AVEO PHARMACEUTICALS INC
Form S-1
November 10, 2010
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As filed with the Securities and Exchange Commission on November 10, 2010

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

AVEO PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**2834**	**04-3581650**
(State or other jurisdiction of	**(Primary Standard Industrial**	**(I.R.S. Employer**

incorporation or organization) **Classification Code Number)** **Identification Number)**

75 Sidney Street

Cambridge, Massachusetts 02139

(617) 299-5000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Tuan Ha-Ngoc

Chief Executive Officer

AVEO Pharmaceuticals, Inc.

75 Sidney Street

Cambridge, Massachusetts 02139

(617) 299-5000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Cambridge, Massachusetts 02139

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Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), check the following box. x

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, $0.001 par value per share	4,500,000	$15.84	$71,280,000	$5,083

(1) Represents shares offered by the selling stockholders. Includes (i) 4.5 million shares held by the selling stockholders and (ii) an indeterminable number of additional shares of common stock, pursuant to Rule 416 under the Securities Act of 1933, as amended, that may be issued to prevent dilution from stock splits, stock dividends or similar transactions that could affect the shares to be offered by selling stockholders.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. The price per share and aggregate offering price are based on the average of the high and low prices of the registrant s common stock on November 3, 2010, as quoted on the Nasdaq Global Market.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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

PROSPECTUS (Subject to Completion)

Issued November 10, 2010

4,500,000 Shares

COMMON STOCK

This prospectus relates to the resale of 4,500,000 shares of common stock previously issued by AVEO Pharmaceuticals, Inc. to certain accredited investors in connection with a private placement completed on November 3, 2010.

The selling stockholders identified in this prospectus, or their pledgees, donees, transferees or other successors-in-interest, may offer the shares from time to time through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices. For additional information on the methods of sale that may be used by the selling stockholders, see the section entitled Plan of Distribution on page 38. For a list of the selling stockholders, see the section entitled Selling Stockholders on page 35.

We will not receive any of the proceeds from the sale of these shares by the selling stockholders.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read the entire prospectus and any amendments or supplements carefully before you make your investment decision.

Our common stock is traded on the NASDAQ Global Market under the symbol AVEO. On November 9, 2010, the closing sale price of our common stock on the NASDAQ Global Market was $16.45 per share. You are urged to obtain current market quotations for the common stock.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

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

The date of this prospectus is , 2010.

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You should rely only on the information contained in this prospectus and in any amendments or supplements we may make to this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to offer and sell shares of our common stock. If it is against the law in any jurisdiction to make an offer to sell these shares, or to solicit an offer from someone to buy these shares, then this prospectus does not apply to any person in that jurisdiction, and no offer or solicitation is made by this prospectus to any such person. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

As used herein, the term prospectus shall mean and include any amendments or supplements we may make to this prospectus from time to time except where the context provides otherwise.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the Risk Factors section beginning on page 7 and our consolidated financial statements and the related notes appearing at the end of this prospectus, before making an investment decision.

Our Company

Overview

We are a biopharmaceutical company focused on discovering, developing and commercializing novel cancer therapeutics. Our product candidates are directed against important mechanisms, or targets, known or believed to be involved in cancer. Tivozanib, our lead product candidate, is a highly potent and selective oral inhibitor of the vascular endothelial growth factor, or VEGF, receptors 1, 2 and 3. Our clinical trials of tivozanib to date have demonstrated a favorable safety and efficacy profile for tivozanib. We have completed a successful 272-patient phase 2 clinical trial of tivozanib in patients with advanced renal cell cancer, or RCC. In this trial, we measured, among other things, each patient s progression-free survival, which refers to the period of time that began when a patient entered the clinical trial and ended when either the patient died or the patient s cancer had grown by a specified percentage or spread to a new location in the body. The overall median progression-free survival of patients in the phase 2 clinical trial was 11.8 months. In a retrospective analysis of the subset of 176 patients in our phase 2 clinical trial who had the clear cell type of RCC and who had undergone prior removal of their affected kidney, referred to as a nephrectomy, both of which are inclusion criteria for our phase 3 clinical trial of tivozanib, the median progression-free survival was 14.8 months. The incidence of side effects in the phase 2 clinical trial, such as diarrhea, fatigue, rash, mucositis, stomatitis and hand-foot syndrome, which are commonly associated with other VEGF receptor inhibitors, was notably low, with moderate to severe episodes of these side effects occurring in fewer than two percent of treated patients. In August 2010, we completed enrollment of our 517-patient phase 3 clinical trial of tivozanib in patients with advanced RCC, which we refer to as the TIVO-1 study. The TIVO-1 study is a randomized, controlled clinical trial of tivozanib compared to Nexavar (sorafenib) in advanced clear cell RCC patients who have undergone a prior nephrectomy, and who have not received any prior VEGF-targeted therapy. Nexavar is an oral VEGF receptor inhibitor approved for the treatment of RCC. In its phase 3 clinical trial in patients with advanced clear cell RCC, 94% of whom had undergone a prior nephrectomy, Nexavar demonstrated a median progression-free survival of 5.5 months. Progression-free survival is the primary endpoint in the TIVO-1 study. The TIVO-1 study is designed so that a difference in progression-free survival of three months or more between the treatment arms would be statistically significant.

