subsidiary of BlackWatch Energy Services Trust)	TSX	June 2006
	Cirrus Energy Corporation	TSXV	April 2005
	Enseco Energy Services Corp.	TSX	March 2006
	Galleon Energy Inc.	TSX	March 2003

The regulatory process can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. If any of our product candidates are not shown to be safe and effective in humans through clinical trials, we and/or our strategic partners will not be able to obtain regulatory approval for such product candidate, and the resulting delays in developing other product candidates and conducting related preclinical studies and clinical trials would have a material adverse effect on our business, financial condition and results of operations.

The success of our product candidates will depend on several factors, many of which are beyond our control, including the following:

successful enrollment in, and completion of, clinical trials and preclinical studies;

our ability to demonstrate to the satisfaction of the FDA, and equivalent foreign regulatory agencies, the safety, efficacy and clinically meaningful benefit of our product candidates through completed, ongoing and any future clinical and non-clinical trials;

our ability to obtain additional funding when needed;

our ability to maintain collaborations with our strategic partners;

achieving and maintaining compliance with all regulatory requirements applicable to pharmaceutical products;

the prevalence and severity of adverse side effects;

the ability of our third-party manufacturers to manufacture clinical trial and commercial supplies and to develop, validate and maintain commercially viable manufacturing processes that are compliant with cGMP;

the availability, relative cost, safety and efficacy of alternative and competing treatments;

acceptance of the product by patients, the medical community and third-party payors;

launching commercial sales of the product, whether alone or in collaboration with others; and

our ability to avoid third-party patent interference or patent infringement claims;

If we do not achieve one or more of these factors in a timely manner or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would materially harm our business.

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Any failure or delay in completing clinical trials for our product candidates, or unfavorable results from such trials, may prevent us from obtaining regulatory approval or commercializing product candidates on a timely basis, or at all, which would require us to incur additional costs and delay receipt of any product revenue.

We cannot predict whether we will encounter problems with any of our planned clinical trials that will cause us or regulatory authorities to delay, suspend or terminate those clinical trials. The completion of clinical trials for product candidates may be delayed, suspended or terminated for many reasons, including:

- delays in patient enrollment, and variability in the number and types of patients available for clinical trials, or high drop-out rates of patients in our clinical trials;
- our inability to obtain additional funding when needed;
- delays or failure in reaching agreement on acceptable clinical trial contracts or clinical trial protocols with prospective sites;
- failure of our third-party contractors or our investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner;
- delays or failure in obtaining the necessary approvals from regulators or institutional review boards in order to commence a clinical trial at a prospective trial site, or their suspension or termination of a clinical trial once commenced;
- our inability to manufacture or obtain from third parties materials sufficient to complete our preclinical studies and clinical trials;
- difficulty in maintaining contact with patients after treatment, resulting in incomplete data;
- poor effectiveness of our product candidates during clinical trials, including without limitation, a failure to meet study objectives or obtain the requisite level of statistical significance imposed by the FDA or other regulatory agencies;
- safety issues, including serious adverse events associated with our product candidates;
- governmental or regulatory delays and changes in regulatory requirements, policy and guidelines; or
- varying interpretations of data by the FDA and similar foreign regulatory agencies.

Clinical trials often require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Our ability to enroll sufficient numbers of patients in our clinical trials depends on many factors, including the size of the patient population, the nature of the protocol, the proximity of patients to clinical sites, the eligibility criteria for the trial, competing clinical trials, the availability of approved effective drugs and the perception of the efficacy and safety of our product candidates. We may experience delays or difficulties in enrolling patients in our current and planned trials. If we fail to enroll and maintain the number of patients for which the clinical trial was designed, the statistical power of that clinical trial may be reduced which would make it harder to demonstrate that the product candidate being tested in such clinical trial is safe and effective. Additionally, we may not be able to enroll a sufficient number of qualified patients in a timely or cost-effective manner.

We, the FDA, other applicable regulatory authorities or institutional review boards may suspend or terminate clinical trials of a product candidate at any time if we or they believe the patients participating in such clinical trials are being exposed to unacceptable health risks or for other reasons.

Significant clinical trial delays could allow our competitors to obtain marketing approval before we do or shorten the patent protection period during which we may have the exclusive right to commercialize our product candidates. Our product development costs also will increase if we experience delays in completing clinical trials. In addition, it is impossible to predict whether legislative changes will be enacted, or whether FDA regulations, guidance or interpretations will be changed, or what the impact of such changes, if any, may be. If we experience any such problems, we may not have the financial resources to continue development of the product candidate that is affected or the development of any of our other product candidates.

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If we are not successful in discovering, developing and commercializing additional product candidates, our ability to expand our business and achieve our strategic objectives would be impaired.

A key element of our strategy is to discover, develop and commercialize novel antibody-based products. We are seeking to do so through our internal research programs and intend to explore strategic partnerships for such development. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet may fail to yield product candidates for clinical development for many reasons, including the following:

- the research methodology used may not be successful in identifying potential product candidates;
- competitors may develop alternatives that render our product candidates obsolete;
- a product candidate may upon further study be shown to have harmful side effects or other characteristics that indicate it is unlikely to be effective or otherwise does not meet applicable regulatory criteria;
- a product candidate may not be capable of being produced in commercial quantities at an acceptable cost, or at all; and
- a product candidate may not be accepted as safe and effective by patients, the medical community or third-party payors.

Even if we receive regulatory approval for any of our product candidates, we will be subject to ongoing FDA requirements and continued regulatory review, which may result in significant additional expense. Additionally, our product candidates, if approved, could be subject to labeling and other restrictions, post-approval requirements and market withdrawal and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.

Any regulatory approvals that we or our strategic partners receive for our product candidates may also be subject to limitations on the approved indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing requirements and testing, including post-approval clinical trials, surveillance to monitor the safety and efficacy of the product candidate, and implementation of a risk evaluation and mitigation strategy. In addition, if the FDA approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMP and good clinical practices, or GCP, for any clinical trials that we conduct post-approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications filed by us or our strategic partners, or suspension or revocation of product license approvals;

product seizure or detention, or refusal to permit the import or export of products; and

injunctions or the imposition of civil or criminal penalties.

The FDA s policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of

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government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business.

Failure to obtain regulatory approval in jurisdictions outside the United States will prevent us from marketing our products abroad.

We intend to market our products, if approved, in international markets, which will require separate regulatory approvals and compliance with numerous and varying regulatory requirements. The approval procedures vary among countries and may involve requirements for additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. In addition, in many countries outside the United States, a product candidate must be approved for reimbursement before it can be approved for sale in that country. In some cases, the price that we intend to charge for our product is also subject to approval. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or jurisdictions or by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. We and our strategic partners may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

If we are unable to successfully develop companion diagnostics for certain of our therapeutic product candidates, or experience significant delays in doing so, we may not realize the full commercial potential of these therapeutics.

A component of our business strategy may be to develop companion diagnostics for some of our therapeutic product candidates. There has been limited success to date industry-wide in developing companion diagnostics. To be successful, we will need to address a number of scientific, technical, regulatory and logistical challenges. We have limited experience in the development of diagnostics and may not be successful in developing appropriate diagnostics to pair with any of our therapeutic product candidates that receive marketing approval. The FDA and similar regulatory authorities outside the United States are generally expected to regulate companion diagnostics as medical devices. In each case, companion diagnostics require separate regulatory approval prior to commercialization. Given our limited experience in developing diagnostics, we expect to rely in part on third parties for their design, development and manufacture. If we, or any third parties that we engage to assist us, are unable to successfully develop companion diagnostics for our therapeutic product candidates, or experience delays in doing so, the development of our therapeutic product candidates may be adversely affected, our therapeutic product candidates may not receive marketing approval and we may not realize the full commercial potential of any therapeutics that receive marketing approval. As a result, our business would be harmed, possibly materially.

Risks Related to Our Business and Industry

We face substantial competition, which may result in others discovering, developing or commercializing products before, or more successfully, than we do.

Our future success depends on our ability to demonstrate and maintain a competitive advantage with respect to the design, development and commercialization of product candidates. Our objective is to design, develop and commercialize new products with superior efficacy, convenience, tolerability and safety. We expect any product candidate that we commercialize with our strategic partners or on our own will compete with existing, market-leading products.

Many of our potential competitors have substantially greater financial, technical and personnel resources than we have and several are already marketing products to treat the same indications, and having the same

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biological targets, as the product candidates we are developing, including with respect to cachexia. In addition, many of these competitors have significantly greater commercial infrastructures than we have. We will not be able to compete successfully unless we effectively:

- design and develop products that are superior to other products in the market in terms of, among other things, both safety and efficacy;
- attract qualified scientific, medical, sales and marketing and commercial personnel;
- obtain patent and/or other proprietary protection for our processes and product candidates;
- obtain required regulatory approvals;
- obtain favorable reimbursement, formulary and guideline status; and
- collaborate with others in the design, development and commercialization of new products.

Established competitors may invest heavily to quickly discover and develop novel compounds that could make our product candidates obsolete. In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to obtain approval, to overcome price competition and to be commercially successful. If we are not able to compete effectively against our current and future competitors, our business will not grow and our financial condition and operations will suffer.

We may not achieve research, development and commercialization goals in the time frames that we publicly estimate, which could have an adverse impact on our business and could cause our stock price to decline.

We set goals, and make public statements regarding our expected timing for certain accomplishments, such as the commencement and completion of preclinical studies, initiation and completion of clinical trials, filing and approval of regulatory applications for our product candidates and other developments and milestones under our research and development programs. The actual timing of these events can vary significantly due to a number of factors, including, without limitation, delays or failures in our and our current and potential future collaborators preclinical studies or clinical trials, the amount of time, effort and resources committed to our programs by us and our current and potential future collaborators and the uncertainties inherent in the regulatory approval process. As a result, there can be no assurance that our or our current and potential future collaborators preclinical studies and clinical trials will advance or be completed in the time frames we expect or announce, that we or our current and potential future collaborators will make regulatory submissions or receive regulatory approvals as planned or that we or our current and potential future collaborators will be able to adhere to our current schedule for the achievement of key milestones under any of our programs. If we or any collaborators fail to achieve one or more of the milestones described above as planned, our business could be materially adversely affected and the price of our common stock could decline.

Because we have limited experience in developing and commercializing pharmaceutical products, there is a limited amount of information about us upon which you can evaluate our business and prospects.

Although certain of our individual employees may have extensive experience in developing and commercializing pharmaceutical products, as an organization we have limited experience in developing and commercializing pharmaceutical products and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. For example, to execute our business plan, we will need to successfully:

- execute product development activities;

obtain required regulatory approvals for the development and commercialization of our product candidates;

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build and maintain a strong intellectual property portfolio;

build and maintain robust sales, distribution, reimbursement and marketing capabilities;

obtain reimbursement and gain market acceptance for our products;

develop and maintain successful strategic relationships and partnerships; and

manage our spending as costs and expenses increase due to clinical trials, regulatory approvals and commercialization.

If we are unsuccessful in accomplishing these objectives, we may not be able to develop product candidates, raise capital, expand our business or continue our operations.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop our product candidates, conduct our clinical trials and commercialize our product candidates.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel. We are highly dependent upon our senior management, as well as others on our management team. The loss of services of any of these individuals or one or more of our other members of management could delay or prevent the successful development of our product pipeline, the completion of our planned clinical trials or the commercialization of our product candidates. We do not carry key person insurance covering any members of our senior management. Our employment arrangements with all of these individuals are at will, meaning they or we can terminate their service at any time.

We face intense competition for qualified individuals from numerous pharmaceutical and biotechnology companies, universities, governmental entities and other research institutions, many of which have substantially greater resources with which to reward qualified individuals than we do. We may face challenges in retaining our existing senior management and key employees and recruiting new employees to join our company as our business needs change. We may be unable to attract and retain suitably qualified individuals, and our failure to do so could have an adverse effect on our ability to implement our future business plans.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with manufacturing standards we have established, to comply with federal and state health-care fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a code of business conduct and ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

In addition, during the course of our operations, our directors, executives and employees may have access to material, nonpublic information regarding our business, our results of operations or potential transactions we are

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considering. Despite the adoption of an Insider Trading Policy, we may not be able to prevent a director, executive or employee from trading in our common stock on the basis of, or while having access to, material, nonpublic information. If a director, executive or employee was to be investigated, or an action was to be brought against a director, executive or employee for insider trading, it could have a negative impact on our reputation and our stock price. Such a claim, with or without merit, could also result in substantial expenditures of time and money, and divert attention of our management team from other tasks important to the success of our business.

We may encounter difficulties in managing our growth and expanding our operations successfully.

As we seek to advance our product candidates through clinical trials and commercialization, we may need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to manage our development efforts and clinical trials effectively and hire, train and integrate additional management, administrative and sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing our company.

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

We face an inherent risk of product liability as a result of the clinical testing of our product candidates and will face an even greater risk if we commercialize any products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability, and a breach of warranties. Claims could also be asserted under state consumer protection acts. 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. Even successful defense could require significant financial and management resources. Regardless of the merits or eventual outcome, product liability claims may result in:

decreased demand for our product candidates or products that we may develop;

injury to our reputation;

withdrawal of clinical trial participants;

costs to defend the related litigation;

diversion of management s time and our resources;

substantial monetary awards to trial participants or patients;

product recalls, withdrawals or labeling, marketing or promotional restrictions;

loss of revenue;

the inability to commercialize our product candidates; and

a decline in our stock price.

Our inability to obtain and retain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop. We currently carry product liability insurance covering our clinical studies in the amount of $20 million in the aggregate. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions, and we may be

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subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts.

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

We use hazardous chemicals and radioactive and biological materials in certain aspects of our business and are subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, distribution, storage, handling, treatment and disposal of these materials. Although we believe our safety procedures for handling and disposing of these materials and waste products comply with these laws and regulations, we cannot eliminate the risk of accidental injury or contamination from the use, manufacture, distribution, storage, handling, treatment or disposal of hazardous materials. In the event of contamination or injury, or failure to comply with environmental, occupational health and safety and export control laws and regulations, we could be held liable for any resulting damages and any such liability could exceed our assets and resources. We do not maintain insurance for any environmental liability or toxic tort claims that may be asserted against us.

Risks Related to Commercialization of Our Product Candidates

We have limited sales, marketing, reimbursement and distribution experience and we will have to invest significant resources to develop those capabilities.

We have limited sales, marketing, reimbursement and distribution experience. To develop these capabilities, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that any of our product candidates will be approved for commercial sale. We could face a number of additional risks in developing our commercial infrastructure, including:

- we may not be able to attract and build an effective marketing or sales force;
- the cost of establishing a marketing or sales force may not be justifiable in light of the revenues generated by any particular product; and
- our direct sales and marketing efforts may not be successful.

Furthermore, we may elect in the future to utilize strategic partners or contract sales forces to assist in the commercialization of other products, if approved. We may have limited or no control over the sales, marketing and distribution activities of these third parties. Our future revenues may depend heavily on the success of the efforts of these third parties.

Our commercial success depends upon attaining significant market acceptance of our product candidates, if approved, including among physicians, patients, healthcare payors and, in the cancer market, acceptance by the major operators of cancer clinics.

Even if one of our product candidates obtains regulatory approval, the product may not gain market acceptance among physicians, healthcare payors, patients and the medical community. Market acceptance of any products for which we receive approval depends on a number of factors, including:

- the efficacy and safety of the product candidate, as demonstrated in clinical trials;
- the clinical indications for which the drug is approved;

acceptance by physicians, major operators of cancer clinics, healthcare payors, physician networks and patients of the drug as a safe and effective treatment;

the potential and perceived advantages over alternative treatments;

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the cost of treatment in relation to alternative treatments;

the availability of adequate reimbursement and pricing by third parties and government authorities;

the continued projected growth of oncology drug markets;

relative convenience and ease of administration;

the prevalence and severity of adverse side effects; and

the effectiveness of our sales and marketing efforts.

If our approved drugs fail to achieve market acceptance, we would not be able to generate significant revenue.

Reimbursement may be limited or unavailable in certain market segments for our product candidates, which could make it difficult for us to sell any approved products profitably.

Market acceptance and sales of our product candidates will depend significantly on the availability of adequate coverage and reimbursement from third-party payors for any of our product candidates and may be affected by existing and future healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will pay for and establish reimbursement levels. Reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor s determination that use of a product is:

a covered benefit under its health plan;

safe, effective and medically necessary;

appropriate for the specific patient;

cost-effective; and

neither experimental nor investigational.

Obtaining coverage and reimbursement approval for a product from a government or other third-party payor is a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to the payor. We may not be able to provide data sufficient to gain acceptance with respect to coverage and reimbursement. We cannot be sure that coverage or adequate reimbursement will be available for any of our product candidates. Also, we cannot be sure that reimbursement amounts will not reduce the demand for, or the price of, our products. If reimbursement is not available or is available only to limited levels, we may not be able to commercialize certain of our products.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory changes to the healthcare system that could impact our ability to sell our products profitably. In particular, the Medicare Modernization Act of 2003 revised the payment methodology for many products under Medicare. This has resulted in lower rates of reimbursement. There have been numerous other federal and state initiatives designed to reduce payment for pharmaceuticals.

As a result of legislative proposals and the trend towards managed healthcare in the United States, third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new drugs. They may also refuse to provide any coverage of approved products for medical indications other than those for which the FDA has granted market approvals. As a result, significant uncertainty exists as to whether and how much third-party payors will reimburse patients for their use of newly approved drugs, which in turn will put pressure on the pricing of drugs. We expect to experience pricing pressures in connection with the sale of any products we may develop or commercialize due to the trend toward managed healthcare, the increasing influence of health maintenance organizations, additional legislative proposals, as well

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as country, regional, or local healthcare budget limitations. Any products that we may develop or commercialize may not be considered cost-effective, and coverage and reimbursement may not be available or sufficient to allow us to sell our products on a profitable basis.