In addition to the TIVO-1 study, we are currently conducting multiple clinical trials of tivozanib including: a phase 1b clinical trial in combination with Torisel (temsirolimus), an approved inhibitor of the receptor known as mammalian target of rapamycin, or mTOR, in patients with advanced RCC; a phase 1b clinical trial in combination with the FOLFOX6 chemotherapy regimen in patients with advanced gastrointestinal cancers; a phase 1b clinical trial in combination with paclitaxel in patients with metastatic breast cancer; and a phase 1b clinical trial as a monotherapy in patients with non-small cell lung cancer. We expect that the results of these clinical trials will help to inform our clinical development plans for tivozanib in additional indications. 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) in 2006. Under the license agreement, we obtained an exclusive license to research, develop, manufacture and commercialize tivozanib, pharmaceutical compositions thereof and associated biomarkers for the diagnosis, prevention and treatment of any and all human diseases and conditions. Kyowa Hakko Kirin has retained rights to tivozanib in Asia. We have obligations to make milestone, royalty and sublicensing revenue payments to Kyowa Hakko Kirin.

In addition to tivozanib, we have a pipeline of monoclonal antibodies derived from our Human Response Platform , a novel method of building preclinical models of human cancer, which are intended to more accurately represent cancer biology in patients. AV-299, our next most advanced product candidate, is an antibody which binds to hepatocyte growth factor, or HGF, thereby blocking its function. Through the use of our Human Response Platform, our scientists have identified the HGF/c-Met pathway as being a significant driver of tumor growth. We have completed a phase 1 clinical trial of AV-299 and recently initiated a phase 2 clinical trial for non-small cell lung cancer. In 2007, we entered into an agreement with Merck & Co., Inc. (formerly Schering-Plough Corporation), or Merck, under which we granted Merck exclusive worldwide rights to co-develop and commercialize AV-299 and under which Merck funded all development and manufacturing expenses, subject to an agreed-upon budget. On September 28, 2010, we received notice from Merck of termination of the collaboration agreement effective as of December 27, 2010, at which point we will be responsible for funding all future development, manufacturing and commercialization costs for the AV-299 program.

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Our Human Response Platform was designed to overcome many of the limitations of traditional approaches to modeling human cancer. The traditional method of modeling human cancer uses a model referred to as a xenograft. A xenograft model is created by adapting cells from a human tumor to grow in a petri dish, and then injecting these cells into a mouse, where they grow into tumors. However, the resulting tumors differ from the original tumor in important respects, and, accordingly, xenograft models are often poor predictors of the success of cancer drugs in human clinical trials. In our Human Response Platform, we use patented genetic engineering techniques to grow populations of spontaneous tumors in animals containing human-relevant, cancer-causing mutations and tumor variation 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. We are utilizing this Human Response Platform alone and with our strategic partners to (i) identify and validate target genes which drive tumor growth, (ii) evaluate drugs which can block the function of these targets and (iii) identify biomarkers, which are indicators of drug response and resistance in patients, in an effort to evaluate which patients are most likely to respond favorably to treatment with such drugs.

In addition, we have identified a number of other promising targets for the development of novel cancer therapeutics using our Human Response Platform. We have preclinical antibody discovery programs underway focusing on targets that appear to be important drivers of tumor growth, including the ErbB3 receptor (partnered with Biogen Idec), the RON receptor, the Notch receptors and the Fibroblast Growth Factor receptors.

We have entered into an 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 outside of the United States, Canada and Mexico. We have also entered into strategic partnerships with OSI Pharmaceuticals, Inc. (a wholly-owned subsidiary of Astellas US Holding Inc., a holding company owned by Astellas Pharma Inc.), or OSI and Merck where we have utilized, or granted rights to certain elements of, our Human Response Platform in the research and development of novel targets and compounds.

Risks Associated with Our Business

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully in the Risk Factors section of this prospectus beginning on page 7. In particular:

- We currently have no commercial products and we have not received regulatory approval for, nor have we generated commercial revenue from, any of our product candidates.

- We are dependent on the success of our lead drug candidate, tivozanib, which is in phase 3 clinical development. Positive results in our phase 2 clinical trial of tivozanib may not be predictive of the results in our phase 3 clinical trial and the results of our phase 3 clinical trial may not be sufficient for approval of tivozanib. We cannot be certain as to what type and how many clinical trials the U.S. Food and Drug Administration, or equivalent foreign regulatory agencies, will require us to conduct in order to gain approval to market tivozanib. If the results of our phase 3 clinical trial are not sufficient for the approval of tivozanib, our business will be adversely affected and the value of your investment could decline.

- In order to obtain regulatory approval for the commercial sale of any of our other product candidates, including AV-299, we must demonstrate, through extensive preclinical studies and clinical trials, that the product candidate is safe and effective for use in each target indication, a process that can take many years to complete and that will require us to use substantial resources with highly uncertain results. Problems such as our failure to comply with regulatory requirements, insufficient effectiveness of such product candidates during clinical trials, safety issues, regulatory delays or an inability to enroll and maintain sufficient numbers of patients in our clinical trials could cause us or regulatory authorities to delay, suspend or terminate clinical trials for such product candidates. For these and other reasons, we may never obtain regulatory approval for any of such product candidates. Our failure to meet these ongoing requirements may prevent us from achieving or sustaining profitability.

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We have incurred net operating losses since our inception. Our net loss was $44.1 million, $32.5 million and $25.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of September 30, 2010, we had an accumulated deficit of $226.2 million. We anticipate that our operating losses will increase over the next several years.

We will need to raise substantial additional funds as we seek to achieve our goals. A failure to raise such additional funds may require us to delay, limit, reduce or terminate current or planned activities.

We expect any product candidate that we commercialize with our strategic partners or on our own will compete with existing, market-leading products. For example, even if tivozanib is approved for the treatment of advanced RCC, it would compete with VEGF pathway inhibitors and mTOR inhibitors that are currently approved for the treatment of advanced RCC and other therapies in development. Many of our potential competitors have substantially greater financial, technical and personnel resources and commercial infrastructure than we have.

We currently expect that a substantial portion of our future revenues may be dependent upon our strategic partnerships with OSI and Biogen Idec. If these strategic partners were to terminate their agreements with us, fail to meet their obligations or otherwise decrease their level of efforts, allocation of resources or other commitments under these agreements, our future revenues could decline and the development and commercialization of our product candidates would be interrupted. In addition, if OSI or Biogen Idec do not achieve some or any of the development, regulatory and commercial milestones or if they do not achieve certain net sales thresholds, in each case, as set forth in their respective agreements, we will not fully realize the expected economic benefits of the agreements.

Our inability to obtain adequate patent protection for our product candidates or technology platform or failure to successfully defend against any claims that our product candidates infringe the rights of third parties could also adversely affect our business. In addition, tivozanib and certain aspects of our Human Response Platform are protected by patents exclusively licensed from other companies. If the licensors terminate the licenses or fail to maintain or enforce the underlying patents, our competitive position will be harmed. Any problems relating to our intellectual property may require us to spend a substantial amount of time and money to resolve.

Our Corporate Information

We were incorporated under the laws of the State of Delaware on October 19, 2001 as GenPath Pharmaceuticals, Inc. and changed our name to AVEO Pharmaceuticals, Inc. on March 1, 2005. Our principal executive offices are located at 75 Sidney Street, Cambridge, Massachusetts, 02139, and our telephone number is (617) 299-5000. Our website address is www.aveopharma.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus. Investors should not rely on any such information in deciding whether to purchase our common stock. We have included our website address in this prospectus solely as an inactive textual reference.

Unless the context otherwise requires, we use the terms AVEO, our company, we, us and our in this prospectus to refer to AVEO Pharmaceuticals, Inc. and its consolidated subsidiary.

The name AVEO is a registered trademark in the United States, Canada, Europe and Japan, and is solely owned by AVEO Pharmaceuticals, Inc. The AVEO logo is a registered trademark in the United States and is solely owned by AVEO Pharmaceuticals, Inc. The term Human Response Platform is an AVEO-owned common law trademark with registration pending. The symbol indicates a common law trademark. Other service marks, trademarks and trade names appearing in this prospectus are the property of their respective owners.

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THE OFFERING

Common stock offered by the selling stockholders	4.5 million shares
Use of proceeds	We will not receive any proceeds from the sale of the shares in this offering. For more information, see Use of Proceeds on page 34.
Risk factors	You should read the Risk Factors section of this prospectus beginning on page 7 for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
NASDAQ Global Market symbol	AVEO

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SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the following summary financial data together with our financial statements, the related notes appearing at the end of this prospectus and the Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus. We derived the summary statements of operations data for the years ended December 31, 2007, 2008 and 2009 and the balance sheet data as of December 31, 2009 from our audited financial statements included in this prospectus. We derived the summary statements of operations data for the nine months ended September 30, 2009 and 2010 and the balance sheet data as of September 30, 2010 from our unaudited financial statements included in this prospectus. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results for a full fiscal year.