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

We and our strategic partners intend to seek approval to market our future products in both the United States and in foreign jurisdictions. If approval is obtained in one or more foreign jurisdictions, we and our strategic partners will be subject to rules and regulations in those jurisdictions relating to our product. In some foreign countries, particularly in countries in the European Union, the pricing of prescription pharmaceuticals and biologics is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product candidate. If reimbursement of our future products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, we may be unable to achieve or sustain profitability.

Healthcare reform measures could hinder or prevent our product candidates commercial success.

The U.S. government and other governments have shown significant interest in pursuing healthcare reform. Any government-adopted reform measures could adversely impact the pricing of healthcare products and services in the U.S. or internationally and the amount of reimbursement available from governmental agencies or other third-party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce healthcare costs may adversely affect our ability to set prices which we believe are fair for any products we may develop and commercialize, and our ability to generate revenues and achieve and maintain profitability.

New laws, regulations and judicial decisions, or new interpretations of existing laws, regulations and decisions, that relate to healthcare availability, methods of delivery or payment for products and services, or sales, marketing or pricing, may limit our potential revenue, and we may need to revise our research and development programs. The pricing and reimbursement environment may change in the future and become more challenging due to several reasons, including policies advanced by the U.S. government, new healthcare legislation or fiscal challenges faced by government health administration authorities. Specifically, in both the U.S. and some foreign jurisdictions, there have been a number of legislative and regulatory proposals and initiatives to change the healthcare system in ways that could affect our ability to sell any products we may develop and commercialize profitably. Some of these proposed and implemented reforms could result in reduced reimbursement rates for our potential products, which would adversely affect our business strategy, operations and financial results.

For example, in March 2010, President Obama signed into law a legislative overhaul of the U.S. healthcare system, known as the Patient Protection and Affordable Care Act of 2010, as amended by the Healthcare and Education Affordability Reconciliation Act of 2010, or the PPACA, which may have far reaching consequences for life science companies like us. As a result of this legislation, substantial changes could be made to the current system for paying for healthcare in the United States, including changes made in order to extend medical benefits to those who currently lack insurance coverage. Extending coverage to a large population could substantially change the structure of the health insurance system and the methodology for reimbursing medical services, drugs and devices. These structural changes could entail modifications to the existing system of private payors and government programs, such as Medicare and Medicaid, creation of a government-sponsored healthcare insurance source, or some combination of both, as well as other changes. Restructuring the coverage of medical care in the United States could impact the reimbursement for prescribed drugs, biopharmaceuticals, medical devices, or our product candidates. If reimbursement for our approved product candidates, if any, is substantially less that we expect in the future, or rebate obligations associated with them are substantially increased, our business could be materially and adversely impacted.

Further federal and state proposals and healthcare reforms could limit the prices that can be charged for the product candidates that we develop and may further limit our commercial opportunity. Our results of operations

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could be materially adversely affected by the PPACA, by Medicare prescription drug coverage legislation, by the possible effect of such current or future legislation on amounts that private insurers will pay and by other healthcare reforms that may be enacted or adopted in the future.

Risks Related to Our Dependence on Third Parties

We may not be successful in establishing and maintaining additional strategic partnerships, which could adversely affect our ability to develop and commercialize products.

In addition to our current strategic partnerships, a part of our strategy is to enter into additional strategic partnerships in the future, including alliances with major biotechnology or pharmaceutical companies. We face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for any product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort and/or third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy. Even if we are successful in our efforts to establish new strategic partnerships, the terms that we agree upon may not be favorable to us and we may not be able to maintain such strategic partnerships if, for example, development or approval of a product candidate is delayed or sales of an approved product are disappointing. Any delay in entering into new strategic partnership agreements related to our product candidates could have an adverse effect on our business or our operating plan, including delaying the development and commercialization of our product candidates.

Moreover, if we fail to establish and maintain additional strategic partnerships related to our product candidates:

- the development of certain of our current or future product candidates may be terminated or delayed;
- our cash expenditures related to development of certain of our current or future product candidates would increase significantly and we may need to seek additional financing;
- we may be required to hire additional employees or otherwise develop expertise, such as sales and marketing expertise, for which we have not budgeted; and
- we will bear all of the risk related to the development of any such product candidates.

In addition, if we fail to establish and maintain additional strategic partnerships involving our Human Response Platform, we would not realize its potential as a means of identifying and validating targets for new cancer therapies in collaboration with strategic partners or of identifying biomarkers to aid in the development of our strategic partners drug candidates.

If any of our current or future strategic partners fails to perform its obligations or terminates its agreement with us, the development and commercialization of the product candidates under such agreement could be delayed or terminated and our business could be substantially harmed.

As part of our business strategy, we plan to enter into strategic partnerships in the future. If any current or future strategic partners do not devote sufficient time and resources to its arrangements with us, we may not realize the potential commercial benefits of the arrangement, and our results of operations may be adversely affected. In addition, if any strategic partner were to breach or terminate its arrangements with us, the development and commercialization of the affected product candidate could be delayed, curtailed or terminated because we may not have sufficient financial resources or capabilities to continue development and commercialization of the product candidate on its own, and we may find it difficult to attract a new alliance partner for such product candidate.

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Much of the potential revenue from any strategic partnership we may enter into in the future will likely consist of contingent payments, such as royalties payable on sales of any successfully developed drugs. Any such contingent revenue will depend upon our, and our strategic partner s ability to successfully develop, introduce, market and sell new drugs. In some cases, we will not be involved in these processes, and we will depend entirely on our strategic partners. Any of our future strategic partners may fail to develop or effectively commercialize these drugs because it:

- decides not to devote the necessary resources because of internal constraints, such as limited personnel with the requisite scientific expertise, limited cash resources or specialized equipment limitations, or the belief that other product candidates may have a higher likelihood of obtaining regulatory approval or may potentially generate a greater return on investment;
- does not have sufficient resources necessary to carry the product candidate through clinical development, regulatory approval and commercialization; or
- cannot obtain the necessary regulatory approvals.

If one or more of our strategic partners fails to develop or effectively commercialize product candidates for any of the foregoing reasons, we may not be able to replace the strategic partner with another partner to develop and commercialize a product candidate under the terms of the strategic partnership. We may also be unable to obtain, on terms acceptable to us, a license from such strategic partner to any of its intellectual property that may be necessary or useful for us to continue to develop and commercialize a product candidate. Any of these events could have a material adverse effect on our business, results of operations and our ability to achieve future profitability, and could cause our stock price to decline.

We rely on third-party manufacturers to produce our preclinical and clinical drug supplies and we intend to rely on third parties to produce commercial supplies of any approved product candidates. Any failure by a third-party manufacturer to produce supplies for us may delay or impair our ability to complete our clinical trials or commercialize our product candidates.

We have relied upon third-party manufacturers for the manufacture of our product candidates for preclinical and clinical testing purposes and intend to continue to do so in the future. If we are unable to arrange for third-party manufacturing sources, or to do so on commercially reasonable terms, we may not be able to complete development of such other product candidates or market them.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including reliance on the third party for regulatory compliance and quality assurance, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control (including a failure to synthesize and manufacture our product candidates in accordance with our product specifications), failure of the third party to accept orders for supply of drug substance or drug product and the possibility of termination or nonrenewal of the agreement by the third-party, based on its own business priorities, at a time that is costly or damaging to us. In addition, the FDA and other regulatory authorities require that our product candidates be manufactured according to cGMP and similar foreign standards. Any failure by our third-party manufacturers to comply with cGMP or failure to scale-up manufacturing processes as needed, including any failure to deliver sufficient quantities of product candidates in a timely manner, could lead to a delay in, or failure to obtain, regulatory approval of any of our product candidates. In addition, such failure could be the basis for action by the FDA to withdraw approvals for product candidates previously granted to us and for other regulatory action, including recall or seizure, fines, imposition of operating restrictions, total or partial suspension of production or injunctions.

We rely on our manufacturers to purchase from third-party suppliers the materials necessary to produce our product candidates for our clinical studies. There are a small number of suppliers for certain capital equipment and raw materials that we use to manufacture our drugs. Such suppliers may not sell this capital equipment or these raw materials to our manufacturers at the times we need them or on commercially reasonable terms. We do not have any control over the process or timing of the acquisition of this capital equipment or these raw materials by our

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manufacturers. Moreover, we currently do not have any agreements for the commercial production of these raw materials. Any significant delay in the supply of a product candidate or the raw material components thereof for an ongoing clinical trial due to the need to replace a third-party manufacturer could considerably delay completion of our clinical studies, product testing and potential regulatory approval of our product candidates. If our manufacturers or we are unable to purchase these raw materials after regulatory approval has been obtained for our product candidates, the commercial launch of our product candidates would be delayed or there would be a shortage in supply, which would impair our ability to generate revenues from the sale of our product candidates.

Because of the complex nature of many of our early stage compounds and product candidates, our manufacturers may not be able to manufacture such compounds and product candidates at a cost or in quantities or in a timely manner necessary to develop and commercialize related products. If we successfully commercialize any of our drugs, we may be required to establish or access large-scale commercial manufacturing capabilities. In addition, as our drug development pipeline increases and matures, we will have a greater need for clinical trial and commercial manufacturing capacity. We do not own or operate manufacturing facilities for the production of clinical or commercial quantities of our product candidates and we currently have no plans to build our own clinical or commercial scale manufacturing capabilities. To meet our projected needs for commercial manufacturing, third parties with whom we currently work will need to increase their scale of production or we will need to secure alternate suppliers.

We rely on third parties to conduct preclinical and clinical trials for our product candidates, and if they do not properly and successfully perform their obligations to us, we may not be able to obtain regulatory approvals for our product candidates.

We, in consultation with our strategic partners, design the clinical trials for our product candidates, but we rely on contract research organizations and other third parties to assist us in managing, monitoring and otherwise carrying out many of these trials. We compete with larger companies for the resources of these third parties.

Although we rely on these third parties to conduct many of our clinical trials, we are responsible for ensuring that each of our clinical trials is conducted in accordance with its general investigational plan and protocol. Moreover, the FDA and foreign regulatory agencies require us to comply with regulations and standards, commonly referred to as good clinical practices, for designing, conducting, monitoring, recording, analyzing, and reporting the results of clinical trials to assure that the data and results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements.

The third parties on whom we rely generally may terminate their engagements with us at any time. If we are required to enter into alternative arrangements because of any such termination, the introduction of our product candidates to market could be delayed.

If these third parties do not successfully carry out their duties under their agreements with us, if the quality or accuracy of the data they obtain is compromised due to their failure to adhere to our clinical trial protocols or regulatory requirements, or if they otherwise fail to comply with clinical trial protocols or meet expected deadlines, our clinical trials may not meet regulatory requirements. If our clinical trials do not meet regulatory requirements or if these third parties need to be replaced, our preclinical development activities or clinical trials may be extended, delayed, suspended or terminated. If any of these events occur, we may not be able to obtain regulatory approval of our product candidates and our reputation could be harmed.

Risks Related to Our Intellectual Property Rights

We could be unsuccessful in obtaining adequate patent protection for one or more of our product candidates.

We cannot be certain that patents will be issued or granted with respect to applications that are currently pending, or that issued or granted patents will not later be found to be invalid and/or unenforceable. The patent position of biotechnology and pharmaceutical companies is generally uncertain because it involves complex legal

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and factual considerations. The standards applied by the United States Patent and Trademark Office and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, there is no uniform worldwide policy regarding patentable subject matter or the scope of claims allowable in biotechnology and pharmaceutical patents. Consequently, patents may not issue from our pending patent applications. As such, we do not know the degree of future protection that we will have on our proprietary products and technology. The scope of patent protection that the U.S. Patent and Trademark Office will grant with respect to the antibodies in our antibody product pipeline is uncertain. It is possible that the U.S. Patent and Trademark Office will not allow broad antibody claims that cover closely related antibodies as well as the specific antibody. Upon receipt of FDA approval, competitors would be free to market antibodies almost identical to ours, thereby decreasing our market share.

Issued patents covering one or more of our products could be found invalid or unenforceable if challenged in court.

If we or one of our corporate partners were to initiate legal proceedings against a third-party to enforce a patent covering one of our products, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the U.S. Patent and Trademark Office, or made a misleading statement, during prosecution. Although we have conducted due diligence on patents we have exclusively in-licensed, and we believe that we have conducted our patent prosecution in accordance with the duty of candor and in good faith, the outcome following legal assertions of invalidity and unenforceability during patent litigation is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on one of our products or certain aspects of our Human Response Platform. Such a loss of patent protection could have a material adverse impact on our business.

Claims that our platform technologies, our products or the sale or use of our products infringe the patent rights of third parties could result in costly litigation or could require substantial time and money to resolve, even if litigation is avoided.

We cannot guarantee that our platform technologies, our products, or the use of our products, do not infringe third-party patents. Third parties might allege that we are infringing their patent rights or that we have misappropriated their trade secrets. Such third parties might resort to litigation against us. The basis of such litigation could be existing patents or patents that issue in the future.

It is also possible that we failed to identify relevant third-party patents or applications. For example, applications filed before November 29, 2000 and certain applications filed after that date that will not be filed outside the United States remain confidential until patents issue. Patent applications in the United States and elsewhere are published approximately 18 months after the earliest filing, which is referred to as the priority date. Therefore, patent applications covering our products or platform technology could have been filed by others without our knowledge. Additionally, pending patent applications which have been published can, subject to certain limitations, be later amended in a manner that could cover our platform technologies, our products or the use of our products.

With regard to tivozanib, we are aware of a third-party United States patent, and corresponding foreign counterparts, that contain broad claims related to use of an organic compound, that, among other things, inhibits the tyrosine phosphorylation of a VEGF receptor caused by VEGF binding to such VEGF receptor. Additionally, tivozanib falls within the scope of certain pending patent applications that have broad generic disclosure and

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disclosure of certain compounds possessing structural similarities to tivozanib. Although we believe it is unlikely that such applications will lead to issued claims that would cover tivozanib and still be valid in view of the prior art, patent prosecution is inherently unpredictable. We are also aware of third-party United States patents that contain broad claims related to the use of a tyrosine kinase inhibitor in combination with a DNA damaging agent such as chemotherapy or radiation and we have received written notice from the owners of such patents indicating that they believe we may need a license from them in order to avoid infringing their patents. With regard to ficlatuzumab, we are aware of two separate families of United States patents, United States patent applications and foreign counterparts, with each of the two families being owned by a different third-party, that contain broad claims related to anti-HGF antibodies having certain binding properties and their use. With regard to AV-203, we are aware of a third-party United States patent that contains broad claims relating to anti-ErbB3 antibodies. With regard to GDF-15, we are aware of a United States patent that contains claims related to antibodies binding to GDF-15 protein, which is set to expire in 2014. Based on our analyses, if any of the above third-party patents were asserted against us, we do not believe our proposed products or activities would be found to infringe any valid claim of these patents. If we were to challenge the validity of any issued United States patent in court, we would need to overcome a statutory presumption of validity that attaches to every United States patent. This means that in order to prevail, we would have to present clear and convincing evidence as to the invalidity of the patent s claims. There is no assurance that a court would find in our favor on questions of infringement or validity.

In order to avoid or settle potential claims with respect to any of the patent rights described above or any other patent rights of third parties, we may choose or be required to seek a license from a third-party and be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we or our strategic partners were able to obtain a license, the rights may be non-exclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. This could harm our business significantly.

Defending against claims of patent infringement or misappropriation of trade secrets could be costly and time-consuming, regardless of the outcome. Thus, even if we were to ultimately prevail, or to settle at an early stage, such litigation could burden us with substantial unanticipated costs. In addition, litigation or threatened litigation could result in significant demands on the time and attention of our management team, distracting them from the pursuit of other company business.

Unfavorable outcomes in intellectual property litigation could limit our research and development activities and/or our ability to commercialize certain products.

If third parties successfully assert intellectual property rights against us, we might be barred from using aspects of our technology platform, or barred from developing and commercializing related products. Prohibitions against using specified technologies, or prohibitions against commercializing specified products, could be imposed by a court or by a settlement agreement between us and a plaintiff. In addition, if we are unsuccessful in defending against allegations of patent infringement or misappropriation of trade secrets, we may be forced to pay substantial damage awards to the plaintiff. There is inevitable uncertainty in any litigation, including intellectual property litigation. There can be no assurance that we would prevail in any intellectual property litigation, even if the case against us is weak or flawed. If litigation leads to an outcome unfavorable to us, we may be required to obtain a license from the patent owner in order to continue our research and development programs or to market our product(s). It is possible that the necessary license will not be available to us on commercially acceptable terms, or at all. This could limit our research and development activities, our ability to commercialize specified products, or both.

Most of our competitors are larger than we are and have substantially greater resources. They are, therefore, likely to be able to sustain the costs of complex patent litigation longer than we could. In addition, the

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uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to continue our clinical trials, continue our internal research programs, in-license needed technology, or enter into strategic partnerships that would help us bring our product candidates to market.

In addition, any future patent litigation, interference or other administrative proceedings will result in additional expense and distraction of our personnel. An adverse outcome in such litigation or proceedings may expose us or our strategic partners to loss of our proprietary position, expose us to significant liabilities, or require us to seek licenses that may not be available on commercially acceptable terms, if at all.

Intellectual property litigation may lead to unfavorable publicity that harms our reputation and causes the market price of our common stock to decline.

During the course of any patent litigation, there could be public announcements of the results of hearings, rulings on motions, and other interim proceedings in the litigation. If securities analysts or investors regard these announcements as negative, the perceived value of our products, programs, or intellectual property could be diminished. Accordingly, the market price of our common stock may decline.

Tivozanib and AV-380 are protected by patents exclusively licensed from other companies or institutions. If the licensors terminate the licenses or fail to maintain or enforce the underlying patents, our competitive position and our market share in the markets for any of our approved products will be harmed.