	Years Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
				(unaudited)	
	(in thousands, except per share data)				
Statement of operations data:					
Revenue	$ 11,034	$ 19,660	$ 20,719	$ 14,683	$ 32,725
Operating expenses:					
Research and development	29,248	41,821	51,792	38,326	68,867
General and administrative	6,502	9,164	10,120	7,504	10,199
Total operating expenses	35,750	50,985	61,912	45,830	79,066
Loss from operations	(24,716)	(31,325)	(41,193)	(31,147)	(46,341)
Other income and expense:					
Other income (expense), net		18	(333)	(273)	722
Loss on loan extinguishment		(248)			(582)
Interest expense	(2,437)	(2,086)	(2,811)	(2,141)	(2,361)
Interest income	2,171	1,168	144	121	87
Other income (expense), net	(266)	(1,148)	(3,000)	(2,293)	(2,134)
Net loss before taxes	(24,982)	(32,473)	(44,193)	(33,440)	(48,475)
Tax benefit			100	63	
Net loss	$ (24,982)	$ (32,473)	$ (44,093)	$ (33,377)	$ (48,475)
Net loss per share applicable to common stockholders-basic and diluted	$ (17.89)	$ (21.08)	$ (27.43)	$ (20.87)	$ (2.13)
Weighted average number of common shares used in net loss per share calculation-basic and diluted	1,396	1,541	1,607	1,599	22,773

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	As of September 30, 2010 (unaudited, in thousands)
Balance Sheet Data:	
Cash, cash equivalents, and marketable securities	$ 87,022
Working capital	57,325
Total assets	96,512
Loans payable, including current portion, net of discount	23,140
Accumulated deficit	(226,200)
Total stockholders equity	23,411

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this prospectus, including our financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in our common stock. If any of the following risks actually occur, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Related to Development, Clinical Testing and Regulatory Approval of Our Drug Candidates

We are dependent on the success of our lead drug candidate, tivozanib, which is in phase 3 development.

To date, we have invested a significant portion of our efforts and financial resources in the research and development of tivozanib. We are currently conducting our phase 3 clinical trial for tivozanib as well as five phase 1 clinical trials, three of which focus on tivozanib in combination with other known anti-cancer agents.

Our near-term prospects, including our ability to finance our company and to generate strategic partnerships and revenues, will depend heavily on the successful development and commercialization of tivozanib. All of our other potential product candidates, with the exception of AV-299, are in the preclinical research stage. The clinical and commercial success of tivozanib will depend on a number of factors, including the following:

- completion of our phase 3 clinical trial and timely enrollment in, and completion of, our other on-going or planned clinical trials;
- our ability to demonstrate to the satisfaction of the U.S. Food and Drug Administration, or FDA, or equivalent foreign regulatory agencies, tivozanib s safety and efficacy through current and future clinical trials;
- the prevalence and severity of adverse side effects;
- timely receipt of necessary marketing approvals from the FDA and similar foreign regulatory authorities;
- achieving and maintaining compliance with all regulatory requirements applicable to tivozanib;
- the availability, relative cost and relative efficacy of alternative and competing treatments;
- the effectiveness of our own or our potential strategic partners marketing, sales and distribution strategy and operations;
- the ability of our third-party manufacturers to manufacture clinical trial supplies of tivozanib and to develop, validate and maintain a commercially viable manufacturing process that is compliant with current good manufacturing practices, or cGMP;
- our ability to successfully launch commercial sales of tivozanib, assuming FDA approval is obtained, whether alone or in collaboration with others;

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

acceptance of tivozanib as safe and effective by patients, the medical community and third-party payors; and

a continued acceptable safety profile of the product following approval.

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Many of these factors are beyond our control. Accordingly, we cannot assure you that we will ever be able to generate revenues through the sale of tivozanib. If we are not successful in commercializing tivozanib, or are significantly delayed in doing so, our business will be materially harmed and the price of our common stock could substantially decline.

Positive results in our phase 2 clinical trial of tivozanib may not be predictive of the results in our phase 3 clinical trial. If the results of our phase 3 clinical trial are not positive, or are not sufficient for approval of tivozanib, our business will be adversely affected.

Positive results in early clinical trials of a drug candidate may not be replicated in later clinical trials. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials even after achieving promising results in earlier-stage development. Although the results of our phase 2 clinical trial of tivozanib for the treatment of advanced RCC were positive, we cannot assure you that the phase 3 clinical trial for the treatment of advanced RCC will achieve positive results. A number of factors could contribute to a lack of positive results in our phase 3 clinical trial of tivozanib.