We are a party to several license agreements under which certain aspects of our business depend on patents and/or patent applications owned by other companies or institutions. In particular, we hold exclusive licenses from Kyowa Hakko Kirin for tivozanib, and from St. Vincent s Hospital Sydney, Australia, Limited for therapeutic applications that benefit from inhibition or decreased expression or activity of MIC-1, which we refer to as GDF-15 and which we are using in our AV-380 program. We are likely to enter into additional license agreements as part of the development of our business in the future. Our licensors may not successfully prosecute certain patent applications under which we are licensed and on which our business depends. Even if patents issue from these applications, our licensors may fail to maintain these patents, may decide not to pursue litigation against third-party infringers, may fail to prove infringement, or may fail to defend against counterclaims of patent invalidity or unenforceability. In addition, in spite of our best efforts, our licensors might conclude that we have materially breached our license agreements and might therefore terminate the license agreements, thereby removing our ability to obtain regulatory approval and to market products covered by these license agreements. If these in-licenses are terminated, or if the underlying patents fail to provide the intended market exclusivity, competitors would have the freedom to seek regulatory approval of, and to market, products identical to ours. This could have a material adverse effect on our competitive business position and our business prospects.

We could be unsuccessful in obtaining patent protection on one or more components of our technology platform.

We believe that an important factor in our competitive position relative to other companies in the field of targeted oncology therapeutics is our proprietary Human Response Platform. This platform is useful for identifying new targets for drug discovery, confirming that newly-identified drug targets actually play a role in cancer, testing new compounds for effectiveness as drugs, and identifying traits useful for predicting which patients will respond to which drugs. We own issued U.S. patents covering our chimeric model technology and directed complementation technology. However, patent protection on other aspects of our technology platform, such as our reconstituted human breast tumor model, is still pending. There is no guarantee that any of such pending patent applications, in the United States or elsewhere, will result in issued patents, and, even if patents eventually issue, there is no certainty that the claims in the eventual patents will have adequate scope to preserve our competitive position. Third parties might invent alternative technologies that would substitute for our technology platform while being outside the scope of the patents covering our platform technology. By successfully designing around our patented technology, third parties could substantially weaken our competitive position in oncology research and development.

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Confidentiality agreements with employees and third parties may not prevent unauthorized disclosure of trade secrets and other proprietary information.

In addition to patents, we rely on trade secrets, technical know-how, and proprietary information concerning our business strategy in order to protect our competitive position in the field of oncology. In the course of our research, development and business activities, we often rely on confidentiality agreements to protect our proprietary information. Such confidentiality agreements are used, for example, when we talk to vendors of laboratory or clinical development services or potential strategic partners. In addition, each of our employees is required to sign a confidentiality agreement upon joining our company. We take steps to protect our proprietary information, and we seek to carefully draft our confidentiality agreements to protect our proprietary interests. Nevertheless, there can be no guarantee that an employee or an outside party will not make an unauthorized disclosure of our proprietary confidential information. This might happen intentionally or inadvertently. It is possible that a competitor will make use of such information, and that our competitive position will be compromised, in spite of any legal action we might take against persons making such unauthorized disclosures.

Trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, or outside scientific collaborators might intentionally or inadvertently disclose our trade secret information to competitors. Enforcing a claim that a third-party illegally obtained and is using any of our trade secrets is expensive and time-consuming, and the outcome is unpredictable. In addition, courts outside the United States sometimes are less willing than U.S. courts to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Our research and development strategic partners may have rights to publish data and other information to which we have rights. In addition, we sometimes engage individuals or entities to conduct research relevant to our business. The ability of these individuals or entities to publish or otherwise publicly disclose data and other information generated during the course of their research is subject to certain contractual limitations. These contractual provisions may be insufficient or inadequate to protect our confidential information. If we do not apply for patent protection prior to such publication, or if we cannot otherwise maintain the confidentiality of our proprietary technology and other confidential information, then our ability to obtain patent protection or to protect our trade secret information may be jeopardized.

Intellectual property rights do not necessarily address all potential threats to our competitive advantage.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative:

- Others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of the patents that we own or have exclusively licensed.
- We or our licensors or strategic partners might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed.
- We or our licensors or strategic partners might not have been the first to file patent applications covering certain of our inventions.
- Others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights.
- It is possible that our pending patent applications will not lead to issued patents.
- Issued patents that we own or have exclusively licensed may not provide us with any competitive advantages, or may be held invalid or unenforceable, as a result of legal challenges by our competitors.

Our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets.

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We may not develop additional proprietary technologies that are patentable.

The patents of others may have an adverse effect on our business.

Changes in U.S. patent law could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharma industry involve both technological complexity and legal complexity. Therefore, obtaining and enforcing biopharma patents is costly, time-consuming and inherently uncertain. In addition, several recent events have increased uncertainty with regard to our ability to obtain patents in the future and the value of patents once obtained. Among these, in September 2011, patent reform legislation passed by Congress was signed into law. The new patent law introduces changes including a first-to-file system for determining which inventors may be entitled to receive patents, and a new post-grant review process that allows third parties to challenge newly issued patents. It remains to be seen how the biopharma industry will be affected by such changes in the patent system. In addition, the Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in specified circumstances or weakening the rights of patent owners in specified situations. Depending on decisions by the U.S. Congress, the federal courts, and the U.S. Patent and Trademark Office, the laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future

Risks Related to Ownership of Our Common Stock

The market price of our common stock has been, and is likely to continue to be, highly volatile, and could fall below the price you paid. A significant decline in the value of our stock price could also result in securities class-action litigation against us.

The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations in price in response to various factors, many of which are beyond our control, including:

new products, product candidates or new uses for existing products introduced or announced by our strategic partners, or our competitors, and the timing of these introductions or announcements;

actual or anticipated results from and any delays in our clinical trials;

results of regulatory reviews relating to the approval of our product candidates, such as the substantial decline in our stock price that occurred when we announced that the FDA s Oncologic Drugs Advisory Committee, or ODAC, voted 13 to 1 that our NDA for tivozanib for the treatment of patients with advanced RCC did not demonstrate a favorable benefit/risk evaluation in an adequate and well-controlled trial;

the results of our efforts to discover, develop, acquire or in-license additional product candidates or products;

disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;

announcements by us of material developments in our business, financial condition and/or operations;

announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures and capital commitments;

additions or departures of key scientific or management personnel;

conditions or trends in the biotechnology and biopharmaceutical industries;

actual or anticipated changes in earnings estimates, development timelines or recommendations by securities analysts;

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general economic and market conditions and other factors that may be unrelated to our operating performance or the operating performance of our competitors, including changes in market valuations of similar companies; and

sales of common stock by us or our stockholders in the future, as well as the overall trading volume of our common stock.

In addition, the stock market in general and the market for biotechnology and biopharmaceutical companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

In the past, following periods of volatility in the market, such as the volatility in our stock price following our May 2, 2013 announcement regarding the ODAC vote, securities class-action litigation has often been instituted against companies. For example, we, and certain of our executive officers, have been named as defendants in a consolidated purported class action lawsuit following our announcement of the ODAC vote. See Part I, Item 3 Legal Proceedings and We and certain of our executive officers have been named as defendants in a class action lawsuit that could result in substantial costs and divert management s attention. These proceedings and other similar litigation, if instituted against us, could result in substantial costs and diversion of management s attention and resources, which could materially and adversely affect our business and financial condition.

Our executive officers, directors, entities affiliated with such executive officers and directors, and certain other significant stockholders own a significant percentage of our stock and may be able to exercise significant influence over matters subject to stockholder approval.

To our knowledge, as of December 31, 2013, our executive officers, directors, entities affiliated with such executive officers and directors, and certain other significant stockholders, owned approximately 18% of our common stock, including shares subject to outstanding options that are exercisable within 60 days after December 31, 2013. These stockholders, acting together or individually, may be able to exert influence over our management and affairs and over matters requiring stockholder approval, including the election of our board of directors and approval of significant corporate transactions. This concentration of ownership could have the effect of delaying or preventing a change in control of our company or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the market price of our common stock.

Our management has broad discretion over the use of the cash available for our operations and working capital requirements and might not spend available cash in ways that increase the value of your investment.

Our management has broad discretion on where and how to use our cash and you will be relying on the judgment of our management regarding the application of our available cash to fund our operations. Our management might not apply our cash in ways that increase the value of your investment. We expect to use a substantial portion of our cash to fund existing and future research and development of our preclinical and clinical product candidates, with the balance, if any, to be used for working capital and other general corporate purposes, which may in the future include investments in, or acquisitions of, complementary businesses, joint ventures, partnerships, services or technologies. Our management might not be able to yield a significant return, if any, on any investment of this cash. You will not have the opportunity to influence our decisions on how to use our cash reserves.

Fluctuations in our quarterly operating results could adversely affect the price of our common stock.

Our quarterly operating results may fluctuate significantly. Some of the factors that may cause our operating results to fluctuate on a period-to-period basis include:

the status of our preclinical and clinical development programs;

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the level of expenses incurred in connection with our preclinical and clinical development programs, including development and manufacturing costs relating to our preclinical and clinical development candidates;

any intellectual property infringement lawsuit or other litigation in which we may become involved;

the implementation of restructuring and cost-savings strategies;

the implementation or termination of collaboration, licensing, manufacturing or other material agreements with third parties, and non-recurring revenue or expenses under any such agreement;

costs associated with lawsuits against us, including the current purported class action lawsuits described elsewhere in this Annual Report under Part I, Item 3 Legal Proceedings;

changes in our loan agreement with Hercules, including the existence of any event of default that may accelerate payments due thereunder; and

compliance with regulatory requirements.

Period-to-period comparisons of our historical and future financial results may not be meaningful, and investors should not rely on them as an indication of future performance. Our fluctuating results may fail to meet the expectations of securities analysts or investors. Our failure to meet these expectations may cause the price of our common stock to decline.

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.

As widely reported, global credit and financial markets have been experiencing extreme volatility, and in some cases, disruptions, over the past several years, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability, in many cases, over extended periods. Though certain of these trends have recently showed signs of reversing, there can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. Our general business strategy may be adversely affected by the current adverse economic conditions and volatile business environment and continued unpredictable and unstable market conditions. If the equity and credit markets do not continue to improve, it may make any necessary debt or equity financing more difficult, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon clinical development plans. In addition, there is a risk that one or more of our current service providers, manufacturers or other partners may not survive these economically turbulent times, which could directly affect our ability to attain our operating goals on schedule and on budget.

At December 31, 2013, we had $118.5 million of cash, cash equivalents and marketable securities consisting of cash on deposit with banks, money market funds, U.S. government agency securities, asset-backed securities, asset-backed commercial paper and corporate debt securities, including commercial paper. As of the date of this report, we are not aware of any downgrades, material losses, or other significant deterioration in the fair value of our cash equivalents or marketable securities. However, no assurance can be given that deterioration in conditions of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents or marketable securities or our ability to meet our financing objectives. Dislocations in the credit market may adversely impact the value and/or liquidity of cash equivalents or marketable securities owned by us.

There is a possibility that our stock price may decline because of volatility of the stock market and general economic conditions.

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Future sales of shares of our common stock, including shares issued upon the exercise of currently outstanding options, could negatively affect our stock price.

A substantial portion of our outstanding common stock can be traded without restriction at any time. Some of these shares are currently restricted as a result of securities laws, but will be able to be sold, subject to any applicable volume limitations under federal securities laws with respect to affiliate sales, in the near future. As such, sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell such shares, could reduce the market price of our common stock. In addition, we have a significant number of shares that are subject to outstanding options. The exercise of these options and the subsequent sale of the underlying common stock could cause a further decline in our stock price. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Provisions in our certificate of incorporation, our by-laws or Delaware law might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the market price of our common stock.

Provisions of our certificate of incorporation, our by-laws or Delaware law may have the effect of deterring unsolicited takeovers or delaying or preventing a change in control of our company or changes in our management, including transactions in which our stockholders might otherwise receive a premium for their shares over then current market prices. In addition, these provisions may limit the ability of stockholders to approve transactions that they may deem to be in their best interest. These provisions include:

- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings;
- the ability of our board of directors to make, alter or repeal our by-laws; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used to institute a rights plan, or a poison pill, that would work to dilute the stock ownership of a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which together with its affiliates owns, or within the last three years has owned, 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that a stockholder could receive a premium for shares of our common stock held by a stockholder in an acquisition.

Our business could be negatively affected as a result of the actions of activist shareholders.

Proxy contests have been waged against many companies in the biopharmaceutical industry over the last few years. If faced with a proxy contest, we may not be able to successfully respond to the contest, which would be disruptive to our business. Even if we are successful, our business could be adversely affected by a proxy contest because:

- responding to proxy contests and other actions by activist shareholders may be costly and time-consuming, and may disrupt our operations and divert the attention of management and our employees;

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perceived uncertainties as to the potential outcome of any proxy contest may result in our inability to consummate potential acquisitions, collaborations or in-licensing opportunities and may make it more difficult to attract and retain qualified personnel and business partners; and

if individuals that have a specific agenda different from that of our management or other members of our board of directors are elected to our board as a result of any proxy contest, such an election may adversely affect our ability to effectively and timely implement our strategic plan and create additional value for our stockholders.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our ability to produce accurate financial statements and on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us, on an annual basis, to review and evaluate our internal controls, and requires our independent registered public accounting firm to attest to the effectiveness of our internal controls. Despite our efforts, we can provide no assurance as to our, or our independent registered public accounting firm s conclusions with respect to the effectiveness of our internal control over financial reporting under Section 404. There is a risk that neither we nor our independent registered public accounting firm will be able to continue to conclude within the prescribed timeframe that our internal control over financial reporting is effective as required by Section 404. This could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

We do not expect to pay any cash dividends for the foreseeable future.

You should not rely on an investment in our common stock to provide dividend income. We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our existing operations. In addition, our ability to pay cash dividends is currently prohibited by the terms of our debt financing arrangements and any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any return on their investment. As a result, investors seeking cash dividends should not purchase our common stock.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

We sublease our principal facilities, which consist of approximately 126,065 square feet of office, research and laboratory space located at 650 East Kendall Street, Cambridge, Massachusetts, which sublease expires in December 2024; and approximately 19,711 square feet of office space located at 12 Emily Street, Cambridge, Massachusetts, under subleases expiring in December 2014 and May 2015. We believe that our existing facilities are sufficient for our current needs for the foreseeable future.

ITEM 3. Legal Proceedings

Two class action lawsuits have been filed against us and certain of our present and former officers and members of our board of directors, (Tuan Ha-Ngoc, David N. Johnston, William Slichenmyer and Ronald DePinho), in the United States District Court for the District of Massachusetts, one captioned Paul Sanders v. Aveo Pharmaceuticals, Inc., et al., No. 1:13-cv-11157-JLT, filed on May 9, 2013, and the other captioned Christine Krause v. AVEO Pharmaceuticals, Inc., et al., No. 1:13-cv-11320-JLT, filed on May 31, 2013. On

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December 4, 2013, the District Court consolidated the complaints as In re AVEO Pharmaceuticals, Inc. Securities Litigation et al., No. 1:13-cv-11157-DJC, and an amended complaint was filed on February 3, 2014. The amended complaint purports to be brought on behalf of shareholders who purchased our common stock between January 3, 2012 and May 1, 2013. The amended complaint generally alleges that we and certain of our present and former officers and directors violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and/or misleading statements concerning the phase 3 trial design and results for our TIVO-1 study in an effort to lead investors to believe that the drug would receive approval from the FDA. The amended complaint seeks unspecified damages, interest, attorneys fees, and other costs. We deny any allegations of wrongdoing and intend to vigorously defend against this lawsuit. However, there is no assurance that we will be successful in our defense or that insurance will be available or adequate to fund any settlement or judgment or the litigation costs of the action. Moreover, we are unable to predict the outcome or reasonably estimate a range of possible loss at this time.

On July 3, 2013, we received a subpoena from the SEC, requesting documents and information concerning tivozanib, including related communications with the FDA, investors and others. We are fully cooperating with the SEC regarding this fact-finding inquiry. The SEC has informed us that this inquiry should not be construed as an indication that any violations of law have occurred or that the SEC has any negative opinion of any person, entity or security.

ITEM 4. Mine Safety Disclosures

Not applicable.

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PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET PRICE INFORMATION

Our common stock is traded on the NASDAQ Global Market under the symbol AVEO . The following table sets forth the high and low sale prices per share for our common stock for the periods indicated:

	High	Low
2012		
First Quarter	$ 17.09	$ 12.00
Second Quarter	$ 13.08	$ 10.40
Third Quarter	$ 14.08	$ 7.86
Fourth Quarter	$ 11.00	$ 5.80

	High	Low
2013		
First Quarter	$ 8.94	$ 6.35
Second Quarter	$ 8.40	$ 2.25
Third Quarter	$ 2.68	$ 2.03
Fourth Quarter	$ 2.35	$ 1.54

HOLDERS

At February 28, 2014, there were approximately 52 holders of record of our common stock. We believe that the number of beneficial owners of our common stock at that date was substantially greater.

DIVIDENDS

We have never declared or paid any cash dividends on our common stock and our ability to pay cash dividends is currently prohibited by the terms of our debt financing arrangements. We currently intend to retain earnings, if any, for use in our business and do not anticipate paying cash dividends on our common stock in the foreseeable future. Payment of future dividends, if any, on our common stock will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, anticipated cash needs, and plans for expansion.

Comparative Stock Performance Graph

The information included under the heading Comparative Stock Performance Graph in this Item 5 of Part II of this Annual Report on Form 10-K shall not be deemed to be soliciting material or subject to Regulation 14A or 14C, shall not be deemed filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

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Set forth below is a graph comparing the total cumulative returns of AVEO, the NASDAQ Composite Index and the NASDAQ Biotechnology Index. The graph assumes $100 was invested on March 12, 2010 in our common stock and each of the indices and that all dividends, if any, are reinvested.

t/Peer Group	3/12/2010	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30
ticals	$ 100.00	$ 100.11	$ 78.64	$ 123.92	$ 162.63	$ 148.16	$ 229.25	$ 171.19	$ 191.32	$ 138.04	$ 135.26	$ 115.80	$ 89.54	$ 81.76	$ 27.81	$
site Index	$ 100.00	$ 101.30	$ 89.30	$ 100.50	$ 112.88	$ 118.58	$ 118.53	$ 103.48	$ 111.95	$ 133.18	$ 126.82	$ 135.07	$ 131.49	$ 142.69	$ 149.14	$ 1
nology Index	$ 100.00	$ 100.23	$ 85.41	$ 95.65	$ 103.71	$ 111.32	$ 118.59	$ 103.83	$ 116.24	$ 137.41	$ 145.09	$ 159.61	$ 153.77	$ 179.51	$ 195.11	$ 2

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ITEM 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the Accompanying Notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The Balance Sheet Data at December 31, 2013 and 2012 and the Statement of Operations Data for each of the three years in the period ended December 31, 2013 have been derived from our audited Consolidated Financial Statements for such years, included elsewhere in this Annual Report on Form 10-K. The Balance Sheet Data at December 31, 2011, 2010 and 2009, and the Statement of Operations Data for each of the two years in the period ended December 31, 2010 have been derived from the audited Consolidated Financial Statements for such years not included in this Annual Report on Form 10-K. Please refer to the Critical Accounting Policies and Significant Judgments and Estimates section in Management s Discussion and Analysis of Financial Condition and Results of Operations for discussion of the impact of our adoption of Accounting Standards Update, or ASU, 2009-13 on the selected data below.

Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands, except per share data)				
Statement of operations data:					
Revenue	$ 1,293	$ 19,286	$ 164,849	$ 44,682	$ 20,719
Operating expenses:					
Research and development	68,468	91,358	101,735	86,345	51,792
General and administrative	28,712	36,932	29,167	14,763	10,120
Restructuring	8,017	2,633			
Total operating expenses	105,197	130,923	130,902	101,108	61,912
(Loss) income from operations	(103,904)	(111,637)	33,947	(56,426)	(41,193)
Other income and expense:					
Other income (expense), net	(123)	247	10	900	(333)
Interest expense	(3,127)	(3,501)	(3,836)	(3,389)	(2,811)
Interest income	125	497	527	126	144
Other expense, net	(3,125)	(2,757)	(3,299)	(2,363)	(3,000)
Net (loss) income before benefit for income taxes	(107,029)	(114,394)	30,648	(58,789)	(44,193)
Benefit for income taxes					100
Net (loss) income	$ (107,029)	$ (114,394)	$ 30,648	$ (58,789)	$ (44,093)
Net (loss) income per share basic	$ (2.10)	$ (2.64)	$ 0.77	$ (2.30)	$ (27.43)
Weighted average number of common shares used in net (loss) income per share calculation basic	50,928	43,374	39,715	25,582	1,607
Net (loss) income per share diluted	$ (2.10)	$ (2.64)	$ 0.74	$ (2.30)	$ (27.43)
Weighted average number of common shares and dilutive common share equivalents used in net (loss) income per share calculation diluted	50,928	43,374	41,473	25,582	1,607

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	As of December 31,				
	2013	2012	2011	2010	2009
			(in thousands)		
Balance sheet data:					
Cash, cash equivalents, and marketable securities	$ 118,506	$ 160,602	$ 275,440	$ 140,198	$ 51,301
Working capital	97,511	151,551	199,786	103,360	18,789
Total assets	146,346	207,469	295,050	151,048	59,844
Loans payable, including current portion, net of discount	19,205	26,037	24,170	23,402	19,745
Preferred stock warrant liability					1,459
Convertible preferred stock					156,705
Accumulated deficit	(427,289)	(320,260)	(205,866)	(236,514)	(177,725)
Total stockholders equity (deficit)	69,938	118,938	223,541	71,770	(170,291)

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the Risk Factors section in Part 1 Item 1A. of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a biopharmaceutical company committed to discovering and developing targeted therapies designed to provide substantial impact in the lives of people with cancer by addressing unmet medical needs. AVEO s proprietary Human Response Platform provides the company unique insights into cancer and related disease biology and is being leveraged in the discovery and clinical development of its therapeutic candidates. Some of the programs we are developing include:

AV-203: AV-203 is an anti-ErbB3 monoclonal antibody with broad therapeutic potential. AV-203 has high ErbB3 affinity and potent anti-tumor activity in mouse models. AV-203 inhibits the activity of the ErbB3 receptor and our preclinical studies suggest that neuregulin-1, or NRG1, levels predict AV-203 anti-tumor activity in preclinical models. We have completed a phase 1 dose escalation study of AV-203 showing no dose limiting toxicities at maximum dose of 20mg/kg. The expansion cohort of this study among patients with a specific biomarker has been discontinued. We are currently partnered with Biogen Idec with respect to AV-203, and Biogen Idec has an option for development outside of the United States. Subject to our ability to regain certain rights from Biogen Idec with respect to AV-203, we will seek to resume clinical development with a third party.

Ficlatuzumab: Ficlatuzumab is a Hepatocyte Growth Factor, or HGF, inhibitory antibody. HGF is the sole known ligand of the c-Met receptor which is believed to trigger many activities that are involved in cancer development and metastasis. We have completed two phase 1 clinical studies and a phase 2 clinical study evaluating ficlatuzumab in combination with gefitinib in first line non-small cell lung cancer, or NSCLC. The phase 2 trial failed to demonstrate a statistically significant benefit in the intent- to-treat population. However, an exploratory analysis using a serum-based molecular diagnostic test identified a patient sub-population that experienced a progression free survival and overall survival benefit on the combination therapy in the phase 2 trial. We are currently seeking a partner that could support further clinical development in this patient population.

Tivozanib. In 2006, we acquired exclusive rights to develop and commercialize tivozanib, worldwide outside of Asia pursuant to a license agreement we entered into with Kirin Brewery Co. Ltd. (now Kyowa Hakko Kirin), or KHK. Tivozanib is an investigational tyrosine kinase inhibitor of all three vascular endothelial growth factor, or VEGF receptors. As discussed below under the heading Strategic Partnerships, we entered into a strategic collaboration with Astellas in which we agreed to share responsibility with Astellas for the continued development and commercialization of tivozanib in the United States, Mexico and Canada, which we refer to collectively as North America, and Europe. Throughout the rest of the world, outside of North America, Europe and Asia, we granted Astellas an exclusive, royalty-bearing license to develop and commercialize tivozanib. On June 10, 2013, we received a complete response letter from the U.S. Food and Drug Administration, or FDA, informing us that the FDA will not approve in its present form our New Drug Application, or NDA, for tivozanib for the treatment of patients with advanced renal cell carcinoma, or RCC. In February 2014, Astellas informed us of its intent to end our collaboration for tivozanib. Currently, our focus with tivozanib is to wind down our activities related to our partnership with Astellas, including on-going support for patients who continue

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to receive treatment with tivozanib related to our clinical trials in RCC, breast cancer and colorectal cancer, which we had previously announced that we were discontinuing prior to Astellas exercise of its termination. In August 2014, pursuant to the terms of the license agreement, in connection with the termination, all rights for the development and commercialization of tivozanib will revert to AVEO. We will consider further partnering options based on what we believe is a favorable risk and benefit profile which could provide benefit to patients in certain indications.

AV-380 Program: In 2012, we initiated a program focusing on cachexia, a serious and common complication of advanced cancer and a number of chronic diseases that is characterized by unintentional weight loss, progressive muscle wasting, and a loss of appetite. Our primary research focus is in the area of cancer cachexia where there is a major unmet need. Over 400,000 patients in the United States being treated for cancer also suffer from cachexia. In addition, cachexia is also associated with diseases outside of cancer including congestive heart failure, chronic kidney disease, and chronic obstructive pulmonary disease. AV-380, our lead drug candidate, is a potent humanized IgG1 inhibitory monoclonal antibody targeting growth differentiating factor-15, or GDF-15, a divergent member of the TGF-b. family. In connection with this program, we have in-licensed certain patents and patent applications from St. Vincent s Hospital in Sydney, Australia.

We believe that AV-380 represents a unique approach to treating cachexia because it addresses key underlying mechanisms of the syndrome. In preclinical models, AV-380 has been shown to increase food intake, reverse body weight loss and restore normal body composition. Appropriate IND-enabling efforts, including cell line development, have been initiated to prepare AV-380 for future clinical development, and we expect that we will begin a phase 1 clinical study of AV-380 in cachexia in the second half of 2015. We plan to evaluate opportunities for partnerships to expand the development of AV-380 in cachexia associated with non-cancer indications including chronic heart failure, chronic kidney disease and chronic obstructive pulmonary disease to leverage the full potential of this asset.

Going forward, we plan to focus our internal resources to advance potential first-in-class opportunities, such as our AV-380 program. We also plan to utilize external resources through innovative collaborations and strategic partnerships to develop our other assets. We plan to evaluate our potential drug candidates in accordance with the following criteria:

Identify diseases where no other therapies exist or where there is a well-defined patient population with clear unmet medical needs;

Provide a clear path to proof of concept and approval with reasonable probabilities of success; and

Pursue programs that can deliver value inflections within a projected framework.

Our proprietary Human Response Platform was designed to overcome many of the limitations of traditional approaches to modeling human cancer, as we use patented genetic engineering techniques to grow populations of spontaneous tumors in animals containing human-relevant, cancer-causing mutations and tumor variations akin to what is seen in populations of human tumors. Because we believe that these populations of tumors better replicate what is seen in human cancer, we believe that our Human Response Platform provides us with unique insights into cancer biology and mechanisms of drug response and resistance, and represents a significant improvement over traditional approaches. The identification and development of potential biomarkers through our Human Response Platform is a core component of our oncology drug development efforts.

We have devoted substantially all of our resources to our drug discovery efforts comprising research and development, conducting clinical trials for our product candidates, protecting our intellectual property and the general and administrative functions of these operations. We have generated no revenue from product sales through December 31, 2013, and through such date have principally funded our operations through:

390.7 million of non-dilutive capital in the form of license fees, milestone payments and research and development funding received from our strategic partners;

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$169.6 million of funding from the sale of convertible preferred stock to investors prior to our initial public offering, including $77.5 million of equity sales to our strategic partners;

$89.7 million of gross proceeds from the sale of common stock in connection with the completion of our initial public offering;

$26.5 million of loan proceeds in connection with our loan agreement with Hercules Technology II, L.P. and Hercules Technology III, L.P.;

$68.3 million of gross proceeds from private placements of our common stock; and

$168.7 million of gross proceeds from the sale of common stock in connection with public offerings of our common stock in June 2011 and January 2013.

We do not have a history of being profitable and, as of December 31, 2013, we had an accumulated deficit of $427.3 million. We anticipate that we will continue to incur significant operating costs over the next several years as we continue our planned development activities for our preclinical and clinical products. We will need additional financing to support our operating activities.

Recent Developments

On February 12, 2014, Astellas elected to exercise its right to terminate our collaboration and license agreement for the development and commercialization of investigational agent tivozanib. Astellas exercised its right to terminate the agreement for strategic reasons, based on the clinical status of the three indications studied. The termination of the collaboration will be effective August 11, 2014 at which time tivozanib rights will be returned to us. In accordance with the collaboration and license agreement, committed development costs, including the costs of winding down discontinued tivozanib clinical development programs, will be shared equally.

Strategic Partnerships

St. Vincent s Hospital

In July 2012, we entered into a license agreement with St. Vincent s Hospital Sydney Limited, which we refer to as St. Vincent s, under which we obtained an exclusive, worldwide license, with the right to grant sublicenses subject to certain restrictions, under specified patent rights and related know-how, to research, develop, manufacture and commercialize products for therapeutic applications that benefit from inhibition or decreased expression or activity of MIC-1, which is also known as GDF-15 and which we refer to throughout this Annual Report as GDF-15. We are exploiting this license in our AV-380 program for cachexia. We have a right of first negotiation to obtain an exclusive license to certain improvements that St. Vincent s or third parties may make to licensed therapeutic products. Under the license agreement, St. Vincent s also granted us non-exclusive rights for certain related diagnostic products and research tools.

Under the license agreement, we are obligated to use diligent efforts to conduct research and clinical development and commercially launch at least one licensed therapeutic product, and to maximize profits from licensed therapeutic products for the benefit of us and St. Vincent s. Subject to certain conditions, we have also agreed to achieve specified research, development and regulatory milestones by specified dates. If we do not achieve a given milestone by the agreed date, we have the option of paying the amount we would have been obligated to pay had we timely achieved the milestone, and, if we do so, St. Vincent s will not have the right to terminate the license agreement based on our failure to timely achieve such milestone.

We have also agreed that, for as long as there is a valid claim in the licensed patents, we will not, and we will ensure that our affiliates and our sublicensees do not, develop or commercialize any product, other than a licensed therapeutic product, for the treatment, prevention or prophylaxis of cachexia, decreased appetite or body weight, that binds to GDF-15 or the GDF-15 receptor and that is a GDF-15 antagonist, and will not license or induce any other person to do the same.

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In connection with entering into the license agreement with St. Vincent s, we paid St. Vincent s an upfront license fee of $0.7 million and a low five-figure amount to reimburse St. Vincent s for patent-related expenses it incurred with respect to a specified licensed patent.

Under our license agreement with St. Vincent s, we may be required to:

- make milestone payments, up to an aggregate total of $9.2 million, upon achievement of specified research, development and regulatory milestones for the first three indications for licensed therapeutic products, some of which payments may be increased by a mid to high double-digit percentage rate for milestones payments made after we grant any sublicense under the license agreement, depending on the sublicensed territory or territories;

- pay tiered royalty payments equal to a low-single-digit percentage of any net sales we or our sublicensees make of licensed therapeutic products. The royalty rate escalates within the low-single-digit range during each calendar year based on increasing licensed therapeutic product sales during such calendar year. Our royalty payment obligations for a licensed therapeutic product in a particular country end on the later of 10 years after the date of first commercial sale of such licensed therapeutic product in such country or expiration of the last-to-expire valid claim of the licensed patents covering such licensed therapeutic product in such country, and are subject to offsets under certain circumstances;

- pay St. Vincent s sublicensing fees of up to an aggregate amount in the low-to-mid six-digits, depending on the sublicensed territory or territories, at the time we grant any sublicense; and

- reimburse St. Vincent s for some or all of the reasonable costs and expenses it incurs in patent management, filing, prosecuting and maintaining the licensed patents.

The license agreement will remain in effect until the later of 10 years after the date of first commercial sale of licensed therapeutic products in the last country in which a commercial sale is made, or expiration of the last-to-expire valid claim of the licensed patents, unless we elect, or St. Vincent s elects, to terminate the license agreement earlier.

Either party has the right to terminate the agreement in connection with a material breach of the agreement by the other party that remains uncured for a specified cure period, or in connection with events relating to the other party s insolvency or bankruptcy, or if a force majeure event continues for more than 4 months.

St. Vincent s has the right to terminate the agreement due to any patent-related challenge by us, our affiliates or any sublicensee, or if we or our affiliates or any sublicensee cause or induce any other person to make a patent-related challenge, and such challenge continues after a specified cure period.

We have the right to terminate the agreement on 6 months notice if we terminate our GDF-15 research and development programs as a result of the failure of a licensed therapeutic product in pre-clinical or clinical development, or if we form the reasonable view that further GDF-15 research and development is not commercially viable, and we are not then in breach of any of our obligations under the agreement. If we form the reasonable view that further GDF-15 research and development is not commercially viable and terminate the agreement before we start a phase 1 clinical trial on a licensed therapeutic product, we will be required to pay St. Vincent s a low-to-mid six-figure termination payment.

We may also terminate the agreement on 60 days notice if certain licensed patents become invalid or unenforceable prior to July 2, 2014, are not in breach of any of our obligations under the agreement, and we, our affiliates and sublicensees have not made a patent-related challenge.

Any termination of the agreement, in whole or in part, will result in a loss of our rights to the relevant licensed patents and know-how. If St. Vincent s terminates the agreement in its entirety due to our breach, insolvency or a patent-related challenge, or we terminate the agreement due to a development failure or lack of

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commercial viability, as described above, St. Vincent s will have a non-exclusive license from us to certain intellectual property rights and know-how relating to the licensed therapeutic products, and we must transfer to St. Vincent s certain then-existing regulatory approvals and related documents for the licensed therapeutic products.

Kyowa Hakko Kirin

In December 2006, we entered into a license agreement with Kirin Brewery Co. Ltd. (now Kyowa Hakko Kirin) which we sometimes refer to as KHK, under which we obtained an exclusive license, with the right to grant sublicenses subject to certain restrictions, to research, develop, manufacture and commercialize tivozanib, pharmaceutical compositions thereof and associated biomarkers. Our exclusive license covers all territories in the world, except for Asia. KHK has retained rights to tivozanib in Asia. Under the license agreement, we obtained exclusive rights in our territory under certain KHK patents, patent applications and know-how related to tivozanib, to research, develop, make, have made, use, import, offer for sale, and sell tivozanib for the diagnosis, prevention and treatment of any and all human diseases and conditions. We and KHK each have access to and can benefit from the other party s clinical data and regulatory filings with respect to tivozanib and biomarkers identified in the conduct of activities under the license agreement.

Under the license agreement, we are obligated to use commercially reasonable efforts to develop and commercialize tivozanib in our territory, including meeting certain specified diligence goals. Prior to the first anniversary of the first post-marketing approval sale of tivozanib in our territory, neither we nor any of our subsidiaries has the right to conduct certain clinical trials of, seek marketing approval for or commercialize any other cancer product that also works by inhibiting the activity of the VEGF receptor.

Upon entering into the license agreement with KHK, we made a one-time cash payment in the amount of $5.0 million. In addition, we are required to make various milestone payments which could total, in the aggregate, $60.0 million, including a milestone payment in connection with the TIVO-1 study and certain other milestone payments upon the achievement of specified regulatory milestones. In March 2010, we made a $10.0 million milestone payment to KHK in connection with the dosing of the first patient in our phase 3 clinical trial of tivozanib. We made a $22.5 million payment to KHK during the year ended December 31, 2011 related to the up-front license payment received under the collaboration and license agreement with Astellas which we entered into in February 2011. In December 2012, we made a $12.0 million milestone payment to KHK in connection with the acceptance by the FDA of our NDA filing for tivozanib. We are also required to pay tiered royalty payments on net sales we make of tivozanib in our territory, which range from the low to mid teens as a percentage of net sales. The royalty rate escalates within this range based on increasing tivozanib sales. Our royalty payment obligations in a particular country in our territory begin on the date of the first commercial sale of tivozanib in that country, and end on the later of 12 years after the date of first commercial sale of tivozanib in that country or the date of the last to expire of the patents covering tivozanib that have been issued in that country. In the event we sublicense the rights licensed to us under the license agreement, we are required to pay KHK a specified percentage of any amounts we receive from any third party sublicensees, other than amounts we receive in respect of research and development funding or equity investments, subject to certain limitations.