For example, in our phase 2 clinical trial, we compared tivozanib to treatment with placebo. In our phase 3 clinical trial, the primary endpoint is a comparison of progression-free survival of patients treated with tivozanib to the progression-free survival of patients treated with Nexavar. Nexavar is a VEGF receptor inhibitor which has been approved by the FDA and the European Medicines Agency, or the EMA, for the treatment of advanced RCC, as well as the treatment of hepatocellular carcinoma. Based on our discussions with the FDA and the EMA, we set the number of patients to be enrolled in the clinical trial at a number we expect will be sufficient to demonstrate that a difference in progression-free survival of three months or more between the treatment arms would be statistically significant. The FDA has advised us that the results of the phase 3 clinical trial will need to show not only that patients treated with tivozanib have a statistically significant improvement in progression-free survival as compared to patients treated with Nexavar, but also that the improvement in progression-free survival of patients treated with tivozanib is clinically meaningful in the context of the safety of the drug. It is not clear how much of an improvement in progression-free survival will be required in order for it to be deemed clinically meaningful in the context of the safety of the drug. The FDA and other regulatory authorities will have substantial discretion in evaluating the results of our phase 3 clinical trial, including with respect to what constitutes a clinically meaningful improvement in progression-free survival. Overall survival is a secondary endpoint in our phase 3 clinical trial. Based on our discussions with the FDA, we do not expect the FDA to require that we show a statistically significant improvement in overall survival in patients treated with tivozanib in order to obtain approval by the FDA; however, if the overall survival data are not positive, it may influence how the FDA and other regulatory authorities interpret other data from our phase 3 clinical trial. We did not gather data on overall survival in our phase 2 clinical trial of tivozanib.

We cannot be certain as to what type and how many clinical trials the FDA, or equivalent foreign regulatory agencies, will require us to conduct before we may successfully gain approval to market tivozanib. Prior to approving a new drug, the FDA generally requires that the efficacy of the drug be demonstrated in two adequate and well-controlled clinical trials. In some situations, the FDA approves drugs on the basis of a single well-controlled clinical trial. Based on our discussions with the FDA and the EMA, we believe we will be required to conduct only a single phase 3 clinical trial of tivozanib in advanced RCC. All of the VEGF inhibitor drugs approved by the FDA and the EMA to date in advanced RCC, including Votrient, which was approved by the FDA in October 2009, have been approved on the basis of a single phase 3 clinical trial. However, if the FDA or EMA determines that our phase 3 clinical trial results are not statistically significant and do not demonstrate a clinically meaningful benefit and an acceptable safety profile, or if the FDA or EMA requires us to conduct additional phase 3 clinical trials of tivozanib in order to gain approval, we will incur significant additional development costs, commercialization of tivozanib would be prevented or delayed and our business would be adversely affected.

If we do not obtain regulatory approval for tivozanib, AV-299 or any other product candidates, our business will be adversely affected.

Tivozanib, AV-299 and any other product candidate we seek to develop will be subject to extensive governmental regulations relating to, among other things, development, clinical trials, manufacturing and commercialization. In order to obtain regulatory approval for the commercial sale of any product candidate, we must demonstrate through extensive preclinical studies and clinical trials that the product candidate is safe and effective for use in each target indication, and that our production process yields a consistent and stable product. This process can take many years to complete, requiring the expenditure of substantial resources with highly uncertain results. We may never obtain regulatory approval for tivozanib, AV-299 or any other product candidate we may develop.

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We have completed a phase 2 clinical trial of our lead product candidate, tivozanib, and are currently conducting a phase 3 clinical trial of tivozanib for the treatment of RCC. We are also conducting phase 1b clinical trials of tivozanib in various combinations and dosing regimens in RCC and additional solid tumor indications, including breast cancer and colorectal cancer. In addition to tivozanib, we have a pipeline of monoclonal antibodies derived from our Human Response Platform, a novel method of building preclinical models of human cancer, which are intended to more accurately represent cancer biology in patients. Our first product candidate derived from our Human Response Platform, AV-299, has entered a phase 2 clinical trial for non-small cell lung cancer. The results to date from preclinical studies, our phase 1 and phase 2 clinical trials of tivozanib and our phase 1 clinical trials of AV-299 may not be predictive of results in preclinical studies and clinical trials currently in process or that we may initiate in the future. A failure of one or more preclinical or clinical trials can occur at any stage of testing. Moreover, there can be no assurance that we will demonstrate the required safety and efficacy to obtain regulatory approvals for any of our product candidates.

Even though tivozanib has been generally well-tolerated in the limited number of patients who have been treated with it, there is no guarantee that unacceptable side effects or other risks will not occur with the exposure of a larger number of patients. If tivozanib, AV-299 or any other product candidate is not shown to be safe and effective in humans through clinical trials, we 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, as well as the potential need for additional financing, would have a material adverse effect on our business, financial condition and results of operations.

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.

Although a substantial amount of our efforts will focus on the continued clinical testing and potential approval of tivozanib as well as the continued development of AV-299, a key element of our strategy is to discover, develop and commercialize a portfolio of antibody-based products. We are seeking to do so through our internal research programs and intend to explore strategic partnerships for the development of new products. All of our other potential product candidates remain in the discovery and preclinical study stages. 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 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 on 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.