Astellas Pharma

In February 2011, we entered into a collaboration and license agreement with Astellas and certain of its indirect wholly-owned subsidiaries in connection with which we and Astellas made plans to develop and seek to commercialize tivozanib for the treatment of a broad range of cancers. On February 12, 2014, Astellas exercised its right to terminate the agreement, as a result of the limited scope of development for tivozanib moving forward. The termination of the agreement will be effective August 11, 2014, at which time tivozanib rights will be returned to us. In accordance with the agreement, committed development costs, including the costs of winding own discontinued tivozanib clinical development programs, will be shared equally. There are no refund provisions in the agreement.

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Under the terms of the collaboration agreement, we and Astellas shared responsibility for continued development and commercialization of tivozanib in the United States, Canada and Mexico, which we refer to collectively as North America, and Europe under the joint development plan and joint commercialization plan, respectively. Throughout the rest of the world (which excludes North America, Europe and Asia), which we refer to as the royalty territory, Astellas had an exclusive, royalty-bearing license to develop and commercialize tivozanib.

In connection with the agreement, we received an initial cash payment of $125.0 million, comprised of a $75.0 million license fee and $50.0 million in research and development funding, both of which are non-creditable and non-refundable against any amounts due under the collaboration agreement. We retained net proceeds of approximately $97.6 million of the initial cash payment from Astellas, after payments to KHK and strategic, legal and financial advisors. In December 2012, we received a $15.0 million milestone payment from Astellas in connection with the acceptance by the FDA of our NDA filing for tivozanib for the treatment of patients with advanced RCC. We have elected to recognize all milestone payments as revenue once the milestones have been triggered if the milestone is deemed to be substantive.

We are accounting for the joint development and commercialization activities in North America and Europe as a joint risk-sharing collaboration in accordance with Accounting Standards Codification, or ASC, 808 *Collaborative Arrangements*. In addition, these joint development and commercialization activities were not deemed to be separate deliverables under the agreement with Astellas.

Payments from Astellas with respect to Astellas share of tivozanib development and commercialization costs incurred by the Company pursuant to the joint development plan are recorded as a reduction to research and development expense and general and administrative expense in the accompanying consolidated financial statements due to the joint risk-sharing nature of the activities in North America and Europe. As a result of the cost-sharing provisions in the Astellas Agreement, the Company reduced research and development expense by $15.8 million, $34.1 million and $26.7 million during the years ended December 31, 2013, 2012, and 2011, respectively. The Company also reduced general and administrative expense by $2.8 million, $3.3 million, and $1.2 million during the years ended December 31, 2013, 2012 and 2011, respectively, as a result of the cost-sharing provisions in the Astellas Agreement. The net amount due to the Company from Astellas pursuant to the cost-sharing provisions was $1.0 million at December 31, 2013.

Activities under the agreement with Astellas outside of the joint development and commercialization activities in North America and Europe were evaluated under ASC 605-25 *Revenue Recognition Multiple Element Arrangements*, or ASC 605-25, to determine if they represented a multiple element revenue arrangement. The agreement with Astellas includes the following deliverables outside of the joint development and commercialization activities in North America and Europe: a co-exclusive license to develop and commercialize tivozanib in North America and Europe; a royalty-bearing license to develop and commercialize tivozanib in the royalty territory, which includes our obligation to provide access to clinical and regulatory information resulting from the activities in North America and Europe to Astellas for its development and commercialization of tivozanib in the royalty territory; and our obligation to supply clinical material to Astellas for development of tivozanib in the royalty territory. The co-exclusive license in North America and Europe is not sublicensable. Astellas has the right to sublicense the exclusive royalty-bearing license to develop and commercialize tivozanib in the royalty territory. Our obligation to provide access to clinical and regulatory information as part of the royalty territory deliverable includes the obligation to provide access, upon request, to all clinical data, regulatory filings, safety data and manufacturing data to Astellas for use in the development and commercialization of tivozanib in the royalty territory. The obligation to supply clinical material to Astellas for development in the royalty territory includes supplying such clinical material in accordance with current good manufacturing practices applicable to clinical materials and other relevant regulatory authority requirements, upon request, for the development of tivozanib in the royalty territory. All of these deliverables were deemed to have stand-alone value and to meet the criteria to be accounted for as separate units of accounting under ASC 605-25. ASC 605-25 establishes a selling price hierarchy for determining the selling price of a deliverable, which includes: (1) vendor-specific objective evidence if available; (2) third-party evidence if vendor-specific objective

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evidence is not available; and (3) estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. We allocated the up-front consideration of $125 million to the deliverables based on our best estimate of selling price of each deliverable using the relative selling price method as we did not have vendor specific objective evidence or third-party evidence for such deliverables. Our best estimate of selling price considered discounted cash flow models, the key assumptions of which included the market opportunity for commercialization of tivozanib in North America and Europe and in the royalty territory, the development costs and market opportunity for the expansion of tivozanib into other solid tumor types, and the time to commercialization of tivozanib for all potential oncology indications. We allocated $120.2 million of the up-front consideration from Astellas to the co-exclusive license in North America and Europe and $4.8 million of the up-front consideration from Astellas to the combined deliverable representing a royalty-bearing license to develop and commercialize tivozanib in the royalty territory along with our obligation to provide access to clinical and regulatory information resulting from the activities in North America and Europe to Astellas for its use in the royalty territory. The relative selling price for our obligation to supply clinical material to Astellas for development in the royalty territory had *de minimis* value.

We recorded the $120.2 million relative selling price of the co-exclusive license granted in North America and Europe as collaboration revenue during the three months ended March 31, 2011 upon delivery of the license, and deferred approximately $4.8 million of revenue representing the relative selling price of the royalty-bearing license to develop and commercialize tivozanib in the royalty territory along with our obligation to provide access to clinical and regulatory information resulting from the activities in North America and Europe to Astellas for its use in the royalty territory. We are recording the $4.8 million ratably over the period of our performance through April 2022, the remaining patent life of tivozanib. We estimated the period of performance considering that we plan to develop tivozanib with Astellas in several indications, including in breast cancer and colorectal cancer and potentially in other cancer indications. The clinical development of tivozanib in these indications is in earlier stages of development and, as a result, the clinical development timeline is uncertain and is expected to change as we obtain additional clinical data in these indications. As a result, we estimated the period of performance as the remaining patent life of tivozanib as it represents the longest period over which development of tivozanib could occur. We reassess the period of performance at each reporting period. We recorded approximately $0.4 million of revenue associated with the Royalty Territory Deliverable during each of the years ended December 31, 2013, 2012 and 2011. We expect to adjust its estimate of the expected period of performance in the first quarter of 2014 as a result of Astellas decision to terminate the agreement effective August 2014.

Biogen Idec

In March 2009, we entered into an exclusive option and license agreement with Biogen Idec, regarding the development and commercialization of our discovery-stage ErbB3-targeted antibodies for the potential treatment and diagnosis of cancer and other diseases in humans outside of North America. Under the agreement, we are responsible for developing ErbB3 antibodies through completion of the first phase 2 clinical trial designed in a manner that, if successful, will generate data sufficient to support advancement to a phase 3 clinical trial. Until a specified time after we complete this phase 2 clinical trial and deliver to Biogen Idec a detailed data package containing the results thereof, Biogen Idec may elect to obtain (1) a co-exclusive (with us) worldwide license, including the right to grant sublicenses, under our relevant intellectual property to develop and manufacture ErbB3 antibody products, and (2) an exclusive license, including the right to grant sublicenses, under our relevant intellectual property, to commercialize ErbB3 antibody products in all countries in the world other than North America. We retain the exclusive right to commercialize ErbB3 antibody products in North America.

We account for the Biogen Idec arrangement pursuant to ASC 605-25. The deliverables under the arrangement include an option for a co-exclusive, worldwide license to develop and manufacture ErbB3 antibody products and an option for an exclusive license to commercialize ErbB3 antibody products in all countries in the world other than North America. We determined that these deliverables did not have standalone value due to the fact that the program was still in preclinical development and required our experience to advance development of the product. As such, we determined that the agreement should be accounted for as one unit of accounting.

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Under the terms of the agreement, Biogen Idec paid us an up-front cash payment of $5.0 million in March 2009, which is being amortized over the period of our substantial involvement, defined as the patent life of the development candidate. In addition, Biogen Idec purchased 7,500,000 shares of series E convertible preferred stock at a per share price of $4.00, resulting in gross proceeds to us of $30.0 million. We determined that the price of $4.00 paid by Biogen Idec represented a premium of $1.09 per share over the fair value of the series E convertible preferred stock of $2.91 as calculated by us in our retrospective stock valuation; accordingly, we are recognizing the premium of $8.2 million as revenue on a straight-line basis over the period of substantial involvement. In connection with the initial public offering we consummated in March 2010 and the related 1:4 reverse stock split of our common stock, each four shares of outstanding series E convertible preferred stock were converted into one share of common stock.

In June 2009, we earned a $5.0 million milestone payment for achievement of the first pre-clinical discovery milestone under the agreement. Since the $5.0 million milestone payment earned in June 2009 was related to a near-term milestone and not considered to be substantive, the revenue is being amortized as additional license revenue over our period of substantial involvement. We also earned a second $5.0 million milestone payment upon selection of a development candidate in March 2010 and a third $5.0 million milestone payment based on achieving the Good Laboratory Practices, or GLP, toxicology initiation milestone in June 2011. These milestones were considered substantive and were included in revenue for the quarters ended March 31, 2010 and June 30, 2011, respectively. We could also receive an option exercise fee of $5.0 million and regulatory milestone payments of up to $45.0 million in the aggregate if Biogen Idec exercises its option to obtain exclusive rights to commercialize ErbB3 antibody products in its territory. The first regulatory milestone we may receive pursuant to this agreement of $25.0 million is due upon the receipt of the first regulatory approval of a licensed product from the EMA. We do not expect to achieve this milestone in the near future.

OSI Pharmaceuticals

In September 2007, we entered into a collaboration and license agreement with OSI Pharmaceuticals, Inc. (a wholly-owned subsidiary of Astellas US Holding Inc., a holding company owned by Astellas Pharma Inc.), or OSI. This strategic partnership is primarily focused on the identification and validation of genes and targets involved in the processes of epithelial-mesenchymal transition or mesenchymal-epithelial transition, in cancer. In July 2009, we expanded our strategic partnership with OSI and we granted OSI a non-exclusive license to use our proprietary bioinformatics platform, and non-exclusive, perpetual licenses to use bioinformatics data and to use a proprietary gene index related to a specific target pathway.

Under the July 2009 expanded agreement, if all applicable milestones are achieved, all remaining payments for the successful achievement of discovery, development and commercialization milestones under the agreement could total, in the aggregate, over $46.0 million, comprised of approximately (i) $8.4 million in substantive milestone payments upon achievement of specified clinical and development milestone events, (ii) $20.7 million in substantive milestone payments upon achievement of specified regulatory milestone events, and (iii) $17.5 million in milestone payments upon the achievement of specified sales events. In addition, we are eligible to receive up to $24.0 million in biomarker-related milestones.

In March 2011, we earned $1.5 million related to deliverables and research milestones under the agreement. In May 2012, we earned a patent-related milestone payment of $0.3 million upon filing of a patent application by OSI, and we also earned a clinical and development milestone payment of $0.8 million for commencement by OSI of GLP toxicology studies.

The next milestone payment that we may receive pursuant to this agreement is a $2.0 million clinical and development milestone for phase 1 clinical trial dosing. The next regulatory milestone payment we may receive pursuant to this agreement is $7.0 million to be achieved for the filing of an NDA with the FDA. We do not expect to achieve either of these milestones in the near future.

The collaboration and license agreement will remain in effect until the expiration of both OSI s royalty obligations to us, and our royalty obligations to OSI, in each case determined on a product-by-product and

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country-by-country basis. Either party has the right to terminate the agreement in connection with a material breach of the agreement by the other party that remains uncured for a specified cure period. If OSI elects to terminate the agreement due to our material breach, we will lose our rights to certain intellectual property developed under the strategic partnership, and OSI will have the right to reduce its milestone and royalty obligations to us by the amount of monetary damages suffered by OSI as a direct result of our material breach. If we elect to terminate the agreement due to OSI s material breach of the agreement, OSI s licenses to all targets and products will terminate and revert to us, subject to our continued milestone and royalty payment obligations to OSI, which we will have the right to reduce by the amount of monetary damages we suffer as a direct result of OSI s breach. OSI may elect to terminate the agreement with respect to a particular collaboration target and all its associated products, in which event OSI s license to such target and products terminates and reverts to us, subject to our continued milestone and royalty payment obligations to OSI. For a specified time period after such termination, OSI and its affiliates may not, nor may they grant third parties the right to, conduct research or development activities with respect to the terminated collaboration target

All milestone payments earned prior to July 2011 were for selection of targets, delivery of models, delivery of tumor archives or delivery of cell lines. These milestones were not considered to be substantive and at risk, therefore, the milestone payments were deferred and were recognized on a straight-line basis over the remaining estimated period of substantial involvement, which ended in July 2011. Upon commercialization of products which were part of the research program under the agreement, we are eligible to receive tiered royalty payments on sales of products by OSI, its affiliates and sublicensees.

Centocor Ortho Biotech

In May 2011, we entered into an exclusive license agreement with Centocor Ortho Biotech Inc., or Centocor, for the worldwide development and commercialization of antibodies, including our internally-discovered antibodies targeting the Recepteur d Origine Nantais, or RON receptor, including the grant to Centocor of an exclusive, worldwide license to our proprietary RON-driven tumor models. On September 7, 2012, we received notice from Centocor of termination of the Centocor License Agreement, effective on December 6, 2012, at which point all rights and the responsibility for future research and development, manufacturing and commercialization activities and costs of the RON antibody program granted to Centocor under the Centocor License Agreement returned to us.

In connection with the Centocor license agreement, we received a one-time cash payment in the amount of $7.5 million and a separate equity investment in the amount of approximately $7.5 million through the purchase by Johnson & Johnson Development Corporation, an affiliate of Centocor, of 438,340 newly issued shares of our common stock at a purchase price of $17.11 per share which reflected the average of the daily volume weighted average prices for our common stock for the 30 consecutive trading days ending on May 26, 2011. This weighted average sales price of $17.11 per share resulted in a $1.22 per share discount from the May 31, 2011 closing price of $18.33 per share, or a discount of $534,775 from the fair market value of the common stock on the effective date of the Centocor license agreement. We determined this transaction was not within the scope of ASC 605-25 and, accordingly, we recorded the sale of common stock to Johnson & Johnson Development Corporation at fair value based on the closing price of our stock on May 31, 2011 of $18.33 per share. Centocor also funded certain research which we conducted during the term of the Centocor License Agreement, which, as noted above, terminated on December 6, 2012.

Schering-Plough Corporation (now Merck)

In March 2007, we entered into an agreement with Schering-Plough Corporation (now Merck), through its subsidiary Schering Corporation, acting through its Schering-Plough Research Institute division, under which we granted Merck exclusive, worldwide rights to develop and commercialize all of our monoclonal antibody antagonists of HGF, including ficlatuzumab, for therapeutic and prophylactic use in humans and for veterinary use. We also granted Merck an exclusive, worldwide license to related biomarkers for diagnostic use. Merck was responsible for all costs related to the clinical development of ficlatuzumab and clinical and commercial

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manufacturing. As of December 27, 2010, the effective date of the termination of our collaboration with Merck relating to ficlatuzumab, we became responsible for all process development and all manufacturing of ficlatuzumab for future development and commercialization. In March 2011, in connection with the transition of responsibility for the ficlatuzumab program from Merck back to us, we made a $10.2 million payment to Merck for the purchase of a supply of ficlatuzumab to support ongoing clinical studies and expensed such payment during the year ended December 31, 2011, as title passed to us.

Financial Overview

Over the past several months, we have initiated several cost containment activities that have reduced operating expenses by approximately 50% on a quarter-over-quarter basis. With these activities in place, we were able to finish 2013 with $118.5 million in cash, cash equivalents and marketable securities, providing us the financial leverage to execute our strategy going forward.

Revenue

To date, we have not generated any revenue from product sales. All of our revenue to date has been derived from license fees, milestone payments, premium over the fair value of convertible preferred shares sold to our strategic partners, and research and development payments received from our strategic partners.

In the future, we may generate revenue from a combination of product sales, license fees, milestone payments and research and development payments in connection with strategic partnerships, and royalties resulting from the sales of products developed under licenses of our intellectual property. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, research and development reimbursements, milestone and other payments received under our strategic partnerships, and the amount and timing of payments that we receive upon the sale of our products, to the extent any are successfully commercialized. We do not expect to generate revenue from product sales in the near term. If we or our strategic partners fail to complete the development of our drug candidates in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, and our results of operations and financial position, would be materially adversely affected.

Research and Development Expenses

Research and development expenses consist of expenses incurred in connection with the discovery and development of our product candidates. These expenses consist primarily of:

- employee-related expenses, which include salaries, benefits and stock-based compensation expense;
- expenses incurred under agreements with contract research organizations, investigative sites and consultants that conduct our clinical trials and a substantial portion of our preclinical studies;
- the cost of acquiring and manufacturing clinical trial materials, as well as commercial materials prior to our anticipated launch of tivozanib;
- the cost of winding down discontinued tivozanib clinical development programs;
- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and equipment, and depreciation of fixed assets;
- license fees for, and milestone payments related to, in-licensed products and technology; and

costs associated with outsourced development activities, regulatory approvals and medical affairs.

We expense research and development costs as incurred. Nonrefundable advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made.