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Any failure or delay in completing clinical trials for our product candidates 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 ongoing or 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 or halted for many reasons, including:

- 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, or the inability of our strategic partners or licensees, to manufacture or obtain from third parties materials sufficient to complete our preclinical studies and clinical trials;
- 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;
- difficulty in maintaining contact with patients after treatment, resulting in incomplete data;
- poor effectiveness of our product candidates during clinical trials;
- 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 and the availability of approved effective drugs. In addition, patients may withdraw from a clinical trial for a variety of reasons. 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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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 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 testing, including phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the product candidate. 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 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 future strategic partners may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

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Risks Related to Our Financial Position and Capital Requirements

We have incurred net operating losses since our inception and anticipate that we will continue to incur substantial operating losses for the foreseeable future. We may never achieve or sustain profitability, which would depress the market price of our common stock.

We have incurred net losses since our inception, including net losses of $44.1 million, $32.5 million and $25.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of September 30, 2010, we had an accumulated deficit of $226.2 million. We do not know whether or when we will become profitable. To date, we have not commercialized any products or generated any revenues from the sale of products, and we do not expect to generate any product revenues in the foreseeable future. Our losses have resulted principally from costs incurred in our discovery and development activities. We anticipate that our operating losses will substantially increase over the next several years as we execute our plan to expand our discovery, research, development and commercialization activities, including the phase 3 clinical development and planned commercialization of our lead product candidate, tivozanib, and the continued clinical development of our phase 2 product candidate, AV-299, to which we recently regained rights from Merck.

If we do not successfully develop and obtain regulatory approval for our existing and future pipeline product candidates and effectively manufacture, market and sell any product candidates that are approved, we may never generate product sales, and even if we do generate product sales, we may never achieve or sustain profitability on a quarterly or annual basis. Our failure to become and remain profitable would depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations.

We will require substantial additional financing to achieve our goals, and a failure to obtain this necessary capital when needed could force us to delay, limit, reduce or terminate our product development or commercialization efforts.

Since our inception, most of our resources have been dedicated to the discovery, preclinical and clinical development of our product candidates. In particular, we are currently conducting a phase 3 clinical trial of tivozanib and a phase 2 clinical trial of AV-299, which will require substantial funds to complete. We believe that we will continue to expend substantial resources for the foreseeable future developing tivozanib, AV-299 and other new and existing antibody product candidates. These expenditures will include costs associated with research and development, acquiring new technologies, conducting preclinical and clinical trials, obtaining regulatory approvals and manufacturing products, as well as marketing and selling any products approved for sale. In addition, other unanticipated costs may arise. Because the outcome of our planned and anticipated clinical trials is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates.

We believe that our existing cash and cash equivalents (including the proceeds received from our sale of common stock in November 2010), marketable securities, committed research and development funding and milestone payments that we expect to receive under our existing strategic partnership and license agreements, along with payments we believe that we will receive under new strategic partnerships we assume we will enter into under our current projected operating plan, will allow us to fund our operating plan through at least the first half of 2012. However, our operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned, through public or private equity or debt financings or other sources, such as strategic partnerships. In addition, we may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans.

Our future capital requirements depend on many factors, including:

- 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;
- 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;

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- the cost of manufacturing our product candidates and any products we successfully commercialize;
- our ability to establish and maintain strategic partnerships, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or royalties on, our future products, if any.

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 development activities for one or more of our product candidates;
- delay, limit, reduce or terminate our research and development activities; 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.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

We may seek additional capital through a combination of private and public equity offerings, debt financings, strategic partnerships and alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect stockholders rights. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring debt, making capital expenditures or declaring dividends. If we raise additional funds through strategic partnerships and alliances and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms that are not favorable to us. If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

A substantial portion of our future revenues may be dependent upon our agreements with OSI Pharmaceuticals and Biogen Idec.

Our success will depend in significant part on our ability to attract and maintain strategic partners and strategic relationships to support the development and commercialization of our products. We currently expect that a substantial portion of our future revenues may be dependent upon our strategic partnerships with OSI Pharmaceuticals and Biogen Idec. Under each of these strategic partnerships, our strategic partners have significant development and commercialization responsibilities with respect to anticipated therapeutics to be developed and sold. If these strategic partners were to terminate their agreements with us, fail to meet their obligations or otherwise decrease their level of efforts, allocation of resources or other commitments under these agreements, our future revenues could be negatively impacted and the development and commercialization of our product candidates would be interrupted. In addition, if OSI or Biogen Idec do not achieve some or any of the development, regulatory and commercial milestones or if they do not achieve certain net sales thresholds, in each case, as set forth in the respective agreements, we will not fully realize the expected economic benefits of the agreements. Further, the achievement of certain of the milestones under these strategic partnership agreements will depend on factors that are outside of our control and most are not expected to be achieved for several years, if at all. Any failure to successfully maintain our strategic partnership agreements could materially and adversely

affect our ability to generate revenues.