Research and development expenses are net of amounts reimbursed under our agreement with Astellas for Astellas share of development costs incurred by us under our joint development plan with Astellas.

Conducting a significant amount of research and development is central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later stage clinical trials. We

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plan to continue to expend considerable resources on our research and development expenses as we seek to complete development of product candidates. We expect our total research and development expenses to decrease in comparison to prior periods as we continue to wind-down our tivozanib development program and focus our efforts on potential first-in-class opportunities that are currently in earlier stages of development, such as our AV-380 program.

We track external development expenses and personnel expense on a program-by-program basis and allocate common expenses, such as scientific consultants and laboratory supplies, to each program based on the personnel resources allocated to such program. Facilities, depreciation, stock-based compensation, research and development management and research and development support services are not allocated among programs and are considered overhead. We expect our overhead expenses to decrease in future periods as we consolidate our leased facilities in 2014. Below is a summary of our research and development expenses for the years ended December 31, 2013, 2012 and 2011:

	Years Ended December 31,		
	2013	2012	2011
	(in thousands)		
Tivozanib	$ 25,060	$ 41,183	$ 48,158
Ficlatuzumab	12,573	13,097	24,165
AV-203	5,698	8,247	6,362
AV-380 Program in Cachexia	4,308	2,560	1,673
Other pipeline programs	1,299	4,769	4,980
Platform collaborations		1,340	2,632
Other research and development	376	1,027	1,367
Overhead	19,154	19,135	12,398
Total research and development expenses	$ 68,468	$ 91,358	$ 101,735

Tivozanib

On November 27, 2012, the U.S. Food and Drug Administration, or FDA, accepted for filing our New Drug Application, or NDA, for tivozanib, our lead product candidate, with the proposed indication for the treatment of patients with advanced renal cell carcinoma, or RCC. On May 2, 2013, we were informed by the FDA that its Oncologic Drugs Advisory Committee, or ODAC, voted 13 to 1 that our NDA for investigational agent tivozanib did not demonstrate a favorable benefit-to-risk evaluation for the treatment of advanced RCC in an adequate and well-controlled trial. We subsequently announced on June 10, 2013 that we had received a complete response letter from the FDA informing us that the FDA will not approve in its present form our NDA for AVEO s investigational agent tivozanib for the treatment of patients with advanced RCC.

In 2012, we announced detailed data from our global, phase 3 clinical trial comparing the efficacy and safety of tivozanib with Nexavar® (sorafenib), an approved therapy, for first-line treatment in advanced RCC, which we refer to as the TIVO-1 (Tivozanib Versus Sorafenib in 1st line Advanced RCC) study. The TIVO-1 study was conducted in patients with advanced clear cell RCC who had undergone a prior nephrectomy (kidney removal) and who had not received any prior VEGF- or mTOR-targeted therapy. This phase 3 trial met its primary endpoint for progression-free survival.

We also evaluated tivozanib in two clinical trials, including BATON-CRC, a phase 2 clinical trial conducted by our partner, Astellas, to evaluate tivozanib in combination with mFOLFOX6 compared to Avastin in combination with mFOLFOX6 as first-line therapy in patients with advanced metastatic colorectal cancer, or CRC, and BATON-BC, a phase 2 clinical trial to evaluate the efficacy of tivozanib in combination with paclitaxel compared to placebo in combination with paclitaxel in patients with locally recurrent or metastatic triple negative breast cancer who have received no prior systemic therapy, for which we initiated enrollment in the fourth quarter of 2012. On January 30, 2014, we announced that we and Astellas jointly decided to discontinue the BATON-BC clinical trial, due to insufficient enrollment. On December 13, 2013, we announced that the BATON-CRC study was unlikely to meet the primary endpoint in the intent-to-treat population and on February 14, 2014, we announced that we and Astellas agreed to discontinue this study.

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We entered into a collaboration and license agreement with Astellas in February 2011, pursuant to which we and Astellas shared responsibility for tivozanib, including expenses for continued development and commercialization of tivozanib, in North America and Europe. Astellas was responsible for continued development and commercialization of tivozanib outside of North America, Europe and Asia. All costs associated with each party s conduct of development and commercialization activities in North America and Europe, and any resulting profits or losses, are shared equally between the parties pursuant to a joint development plan. We have included $15.8 million, $34.1 million and $26.7 million in research and development cost reimbursements as a reduction in tivozanib-related expenses for the years ended December 31, 2013, 2012 and 2011, respectively. We also made a $22.5 million payment to KHK during the year ended December 31, 2011 related to the up-front license payment received under the collaboration and license agreement with Astellas which we entered into in February 2011. In December 2012, we made a $12.0 million milestone payment to KHK in connection with the acceptance of our NDA filing for tivozanib. On February 12, 2014, as a result of the limited scope of development for tivozanib moving forward, Astellas elected to terminate our collaboration and license agreement pursuant to its terms. Pursuant to the terms of the Agreement, the termination will be effective 180 days from the date of the notice, or August 11, 2014, at which time tivozanib rights will be returned to us. Committed development costs, including the costs of winding down discontinued tivozanib clinical development programs, will be shared equally.

With the termination of our partnership with Astellas, we do not plan to commit to further development of tivozanib at this time. We and Astellas will share the costs of winding down the discontinued tivozanib clinical development programs. We expect our share of tivozanib wind down costs to be approximately $12.0 million during 2014. The actual amount that we will incur may differ from this estimate depending upon our ability to expedite the termination of our existing obligations while continuing to satisfy our patient and regulatory requirements. As a result of the wind down activities, we expect research and development expenses related to tivozanib to decrease in the near-term as compared to prior periods. Upon regaining the rights for the development and commercialization of tivozanib in August 2014 from Astellas, we will consider further partnering options based on what we believe is a favorable risk and benefit profile which could provide benefit to patients in certain indications.

Ficlatuzumab

In September 2012, we announced detailed data from our phase 2 clinical trial comparing the combination of ficlatuzumab and gefitinib to gefitinib monotherapy in previously untreated Asian subjects with non-small cell lung cancer. In the intent-to-treat population, the addition of ficlatuzumab to gefitinib did not result in statistically significant improved overall response rate. We are currently exploring potential partnership opportunities to support further clinical research of ficlatuzumab.

In November 2011, we entered into an agreement with Boehringer Ingelheim for large-scale process development and clinical manufacturing of ficlatuzumab. Boehringer Ingelheim will produce ficlatuzumab at its biopharmaceutical site in Fremont, CA. We have retained all rights to the development and commercialization of ficlatuzumab. Due to the unpredictable nature of preclinical and clinical development, we are unable to estimate with any certainty the costs we will incur in the future development of ficlatuzumab.

AV-203

Through the use of our Human Response Platform, we have identified antibodies that have been shown to be potent and selective inhibitors of ErbB3 in preclinical studies. In preclinical testing, these antibodies have significantly inhibited the growth of a number of different tumors, including in breast, prostate and pancreatic cancers. We have granted Biogen Idec an exclusive option to co-develop (with us) and commercialize our ErbB3-targeted antibodies for the potential treatment and diagnosis of cancer and other diseases outside of North America. Upon the selection of AV-203 as a development candidate in the first quarter of 2010, we earned a $5.0 million milestone payment from Biogen Idec, and we earned an additional $5.0 million milestone payment in

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June 2011 based on initiation of a GLP toxicology study. In May 2012, we announced the initiation of a phase 1 clinical trial examining the safety, tolerability and preliminary efficacy of AV-203 along with exploratory biomarkers in patients with metastatic or advanced solid tumors. Subject to our ability to regain certain rights from Biogen Idec, we will seek to resume clinical development with a third party. Due to the unpredictable nature of preclinical and clinical development and given the early stage of this program, we are unable to estimate with any certainty the costs we will incur in the future development of AV-203.

AV-380 Program in Cachexia

In 2012, we initiated a program focusing on cachexia, which we now refer to as our AV-380 program. Cachexia is a serious and common complication of advanced cancer and a number of chronic diseases that is characterized by symptoms of unintentional weight loss, progressive muscle wasting, and a loss of appetite. Cancer cachexia is defined as a multi-factorial syndrome of involuntary weight loss characterized by an ongoing loss of skeletal muscle mass (with or without loss of fat mass) that cannot be fully reversed by conventional nutritional support and leads to progressive functional impairment. The pathophysiology is characterized by a negative protein and energy balance driven by a variable combination of reduced food intake and abnormal metabolism. Other symptoms of cachexia include anemia, breathing difficulties, edema, insulin resistance, muscle weakness/asthenia, and fatigue.

In connection with our cachexia program, we have in-licensed certain patents and patent applications from St. Vincent s Hospital in Sydney, Australia. In December 2013, we presented preclinical data at the 7th Annual Cachexia Conference in Kobe, Japan, demonstrating that growth differentiating factor-15, or GDF-15, induces anorexia and cachexia in mice, suggesting GDF-15 to be a novel target for cachexia. In 2013, we initiated cell line development of AV-380, an antibody discovered using our Human Response Platform, and nominated AV-380 as the development candidate for the program. Appropriate IND-enabling efforts, including cell line development, have been initiated to prepare AV-380 for future clinical development. We expect to initiate clinical development of AV-380 in the second half of 2015.

As we focus our efforts on our cachexia program, we expect our costs associated with this program to increase.

Other Pipeline Programs

The expenses related to our other pipeline programs are expected to decrease as a result of our strategic decision to prioritize certain product candidates currently in clinical or preclinical development. Future research and development costs for our pipeline programs are not reasonably certain because such costs are dependent on a number of variables, including the success of preclinical studies and the identification of other potential candidates.

Platform Collaborations

On September 7, 2012, we received notice from Centocor of termination effective on December 6, 2012, of its license agreement with us, at which point all rights to and the responsibility for future research and development of the RON antibody program returned to us. Centocor funded certain translational research studies using our proprietary Human Response Platform related to the RON program. The related expenses were captured as a cost of the agreement with Centocor.

We also performed research services for OSI using our Human Response Platform under a collaboration and license agreement with OSI that concluded in July 2011. The related expenses, including personnel and related expenses, were captured as a cost of the agreement with OSI Pharmaceuticals. Expenses incurred under these agreements with Centocor and OSI were fully supported by the revenue from these agreements.

Other Research and Development

Other research and development includes expenses related to our Human Response Platform, which are not specifically related to a particular product candidate or a specific strategic partnership.

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Uncertainties of Estimates Related to Research and Development Expenses

The process of conducting preclinical studies and clinical trials necessary to obtain FDA approval for each of our product candidates is costly and time-consuming. The probability of success for each product candidate and clinical trial may be affected by a variety of factors, including, among others, the quality of the product candidate s early clinical data, investment in the program, competition, manufacturing capabilities and commercial viability.

At this time, we cannot reasonably estimate or know the nature, specific timing and estimated costs of the efforts that will be necessary to complete the development of our product candidates, or the period, if any, in which material net cash inflows may commence from sales of any approved products. This uncertainty is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for any product candidate;
- the progress and results of our clinical trials;
- the costs related to the winding down of the discontinued tivozanib clinical development programs;
- the costs, timing and outcome of regulatory review of our product candidates;
- our ability to establish and maintain strategic partnerships, the terms of those strategic partnerships and the success of those strategic partnerships, if any, including the timing and amount of payments that we might receive from strategic partners;
- the emergence of competing technologies and products and other adverse market developments; and
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property-related claims.

As a result of the uncertainties associated with developing drugs, including those discussed above, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates, or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates. Development timelines, probability of success and development costs vary widely. We anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success, if any, of each product candidate, as well as ongoing assessment of each product candidate s commercial potential. We will need to raise substantial additional capital in the future in order to fund the development of our preclinical and clinical product candidates.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, corporate development, marketing, information technology, legal and human resource functions. Other general and administrative expenses include facility costs not otherwise included in research and development expenses, patent filing, prosecution and defense costs and professional fees for legal, consulting, pre-commercialization activities, auditing and tax services.

We anticipate that our general and administrative expenses will decrease due to the elimination of activities and infrastructure supporting tivozanib. This decrease may be partially offset by an increase in legal costs associated with the ongoing shareholder litigation and SEC investigation described in this report under the heading Legal Proceedings above in Part I Item 3.

Interest Income and Interest Expense

Interest income consists of interest earned on our cash, cash equivalents and marketable securities. The primary objective of our investment policy is capital preservation.

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Interest expense consists of interest, amortization of debt discount, and amortization of deferred financing costs associated with our loans payable.

Income Taxes

We calculate our provision for income taxes on ordinary income based on our projected annual tax rate for the year. We recorded net income for the first time during the year ended December 31, 2011. We utilized certain of our net operating loss carryforwards to offset taxable income, which resulted in an effective tax rate of 0% for the year ended December 31, 2011. As such, we did not record an income tax provision for the year ended December 31, 2011. We recorded a loss for the years ended December 31, 2013 and 2012, and since we maintain a full valuation allowance on all of our deferred tax assets, we have recorded no income tax provision or benefit during the years ended December 31, 2013 and 2012.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued clinical expenses, and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors that we and our management believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in more detail in the notes to our consolidated financial statements appearing elsewhere in this report. We believe the following accounting policies to be most critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our revenues are generated primarily through collaborative research, development and commercialization agreements. The terms of these agreements generally contain multiple elements, or deliverables, which may include (i) licenses, or options to obtain licenses, to our technology, (ii) research and development activities to be performed on behalf of the collaborative partner, and (iii) in certain cases, services in connection with the manufacturing of pre-clinical and clinical material. Payments to us under these arrangements typically include one or more of the following: non-refundable, up-front license fees; option exercise fees; funding of research and/or development efforts; milestone payments; and royalties on future product sales.

When evaluating multiple element arrangements, we consider whether the deliverables under the arrangement represent separate units of accounting. This evaluation requires subjective determinations and requires management to make judgments about the individual deliverables and whether such deliverables are separable from the other aspects of the contractual relationship. In determining the units of accounting, management evaluates certain criteria, including whether the deliverables have standalone value, based on the consideration of the relevant facts and circumstances for each arrangement. The consideration received is allocated among the separate units of accounting using the relative selling price method, and the applicable revenue recognition criteria are applied to each of the separate units.

We determine the estimated selling price for deliverables within each agreement using vendor-specific objective evidence, or VSOE, of selling price, if available, third-party evidence, or TPE, of selling price if VSOE is not available, or best estimate of selling price if neither VSOE nor TPE is available. Determining the best estimate of selling price for a deliverable requires significant judgment. We typically use best estimate of selling

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price to estimate the selling price for licenses to our proprietary technology, since we often do not have VSOE or TPE of selling price for these deliverables. In those circumstances where we utilize best estimate of selling price to determine the estimated selling price of a license to our proprietary technology, we consider market conditions as well as entity-specific factors, including those factors contemplated in negotiating the agreements as well as internally developed models that include assumptions related to the market opportunity, estimated development costs, probability of success and the time needed to commercialize a product candidate pursuant to the applicable license. In validating our best estimate of selling price, we evaluate whether changes in the key assumptions used to determine the best estimate of selling price will have a significant effect on the allocation of arrangement consideration between multiple deliverables.

We typically receive up-front, non-refundable payments when licensing our intellectual property in conjunction with a research and development agreement. When management believes the license to our intellectual property does not have stand-alone value from the other deliverables to be provided in the arrangement, we generally recognize revenue attributed to the license on a straight-line basis over our contractual or estimated performance period, which is typically the term of our research and development obligations. If management cannot reasonably estimate when our performance obligation ends, then revenue is deferred until management can reasonably estimate when the performance obligation ends. When management believes the license to our intellectual property has stand-alone value, we generally recognize revenue attributed to the license upon delivery. The periods over which revenue should be recognized are subject to estimates by management and may change over the course of the research and development agreement. Such a change could have a material impact on the amount of revenue we record in future periods.

Payments or reimbursements resulting from our research and development efforts for those arrangements where such efforts are considered as deliverables are recognized as the services are performed and are presented on a gross basis so long as there is persuasive evidence of an arrangement, the fee is fixed or determinable, and collection of the related receivable is reasonably assured. Amounts received prior to satisfying the above revenue recognition criteria are recorded as deferred revenue in the accompanying balance sheets.

At the inception of each agreement that includes milestone payments, we evaluate whether each milestone is substantive and at risk to both parties on the basis of the contingent nature of the milestone. This evaluation includes an assessment of whether (a) the consideration is commensurate with either (1) the entity s performance to achieve the milestone, or (2) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity s performance to achieve the milestone, (b) the consideration relates solely to past performance, and (c) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. We evaluate factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone, the level of effort and investment required to achieve the respective milestone and whether the milestone consideration is reasonable relative to all deliverables and payment terms in the arrangement in making this assessment. The conclusion as to whether milestone payments are substantive involves management judgment regarding the factors noted above.

We classify each of our milestones into one of four categories: (i) clinical and development milestones, (ii) regulatory milestones, (iii) commercial milestones, and (iv) patent-related milestones. Clinical and development milestones are typically achieved when a product candidate advances into a defined phase of clinical research or completes such phase. For example, a milestone payment may be due to us upon the initiation of a phase 3 clinical trial for a new indication, which is the last phase of clinical development and could eventually contribute to marketing approval by the FDA or other regulatory authorities. Regulatory milestones are typically achieved upon acceptance of the submission for marketing approval of a product candidate or upon approval to market the product candidate by the FDA or other regulatory authorities. For example, a milestone payment may be due to us upon the FDA s acceptance of an NDA. Commercial milestones are typically achieved when an approved pharmaceutical product reaches certain defined levels of net sales by the licensee, such as when a product first achieves global sales or annual sales of a specified amount. Patent-related milestones are typically achieved when a patent application is filed or a patent is issued with respect to certain intellectual property related to the applicable collaboration.

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Revenues from clinical and development, regulatory and patent-related milestone payments, if the milestones are deemed substantive and the milestone payments are nonrefundable, are recognized upon successful accomplishment of the milestones. We have concluded that the clinical and development, regulatory and patent-related milestones pursuant to our current research and development arrangements are substantive. Milestones that are not considered substantive are accounted for as license payments and recognized on a straight-line basis over the remaining period of performance. Revenues from commercial milestone payments are accounted for as royalties and are recorded as revenue upon achievement of the milestone, assuming all other revenue recognition criteria are met.