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For a discussion of additional risks that we face with respect to our strategic partnership agreements, see If any of our current 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 beginning on page 21.

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

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

- the status of our preclinical and clinical development programs;
- the level of expenses incurred in connection with our preclinical and clinical development programs;
- any intellectual property infringement lawsuit in which we may become involved;
- 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; 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 losses 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 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. 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 current equity and credit markets deteriorate further, or do not 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 and other partners may not survive these difficult economic times, which could directly affect our ability to attain our operating goals on schedule and on budget.

At September 30, 2010, we had $87.0 million of cash, cash equivalents and marketable securities consisting of money market funds, U.S. treasuries, U.S. government agency securities, corporate debt and commercial paper. As of the date of this prospectus, 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 further 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. Further dislocations in the credit market may adversely impact the value and/or liquidity of marketable securities owned by us.

There is a possibility that our stock price may decline, due in part to the volatility of the stock market and the general economic downturn.

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Risks Related to Our Business and Industry

Because we have a short operating history, there is a limited amount of information about us upon which you can evaluate our business and prospects.

Our operations began in October 2001 and we have only a limited operating history upon which you can evaluate our business and prospects. In addition, as an early stage company, we have limited experience 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;
- build and maintain a strong intellectual property portfolio;
- build and maintain robust sales, distribution and marketing capabilities;
- gain market acceptance for our products;
- develop and maintain successful strategic relationships; 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.

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. For example, we anticipate that tivozanib, if approved for the treatment of advanced RCC, would compete with angiogenesis inhibitors and mTOR inhibitors that are currently approved for the treatment of advanced RCC, such as Avastin, marketed by Roche Laboratories, Inc., Nexavar, marketed by Onyx Pharmaceuticals, Inc. and Bayer HealthCare AG, Sutent, marketed by Pfizer Inc., Votrient, marketed by GlaxoSmithKline plc, Torisel, marketed by Pfizer, and Afinitor, marketed by Novartis Pharmaceuticals Corporation, and other therapies in development.

Many of our potential competitors have substantially greater financial, technical and personnel resources than we have. In addition, many of these competitors have significantly greater commercial infrastructures than we have. We will not be able to compete successfully unless we successfully:

design and develop products that are superior to other products in the market;

attract qualified scientific, medical, sales and marketing and commercial personnel;

obtain patent and/or other proprietary protection for our processes and product candidates;

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obtain required regulatory approvals; 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 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.

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, particularly Tuan Ha-Ngoc, our Chief Executive Officer, Elan Ezickson, our Chief Business Officer, David Johnston, our Chief Financial Officer, William Slichenmyer, our Chief Medical Officer, Michael Bailey, our Chief Commercial Officer, and Jeno Gyuris, our Senior Vice President, Head of Research, as well as other senior scientists on our management team. Although none of these individuals has informed us to date that he intends to retire or resign in the near future, the loss of services of any of these individuals or one or more of our other members of senior management could delay or prevent the successful development of our product pipeline, 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. Although we have entered into an employment agreement and a severance and change in control agreement with Tuan Ha-Ngoc, and severance and change in control agreements with each of Elan Ezickson, David Johnston, William Slichenmyer, Michael Bailey and Jeno Gyuris, these agreements do not provide for a fixed term of service.

Although we have not historically experienced unique difficulties attracting and retaining qualified employees, we could experience such problems in the future. For example, competition for qualified personnel in the biotechnology and pharmaceuticals field is intense. We will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms.

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.

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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 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, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various strategic partners, suppliers and other third parties. Future growth will impose significant added responsibilities on members of management. 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 would require significant financial and management resources. Regardless of the merits or eventual outcome, 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.

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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 $10 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 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 no sales, marketing or distribution experience and we will have to invest significant resources to develop those capabilities.

We have no sales, marketing or distribution experience. To develop internal sales, distribution and marketing capabilities, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that tivozanib will be approved. For product candidates such as tivozanib where we decide to perform sales, marketing and distribution functions ourselves, we could face a number of additional risks, 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.

Where appropriate, we may elect in the future to utilize strategic partners or contract sales forces to assist in the commercialization of tivozanib, AV-299 and future 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 tivozanib and AV-299, among physicians, patients, health care payors and, in the cancer market, acceptance by the major operators of cancer clinics.

Even if tivozanib, AV-299 or any other product candidate that we may develop or acquire in the future obtains regulatory approval, the product may not gain market acceptance among physicians, health care 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;

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the clinical indications for which the drug is approved;

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

with respect to tivozanib, the results obtained in our phase 3 clinical trial for the treatment of advanced clear cell RCC and the extent to which the results demonstrate that treatment with tivozanib represents a clinically meaningful improvement in care as compared to other available VEGF inhibitors;

the potential and perceived advantages over alternative treatments, including, with respect to tivozanib, advantages over Avastin, Nexavar, Sutent or Votrient;

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 our 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 health care 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.