Accrued Clinical Expenses

As part of the process of preparing our financial statements, we are required to record an estimate of our accrued expenses. This process involves reviewing open contracts and purchase orders, and communicating with our applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for such services when we have not yet been invoiced or otherwise notified of the actual costs. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time. We periodically confirm the accuracy of our estimates with the service providers and make adjustments if necessary. Examples of estimated accrued clinical expenses include:

fees paid to contract research organizations in connection with clinical studies;

fees paid to investigative sites in connection with clinical studies;

fees paid to contract manufacturers in connection with the production of clinical trial materials; and

fees paid to vendors in connection with preclinical development activities.

We determine our expenses related to clinical studies based on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical studies on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, and our estimates have not historically been materially different, our estimates of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in us reporting amounts that are too high or too low in any particular period. Based on our level of clinical trial expenses as of December 31, 2013, if our previous estimates are 5% too high or too low, this may result in an adjustment to our accrued clinical trial expenses in future periods of approximately $0.3 million.

Stock-Based Compensation

Under our stock-based compensation programs, we periodically grant stock options and restricted stock to employees, directors and nonemployee consultants. We also issue shares under an employee stock purchase plan. The fair value of all awards is recognized in our statements of operations over the requisite service period for each award. Awards that vest as the recipient provides service are expensed on a straight-line basis over the requisite service period. Other awards, such as performance-based awards that vest upon the achievement of specified goals, are expensed using the accelerated attribution method if achievement of the specified goals is considered probable. Determining the amount of stock-based compensation to be recorded requires us to develop estimates of fair values of stock options as of the grant date using highly subjective assumptions.

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We use the Black-Scholes option pricing model to value our stock option awards, which requires us to make certain assumptions regarding the expected volatility of our common stock price, the expected term of the option grants, the risk-free interest rate and the dividend yield with respect to our common stock. Our expected stock price volatility is based on an average of our own historical volatility and that of several peer companies. We utilized a weighted average method using our own volatility data for the time that we have been public, along with similar data for peer companies that are publicly traded. For purposes of identifying peer companies, we considered characteristics such as industry, length of trading history, similar vesting terms and in-the-money option status. Due to the lack of available quarterly data for these peer companies and a lack of our own historical data, we elected to use the simplified method for plain vanilla options to estimate the expected term of our stock option grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option. The risk-free interest rate used for each grant is based on the U.S. Treasury yield curve in effect at the time of grant for instruments with a similar expected life. We utilize a dividend yield of zero based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends.

During the years ended December 31, 2013, 2012 and 2011, respectively, the assumptions used in the Black-Scholes pricing model for new grants were as follows:

	Years Ended December 31,		
	2013	**2012**	**2011**
Volatility	64.22%-72.65%	64.30%-66.05%	64.37%-65.56%
Expected Term (in years)	5.50-6.25	5.50-6.25	5.50-6.25
Risk-Free Interest Rates	1.01%-2.10%	0.83%-1.33%	1.09%-2.57%
Dividend Yield			

We recognized stock-based compensation expense of approximately $3.9 million, $8.0 million and $5.9 million for the years ended December 31, 2013, 2012, and 2011, respectively. As of December 31, 2013, we had approximately $3.1 million of total unrecognized stock-based compensation expense for stock options, which we expect to recognize over a weighted-average period of approximately 1.8 years.

As of December 31, 2013, we had $0.1 million of total unrecognized stock-based compensation expense related to restricted stock awards granted under our 2010 Stock Incentive Plan. We expect to recognize the expense over a weighted-average period of 0.8 years.

We record compensation expense only for those awards that we ultimately expect will vest. We have performed an historical analysis of option awards that were forfeited prior to vesting and recorded total stock option expense that reflected this estimated forfeiture rate. We cannot currently predict the total amount of stock-based compensation expense to be recognized in any future period because such amounts will depend on levels of stock-based payments granted in the future as well as the portion of the awards that actually vest. Forfeitures are estimated each period and adjusted if actual forfeitures differ from those estimates. Actual forfeitures may differ from our estimates as a result of significant changes in our operations, such as those stemming from our October 2012 and June 2013 restructurings.

We have historically granted stock options at exercise prices that are not less than the fair market value of our common stock.

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Results of Operations

Comparison of Years Ended December 31, 2013 and 2012

The following tables summarize the results of our operations for each of the years ended December 31, 2013 and 2012, together with the changes in those items in dollars and as a percentage:

	Years Ended December 31,		Increase/	
	2013	2012	(decrease)	%
	(in thousands)			
Revenue	$ 1,293	$ 19,286	$ (17,993)	(93)%
Operating expenses:				
Research and development	68,468	91,358	(22,890)	(25)%
General and administrative	28,712	36,932	(8,220)	(22)%
Restructuring	8,017	2,633	5,384	204%
Total operating expenses	105,197	130,923	(25,726)	(20)%
Loss from operations	(103,904)	(111,637)	7,733	(7)%
Other (expense) income, net	(123)	247	(370)	(150)%
Interest expense	(3,127)	(3,501)	374	(11)%
Interest income	125	497	(372)	(75)%
Net loss	$ (107,029)	$ (114,394)	$ 7,365	(6)%

	Years Ended December 31,		Increase/	
Revenue	2013	2012	(decrease)	%
	(in thousands)			
Strategic Partner:				
Astellas	$ 430	$ 15,430	$ (15,000)	(97)%
OSI		1,000	(1,000)	(100)%
Centocor		1,973	(1,973)	(100)%
Biogen Idec	863	863		
Other		20	(20)	(100)%
	$ 1,293	$ 19,286	$ (17,993)	(93)%

Revenue. Revenue for the year ended December 31, 2013 was $1.3 million compared to $19.3 million for the year ended December 31, 2012, a decrease of approximately $18.0 million, or 93%. The decrease was primarily due to revenue recognized during 2012 that did not recur during 2013, including a $15.0 million milestone payment earned under our collaboration agreement with Astellas related to the FDA s acceptance of our NDA filing for tivozanib; $1.0 million in patent-related and clinical and development milestone payments earned under our agreement with OSI; and research funding under our collaboration agreement with Centocor. Revenue during 2013 related to amortization of previously deferred revenue associated with our collaboration agreements with Astellas and Biogen Idec.

Research and development. Research and development expenses for the year ended December 31, 2013 were $68.5 million compared to $91.4 million for the year ended December 31, 2012, a decrease of $22.9 million, or 25%. The decrease is primarily attributable to a net decrease in licensing costs of $6.8 million due primarily to a milestone payment to KHK made upon the acceptance for filing by the FDA of our NDA for tivozanib during 2012; a decrease of $1.3 million in manufacturing costs related primarily to the reduction in scope of tivozanib packaging and distribution activities; a decrease in clinical trial costs of $13.3 million primarily due to the ongoing wind-down of tivozanib trials; a decrease of $16.5 million in salaries, benefits and contract labor following our October 2012 and June 2013 restructurings; and a decrease of $2.8 million in

external research cost

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in line with the decrease in overall research activity. The decrease for 2013 was partially offset by a $2.2 million increase in facility and information technology costs due to additional leased space at 650 East Kendall Street; a $2.9 million increase in outsourced services costs primarily related to the completion of the manufacture of ficlatuzumab material that began in 2012; a decrease of $12.3 million in reimbursements to us by Astellas for tivozanib development costs due to the overall decrease in tivozanib expenses; and an increase in depreciation expense of $1.0 million following the completion of a portion of the build-out of our facility at 650 East Kendall Street.

Included in research and development expenses were stock-based compensation expenses of approximately $2.0 million and $3.6 million for the years ended December 31, 2013 and 2012, respectively.

General and administrative. General and administrative expenses for the year ended December 31, 2013 were $28.7 million compared to $36.9 million for the year ended December 31, 2012, a decrease of $8.2 million, or 22%. The decrease is primarily the result of a $6.5 million decrease in salaries, benefits and other hiring costs following our June 2013 restructuring and a $2.6 million decrease in marketing and consulting costs due to termination of work related to tivozanib pre-commercialization activities. These amounts were partially offset by a $0.9 million increase in facility and information technology costs due to additional leased space at 650 East Kendall Street.

Included in general and administrative expenses were stock-based compensation expenses of approximately $1.8 million and $4.4 million for the years ended December 31, 2013 and 2012, respectively.

Restructuring. Restructuring expense for the year ended December 31, 2013 was $8.0 million, compared to $2.6 million for the year ended December 31, 2012, an increase of $5.4 million, or 204%. The increase is primarily the result of the additional costs incurred in connection with our June 2013 strategic restructuring, which was announced in connection with the receipt of a Complete Response Letter from the FDA informing us that the FDA would not approve our NDA for tivozanib for the treatment of patients with advanced RCC. We did not incur any additional restructuring costs or charges with respect to our lease commitments for our headquarters and laboratory space in Cambridge, Massachusetts. The restructuring refocused our efforts on the then on-going clinical development of tivozanib in colorectal and breast cancer and on the advancement of key pipeline and preclinical assets.

Other (expense) income, net. Other (expense) income, net for the year ended December 31, 2013 was $(0.1) million compared to $0.2 million for the year ended December 31, 2012. The decrease in other (expense) income is due to increased losses on foreign exchange rates and fixed asset disposals.

Interest expense. Interest expense for the year ended December 31, 2013 was $3.1 million compared to $3.5 million for the year ended December 31, 2012, a decrease of $0.4 million, or 11%. The decrease in interest expense is due to lower average principal balances on our loan with Hercules Technology Growth.

Interest income. Interest income for the year ended December 31, 2013 was $0.1 million compared to $0.5 million for the year ended December 31, 2012, a decrease of $0.4 million, or 75%. The decrease in interest income is primarily due to overall lower average cash, cash equivalent and marketable securities balances during the year ended December 31, 2013 compared to the year ended December 31, 2012.

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Comparison of Years Ended December 31, 2012 and 2011

The following tables summarize the results of our operations for each of the years ended December 31, 2012 and 2011, together with the changes in those items in dollars and as a percentage:

	Years Ended December 31,			
	2012	2011	Increase/ (decrease)	%
	(in thousands)			
Revenue	$ 19,286	$ 164,849	$ (145,563)	(88)%
Operating expenses:				
Research and development	91,358	101,735	(10,377)	(10)%
General and administrative	36,932	29,167	7,765	27%
Restructuring	2,633		2,633	
Total operating expenses	130,923	130,902	21	
(Loss) income from operations	(111,637)	33,947	(145,584)	(429)%
Other income, net	247	10	237	2,370%
Interest expense	(3,501)	(3,836)	335	(9)%
Interest income	497	527	(30)	6%
Net (loss) income	$ (114,394)	$ 30,648	$ (145,042)	(473)%

Revenue	Years Ended December 31, 2012	2011	Increase/ (decrease)	%
	(in thousands)			
Strategic Partner:				
Astellas	$ 15,430	$ 120,576	$ (105,146)	(87)%
OSI	1,000	29,576	(28,576)	(97)%
Centocor	1,973	8,810	(6,837)	(78)%
Biogen Idec	863	5,863	(5,000)	(85)%
Other	20	24	(4)	(17)%
	$ 19,286	$ 164,849	$ (145,563)	(88)%

Revenue. Revenue for the year ended December 31, 2012 was $19.3 million compared to $164.8 million for the year ended December 31, 2011, a decrease of approximately $145.6 million, or 88%. The decrease was primarily due to revenue recognized during 2011 that did not recur during 2012, including $120.2 million of revenue recognized in conjunction with the up-front payment associated with the signing of our collaboration agreement with Astellas; $29.6 million in revenue from OSI primarily related to its exercise of an option to acquire certain rights to our technology platform; $7.0 million in revenue recognized in connection with the up-front payment from Centocor related to the RON program; and $5.0 million in revenue recognized in connection with the Biogen Idec milestone payment related to achieving the GLP toxicology initiation milestone. Revenue during 2012 primarily related to a $15.0 million milestone payment earned under our collaboration agreement with Astellas related to the FDA s acceptance of our NDA filing for tivozanib, $1.0 million in patent-related and clinical and development milestone payments earned under our agreement with OSI, research funding under our collaboration agreement with Centocor, and amortization of previously deferred revenue associated with our collaboration agreements with Astellas and Biogen Idec.

Research and development. Research and development expenses for the year ended December 31, 2012 were $91.4 million compared to $101.7 million for the year ended December 31, 2011, a decrease of $10.4 million, or 10%. The decrease is primarily attributable to a net decrease in licensing costs of $10.1 million due primarily to our milestone payment to KHK related to the up-front license payment received from Astellas during 2011 offset by a milestone payment to KHK made upon the acceptance for filing by the FDA of our NDA for

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tivozanib during 2012; a decrease of $7.2 million in manufacturing costs related primarily to the purchase of supply of ficlatuzumab during 2011 from Merck to support ongoing clinical studies; a decrease in clinical trial costs of $7.0 million; and an increase of $7.4 million in reimbursements to us by Astellas for tivozanib development costs. The decrease for 2012 was partially offset by an increase of $10.0 million in salaries, benefits and contract labor mainly due to an increase in personnel primarily supporting development activities; a $4.6 million increase in facility and information technology costs due to additional leased space at 650 East Kendall Street and 12 Emily Street; a $1.8 million filing fee related to the submission of our NDA to the FDA; a $1.5 million increase in consulting costs primarily related to the development of tivozanib; an increase of $1.2 million in costs related to medical affairs activities; a $1.1 million increase in stock-based compensation primarily associated with an increase in headcount; an increase in travel costs of $1.0 million primarily to support ongoing clinical trials related to tivozanib; and an increase in depreciation expense of $0.6 million.

Included in research and development expenses were stock-based compensation expenses of approximately $3.6 million and $2.5 million for the years ended December 31, 2012 and 2011, respectively.

General and administrative. General and administrative expenses for the year ended December 31, 2012 were $36.9 million compared to $29.2 million for the year ended December 31, 2011, an increase of $7.8 million, or 27%. The increase is primarily the result of an increase of $6.0 million in costs for pre-commercialization activities for tivozanib; a $4.6 million increase in salaries, benefits and other hiring costs due to an overall increase in personnel in preparation for the potential launch of tivozanib; a $1.1 million increase in facility and information technology costs due to additional leased space at 650 East Kendall Street and 12 Emily Street; and a $1.0 million increase in stock-based compensation expense primarily associated with an increase in headcount. These amounts were partially offset by a net decrease in consulting costs of $3.5 million, primarily related to a $4.25 million payment to a financial advisor recorded in connection with the consummation of our collaboration agreement with Astellas during the first quarter of 2011; and an increase in the reimbursement of costs by Astellas related to tivozanib pre-commercialization activities of $2.2 million.

Included in general and administrative expenses were stock-based compensation expenses of approximately $4.4 million and $3.4 million for the years ended December 31, 2012 and 2011, respectively.

Restructuring. Restructuring expense for the year ended December 31, 2012 was $2.6 million, with no corresponding expense for the year ended December 31, 2011. The restructuring expense in 2012 related to our strategic restructuring announced on October 30, 2012. The strategic restructuring was designed to optimize resources and reduce expenses to ensure positioning for a successful launch of tivozanib in advanced RCC, assuming FDA approval, and continued development in other cancer types, while maintaining a focused research engine. Our restructuring and projected cost savings were achieved through a combination of reduced spending on early stage research programs and a reduction in force of 48 positions, as well as the elimination of 30 open positions.

Other income, net. Other income, net for the year ended December 31, 2012 was $0.2 million compared to $10,000 for the year ended December 31, 2011. The increase was primarily due to proceeds from a one-time sale of excess supplies during the year ended December 31, 2012.

Interest expense. Interest expense for the year ended December 31, 2012 was $3.5 million compared to $3.8 million for the year ended December 31, 2011, a decrease of $0.3 million, or 9%. The decrease in interest expense is due to a lower effective interest rate on the loan balance outstanding during the year ended December 31, 2012 compared to the year ended December 31, 2011.

Interest income. Interest income for the year ended December 31, 2012 was $497,000 compared to $527,000 for the year ended December 31, 2011, a decrease of $30,000, or 6%. The decrease in interest income is primarily due to a lower average cash, cash equivalent and marketable securities balance during the year ended December 31, 2012 compared to the year ended December 31, 2011.

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Liquidity and Capital Resources

We have funded our operations principally through the sale of equity securities sold in private placements and underwritten public offerings of equity securities, revenue and expense reimbursements from strategic partnerships, debt financing and interest income. As of December 31, 2013, we have received gross proceeds of $89.7 million from the sale of common stock in our initial public offering, $68.3 million from private placements of shares of our common stock to institutional and accredited investors, $168.7 million from a follow-on public offering of shares of our common stock, and $169.6 million from the sale of convertible preferred stock prior to becoming a public company. As of December 31, 2013, we had received an aggregate of $390.7 million in cash from our agreements with strategic partners, and $26.5 million in funding from our debt financing with Hercules Technology Growth and certain of its affiliates. As of December 31, 2013, we had cash, cash equivalents and marketable securities of approximately $118.5 million. Currently, our funds are invested in money market funds, U.S. government agency securities, asset-backed securities, asset-backed commercial paper and corporate debt securities, including commercial paper. The following table sets forth the primary sources and uses of cash for each of the periods set forth below:

	Years Ended December 31,		
	2013	2012	2011
		(in thousands)	
Net cash (used in) provided by operating activities	$ (84,402)	$ (105,729)	$ 26,451
Net cash provided by (used in) investing activities	12,070	135,247	(144,103)
Net cash provided by financing activities	46,998	3,136	115,367
Net increase (decrease) in cash and cash equivalents	$ (25,334)	$ 32,654	$ (2,285)

During the years ended December 31, 2013, 2012 and 2011, our operating activities (used) provided cash of $(84.4) million, $(105.7) million and $26.5 million, respectively. The cash used in operations for the years ended December 31, 2013, and 2012, respectively, was due primarily to our net losses adjusted for non-cash items. The cash provided by operations for the year ended December 31, 2011 was due primarily to our net income adjusted for non-cash items offset by a decrease in deferred revenue of $12.2 million related to, in part, the recognition of previously deferred revenue related to our research and license agreement with OSI, as well as an increase in accounts receivable of $6.8 million primarily due from Astellas for reimbursement of development expenses.

During the years ended December 31, 2013, 2012 and 2011, our investing activities provided (used) cash of $12.1 million, $135.2 million and $(144.1) million, respectively. The cash provided by investing activities for the years ended December 31, 2013 and 2012 was the result of fewer purchases of marketable securities than the proceeds from maturities and sales of marketable securities in order to fund our ongoing operations, partially offset by purchases of property and equipment of $3.7 million and $9.9 million during the years ended December 31, 2013 and 2012, respectively. The cash used in investing activities for the year ended December 31, 2011 was the net result of more purchases of marketable securities than the proceeds from maturities and sales of marketable securities in addition to purchases of property and equipment of $2.6 million.

During the years ended December 31, 2013, 2012 and 2011, our financing activities provided $47.0 million, $3.1 million and $115.4 million, respectively. The cash provided by financing activities in 2013 was primarily due to the net proceeds of $53.6 million from our public offering of stock, offset by $7.1 million in principal payments on our loan from Hercules Technology Growth. The cash provided by financing activities in 2012 was due to stock option exercises of $1.6 million, as well as net proceeds of $3.7 million from the refinancing of loans payable from our loan agreement entered into with affiliates of Hercules Technology Growth, offset partially by principal payments on loans payable in the amount of $2.2 million. The cash provided by financing activities for the year ended December 31, 2011 was primarily due to net proceeds of $104.2 million from our follow-on public offering of common stock, net proceeds of $8.0 million from the sale and issuance of common stock in connection with the Centocor license agreement, as well as stock option exercises of $3.2 million.

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Credit Facilities. On May 28, 2010, we entered into a loan and security agreement, which we refer to as the loan agreement, with Hercules Technology II, L.P. and Hercules Technology III, L.P., affiliates of Hercules Technology Growth, which we amended on December 21, 2011 and March 31, 2012, and under which we received a loan in an aggregate principal amount of $26.5 million. We are required to repay the aggregate principal balance of the loan that is outstanding under the loan agreement in 30 equal monthly installments of principal, which started on April 1, 2013. The loan agreement also includes an obligation to pay an additional deferred charge of $1.24 million due on June 1, 2014 which has been recorded as a loan discount and is being amortized to interest expense over the term of the loan agreement using the effective interest rate method. We recorded a long-term liability for the full amount of the charge since the payment of such amount is not contingent on any future event. Per annum interest is payable at the greater of 11.9% and an amount equal to 11.9% plus the prime rate of interest minus 4.75%, provided however, that the per annum interest shall not exceed 15.0%. We must make interest payments on the loan each month the loan remains outstanding. The unpaid principal balance and all accrued but unpaid interest will be due and payable on September 1, 2015.

The loan is secured by a lien on all of our personal property (other than intellectual property), whether owned as of, or acquired after, the date of the amended loan agreement. As of December 31, 2013, the principal balance outstanding was $19.4 million.

***Operating Capital Requirements*.** We anticipate that we will continue to incur significant operating costs for the next several years as we incur expenses to continue to advance our preclinical and clinical programs.

We believe that our existing cash, cash equivalents, and marketable securities will allow us to fund our operating plan into at least the fourth quarter of 2015.

Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amounts of our working capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the number and characteristics of the product candidates we pursue;
- the scope, progress, results and costs of researching and developing our product candidates, and conducting preclinical and clinical trials;
- our ability to establish and maintain strategic partnerships, licensing or other arrangements and the financial terms of such agreements;
- our ability to secure alternative leasing or subleasing arrangements for our underutilized office space at 650 East Kendall Street in Cambridge, Massachusetts, and to achieve related cost savings with respect to our current lease obligation;
- the timing of, and the costs involved in, obtaining regulatory approvals for our product candidates;
- the cost of commercialization activities if any of our product candidates are approved for sale, including marketing, sales and distribution costs;
- the cost of manufacturing our product candidates and any products we successfully commercialize;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation;

whether we realize the full amount of any projected cost savings associated with our strategic restructurings;

the absence of any breach or event of default under our loan agreement with Hercules or under any other agreements with third parties;

the outcome of lawsuits against us, including the current lawsuits described below under Part I, Item 3 Legal Proceedings;

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the cost of commercialization activities if any of our product candidates are approved for sale, including marketing, sales and distribution costs;

the cost of manufacturing our product candidates and any products we successfully commercialize; and

the timing, receipt and amount of sales of, or royalties on, our future products, if any.

In connection with the June 2013 restructuring, we are reevaluating our facilities requirements for our headquarters, office and laboratory space at 650 East Kendall Street in Cambridge, Massachusetts. Failure to secure alternative arrangements with respect to our lease commitments could have an adverse effect on our operating results or financial condition.

If our available cash and cash equivalents are insufficient to satisfy our liquidity requirements, or if we identify additional opportunities to do so, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity or convertible debt securities may result in additional dilution to our stockholders. If we raise additional funds through the issuance of debt securities or preferred stock or through additional credit facilities, these securities and/or the loans under credit facilities could provide for rights senior to those of our common stock and could contain covenants that would restrict our operations. We may require additional capital beyond our currently forecasted amounts. Additional funds may not be available when we need them, on terms that are acceptable to us, or at all. If adequate funds are not available to us on a timely basis, we may be required to:

delay, limit, reduce or terminate preclinical studies, clinical trials or other research and development activities for one or more of our product candidates; and/or

delay, limit, reduce or terminate our establishment of sales and marketing capabilities or other activities that may be necessary to commercialize our product candidates, if approved.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2013:

		Payment due by period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**More than 5 Years**
			(in thousands)		
Long-term debt (including interest)	$ 22,855	$ 13,547	$ 9,308		
Operating lease obligations	91,878	8,077	15,038	$ 15,698	$ 53,065
License agreements[1][2]	75	25	50		
Total contractual cash obligations	$ 114,808	$ 21,649	$ 24,396	$ 15,698	$ 53,065

(1) Under our license agreement with Kyowa Hakko Kirin, we are required to make certain milestone payments upon the achievement of specified regulatory milestones and pay a specified percentage of certain amounts we may receive under our collaboration agreement with Astellas. At this time, we cannot reasonably estimate when or if we may be required to make additional payments to Kyowa Hakko Kirin and have not included any such amounts in the table above.

(2) As discussed in Note 7 to our audited consolidated financial statements, we have executed license agreements for patented technology and other technology related to research projects, including technology to humanize ficlatuzumab and other antibody product candidates. The license agreements required us to pay non-refundable license fees upon execution, and in certain cases, require milestone payments upon the achievement of defined development goals. We have not included any additional milestone payments in the table above as we are not able to make a reasonable estimate of the probability and timing of such payments, if any. Including amounts in the table above, these four

agreements include sales and development milestones of up to $22.5 million, $5.5 million, $9.6 million and $4.2 million per product, respectively, and single digit royalties as a percentage of sales.

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Off-Balance Sheet Arrangements

We did not have, during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable SEC rules.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to changes in interest rates. As of December 31, 2013, we had cash and cash equivalents and marketable securities of $118.5 million, consisting of cash on deposit with banks, money market funds, U.S. government agency securities, asset-backed securities, asset-backed commercial paper, and corporate debt, including commercial paper. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in short-term marketable securities. Our marketable securities are subject to interest rate risk and could fall in value if market interest rates increase. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our portfolio. We have the ability to hold our marketable securities until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments. We do not currently have any auction rate securities.

Our long-term debt bears interest at variable rates. In May 2010, we entered into a loan agreement with affiliates of Hercules Technology Growth Capital pursuant to which we received a loan in the aggregate principal amount of $25.0 million. In March 2012, we entered into an amendment to the loan, pursuant to which we increased the principal amount to $26.5 million. Per annum interest is payable at the greater of 11.9% and 11.9% plus the prime rate of interest minus 4.75%, not to exceed 15%. As a result of the 15% maximum per annum interest rate under the amended loan agreement, we have limited exposure to changes in interest rates on borrowings under this loan agreement. For every 1% increase in the prime rate over 4.75%, given the amount of debt outstanding under the loan agreement as of December 31, 2013, and expected loan payments during 2014, we would have a decrease in future annual cash flows of approximately $0.1 million over the next twelve month period as a result of such 1% increase.

We are also exposed to market risk related to change in foreign currency exchange rates. We contract with contract research organizations and investigational sites that are located around the world. We are subject to fluctuations in foreign currency rates in connection with these agreements. We do not currently hedge our foreign currency exchange rate risk.

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ITEM 8. Financial Statements and Supplementary Data

AVEO PHARMACEUTICALS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

AVEO Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of AVEO Pharmaceuticals, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive (loss) income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AVEO Pharmaceuticals, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AVEO Pharmaceuticals, Inc. s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), and our report dated March 13, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 13, 2014

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AVEO Pharmaceuticals, Inc.

Consolidated Balance Sheets

(In thousands, except par value amounts)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 50,826	$ 76,134
Marketable securities	67,680	84,468
Accounts receivable	984	20,649
Tenant improvement allowance receivable	5,833	3,240
Restricted cash	598	
Prepaid expenses and other current assets	2,998	6,190
Total current assets	128,919	190,681
Property and equipment, net	14,140	12,867
Other assets	290	321
Restricted cash	2,997	3,600
Total assets	$ 146,346	$ 207,469
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 4,238	$ 10,628
Accrued expenses	13,263	19,543
Loans payable, net of discount	10,383	6,809
Deferred revenue	1,294	1,294
Other liabilities	1,238	
Deferred rent	992	856
Total current liabilities	31,408	39,130
Loans payable, net of current portion and discount	8,822	19,228
Deferred revenue, net of current portion	17,098	18,391
Deferred rent, net of current portion	19,080	10,544
Other liabilities		1,238
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, $.001 par value: 5,000 shares authorized; no shares issued and outstanding		
Common stock, $.001 par value: 100,000 shares authorized; 51,809 and 43,780 shares issued and outstanding at December 31, 2013 and 2012, respectively	52	44
Additional paid-in capital	497,177	439,173
Accumulated other comprehensive loss	(2)	(19)
Accumulated deficit	(427,289)	(320,260)
Total stockholders equity	69,938	118,938
Total liabilities and stockholders equity	$ 146,346	$ 207,469

See accompanying notes

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AVEO Pharmaceuticals, Inc.

Consolidated Statements of Operations

(In thousands, except per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Collaboration revenue	$ 1,293	$ 19,286	$ 164,849
Operating expenses:			
Research and development	68,468	91,358	101,735
General and administrative	28,712	36,932	29,167
Restructuring	8,017	2,633	
	105,197	130,923	130,902
(Loss) income from operations	(103,904)	(111,637)	33,947
Other income and expense:			
Other (expense) income, net	(123)	247	10
Interest expense	(3,127)	(3,501)	(3,836)
Interest income	125	497	527
Other expense, net	(3,125)	(2,757)	(3,299)
Net (loss) income	$ (107,029)	$ (114,394)	$ 30,648
Basic net (loss) income per share:			
Net (loss) income per share	$ (2.10)	$ (2.64)	$ 0.77
Weighted average number of common shares outstanding	50,928	43,374	39,715
Diluted net (loss) income per share:			
Net (loss) income per share	$ (2.10)	$ (2.64)	$ 0.74
Weighted average number of common shares and dilutive common share equivalents outstanding	50,928	43,374	41,473

See accompanying notes

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AVEO PHARMACEUTICALS, INC.

Consolidated Statements of Comprehensive (Loss) Income

(In thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Net (loss) income	$ (107,029)	$ (114,394)	$ 30,648
Other comprehensive (loss) income:			
Unrealized (losses) gains on available-for-sale securities	(9)	174	(147)
Foreign currency translation adjustment	26	(26)	
Comprehensive (loss) income	$ (107,012)	$ (114,246)	$ 30,501

See accompanying notes

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AVEO Pharmaceuticals, Inc.

Consolidated Statements of Stockholders Equity

(In thousands)

Transaction	Common Shares Shares	Common Shares Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
Balance at December 31, 2010	35,604	$ 36	$ 308,268	$ (20)	$ (236,514)	$ 71,770
Exercise of stock options	565	1	2,457			2,458
Exercise of warrants	168					
Stock-based compensation expense			5,903			5,903
Issuance of common stock under employee stock purchase plan	58		779			779
Issuance of common stock from follow-on stock offering (net of issuance costs of $6,960)	6,352	6	104,202			104,208
Issuance of common stock from license agreement with Centocor (net of issuance costs of $113)	438		7,922			7,922
Issuance of restricted stock awards, net of forfeitures	69					
Change in unrealized gain/loss on investments				(147)		(147)
Net income					30,648	30,648
Balance at December 31, 2011	43,254	$ 43	$ 429,531	$ (167)	$ (205,866)	$ 223,541
Exercise of stock options	220	1	825			826
Stock-based compensation expense			8,007			8,007
Issuance of common stock under employee stock purchase plan	95		810			810
Issuance of restricted stock awards, net of forfeitures	211					
Change in unrealized gain/loss on investments				174		174
Cumulative translation adjustment				(26)		(26)
Net loss					(114,394)	(114,394)
Balance at December 31, 2012	43,780	$ 44	$ 439,173	$ (19)	$ (320,260)	$ 118,938
Exercise of stock options	185	1	271			272
Stock-based compensation expense related to equity-classified awards			3,791			3,791
Issuance of common stock to settle liability-classified share awards granted to directors	39		119			119
Issuance of common stock under employee stock purchase plan	110		193			193
Issuance of common stock from follow-on stock offering (net of issuance cost of $3,865)	7,667	7	53,630			53,637
Issuance of restricted stock awards, net of forfeitures	28					
Change in unrealized gain/loss on investments				(9)		(9)
Cumulative translation adjustment				26		26
Net loss					(107,029)	(107,029)
Balance at December 31, 2013	51,809	$ 52	$ 497,177	$ (2)	$ (427,289)	$ 69,938

See accompanying notes

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AVEO Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2013	**2012**	**2011**
Operating activities			
Net (loss) income	$ (107,029)	$ (114,394)	$ 30,648
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,775	2,510	1,654
Net loss on disposal of property and equipment	83	42	35
Impairment of property and equipment	65		
Stock-based compensation	3,940	8,007	5,903
Non-cash interest expense	285	380	788
Amortization of premiums and discounts on investments	1,041	2,446	3,801
Changes in operating assets and liabilities:			
Accounts receivable	19,665	(13,439)	(6,819)
Tenant improvement allowance receivable	(2,593)	(3,180)	(60)
Prepaid expenses and other current assets	3,179	(207)	(1,153)
Other noncurrent assets	31	(200)	335
Restricted cash	5	(2,849)	(144)
Accounts payable	(6,390)	1,724	(343)
Accrued expenses	(7,838)	5,254	4,168
Deferred revenue	(1,293)	(1,293)	(12,224)
Other liabilities		(1,249)	
Deferred rent	8,672	10,719	(138)
Net cash (used in) provided by operating activities	(84,402)	(105,729)	26,451
Investing activities			
Purchases of property and equipment	(3,668)	(9,948)	(2,628)
Purchases of marketable securities	(175,391)	(194,584)	(376,270)
Proceeds from maturities and sales of marketable securities	191,129	339,779	234,795
Net cash provided by (used in) investing activities	12,070	135,247	(144,103)
Financing activities			
Proceeds from issuance of common stock, net of issuance costs	53,637		112,130
Proceeds from issuance of stock for stock-based compensation arrangements	465	1,636	3,237
Proceeds from refinancing of loans payable		3,672	
Principal payments on loans payable	(7,104)	(2,172)	
Net cash provided by financing activities	46,998	3,136	115,367
Net (decrease) increase in cash and cash equivalents	(25,334)	32,654	(2,285)
Effect of exchange rate changes on cash and cash equivalents	26	(26)	
Cash and cash equivalents at beginning of period	76,134	43,506	45,791
Cash and cash equivalents at end of period	$ 50,826	$ 76,134	$ 43,506
Supplemental cash flow and noncash investing and financing activities			

Cash paid for interest	$ 2,916	$ 3,104	$ 3,016

See accompanying notes

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AVEO Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements

December 31, 2013

1. Nature of Business and Organization

AVEO Pharmaceuticals, Inc. (the Company) is a biopharmaceutical company committed to discovering and developing targeted therapies designed to provide substantial impact in the lives of people with cancer by addressing unmet medical needs. The Company s product candidates are directed against important mechanisms, or targets, known or believed to be involved in cancer. The Company s proprietary Human Response Platform provides the Company with unique insights into cancer biology and is leveraged in the discovery and clinical development of therapeutics.

The Company has a pipeline of monoclonal antibodies, including ficlatuzumab, a product candidate for which the Company has completed a phase 2 clinical study, and AV-203, a clinical stage monoclonal antibody that targets the ERBB3 (HER3) receptor, which the Company has partnered with Biogen Idec, Inc.

The Company and its partner Astellas Pharma, Inc. (Astellas) have been developing tivozanib for the treatment of various types of cancers such as renal cell carcinoma, colorectal cancer and breast cancer. As further described in Footnote 16, Astellas notified the Company in February 2014 that it has elected to terminate the worldwide collaboration and license agreement. This termination will become effective in August 2014, at which time the tivozanib rights will be returned to the Company.

In 2012, the Company initiated a program focusing on cachexia, a serious and common complication of advanced cancer and a number of chronic diseases that is characterized by symptoms of unintentional weight loss, progressive muscle wasting, and a loss of appetite. The program s primary research focus is in the area of cancer cachexia, where there is a major unmet need. AV-380, the Company s lead drug candidate, is a potent humanized IgG1 inhibitory monoclonal antibody targeting growth differentiating factor-15, or GDF-15, a divergent member of the TGF-b. family.

As used throughout these consolidated financial statements, the terms AVEO, and the Company refer to the business of AVEO Pharmaceuticals, Inc. and its subsidiaries, AVEO Pharma Limited and AVEO Securities Corporatio