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In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory changes to the health care 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 health care in the United States, third-party payors are increasingly attempting to contain health care 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 health care, the increasing influence of health maintenance organizations, additional legislative proposals, as well 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 intend to seek approval to market our future products in both the United States and in foreign jurisdictions. If we obtain approval in one or more foreign jurisdictions, we 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 health care services to contain or reduce health care 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 health care 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 new 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.

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Further federal and state proposals and health care 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 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 health care reforms that may be enacted or adopted in the future.

Risks Related to Our Dependence on Third Parties

If any of our current 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.

We currently have strategic partnerships in place relating to certain of our product candidates and technologies as follows:

- We have entered into a strategic partnership with OSI, 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.

- We have entered into an exclusive option and license agreement with Biogen Idec regarding the development and commercialization of our ErbB3-targeted antibodies for the potential treatment and diagnosis of cancer and other diseases outside of the United States, Canada and Mexico.

These strategic partnerships may not be scientifically or commercially successful due to a number of important factors, including the following:

- Each of our strategic partners has significant discretion in determining the efforts and resources that it will apply to their strategic partnership with us. The timing and amount of any cash payments, related royalties and milestones that we may receive under such strategic partnerships will depend on, among other things, the efforts, allocation of resources and successful development and commercialization of our product candidates by our strategic partners under their respective agreements.

- Our strategic partnership agreements permit our strategic partners wide discretion in deciding which product candidates to advance through the clinical trial process. Under certain of our strategic partnerships, it is possible for the strategic partner to reject product candidates at any point in the research, development and clinical trial process, without triggering a termination of the strategic partnership agreement. In the event of any such decision, our business and prospects may be adversely affected due to our inability to progress such candidates ourselves.

- Our strategic partners may develop and commercialize, either alone or with others, products that are similar to or competitive with the product candidates that are the subject of their strategic partnerships with us.

- Our strategic partners may change the focus of their development and commercialization efforts or pursue higher-priority programs.

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Our strategic partners may, under specified circumstances, terminate their strategic partnership with us on short notice and for circumstances outside of our control, which could make it difficult for us to attract new strategic partners or adversely affect how we are perceived in the scientific and financial communities. For example, Merck recently terminated its collaboration agreement with us related to AV-299 effective December 27, 2010, at which point we will assume responsibility for research and clinical development, manufacturing and future commercialization of AV-299. OSI can terminate its agreement with us, with respect to any or all collaboration targets and all associated products, upon written notice to us and can terminate the entire agreement with us in connection with a material breach of the agreement by us that remains uncured for a specified cure period. Biogen Idec may terminate its agreement with us for convenience with respect to any product(s), by providing us with three months prior written notice, or due to a material breach of the agreement by us that is not cured within a short time period or if all of our assets are acquired by, or we merge with, another entity, and the other entity is independently developing or commercializing a product containing an ErbB3 antibody and fails to divest the ErbB3 product within a specified time period.

Our strategic partners may enter into one or more transactions with third parties, including a merger, consolidation, reorganization, sale of a substantial amount of its assets, sale of a substantial amount of its stock or change in control, which could divert the attention of a strategic partner s management and adversely affect a strategic partner s ability to retain and motivate key personnel who are important to the continued development of the programs under the applicable strategic partnership with us. For example, we entered into a strategic partnership with OSI Pharmaceuticals prior to it being acquired by Astellas Pharma, Inc. or Astellas. Although the effect of the acquisition of OSI on our strategic partnership is unknown, Astellas management could determine to reduce the efforts and resources that it will apply to its strategic partnership with us. In addition, the third-party in such a transaction with our strategic partner could determine to reprioritize the strategic partner s development programs such that the strategic partner ceases to diligently pursue the development of our programs and/or cause the respective strategic partnership with us to terminate.

Our strategic partners may have the first right to maintain or defend our intellectual property rights and, although we may have the right to assume the maintenance and defense of our intellectual property rights if our strategic partners do not, our ability to do so may be compromised by our strategic partners acts or omissions.

Our strategic partners may utilize our intellectual property rights in such a way as to invite litigation that could jeopardize or invalidate our intellectual property rights or expose us to potential liability.

Our strategic partners may not comply with all applicable regulatory requirements, or fail to report safety data in accordance with all applicable regulatory requirements.

If OSI Pharmaceuticals breaches or terminates its arrangement with us, or if Biogen Idec does not elect to exercise its option to participate in development of our ErbB3 antibody candidate, 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 our own.

Our strategic partners may not have sufficient resources necessary to carry the product candidate through clinical development or may not 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.

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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 future 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 delay the development and commercialization of our product candidates and reduce their competitiveness even if they reach the market.

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.

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 a small number of 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. For instance, we rely on one supplier for the active pharmaceutical ingredient for tivozanib. Currently, a separate contract manufacturer manufactures, packages and distributes clinical supplies of tivozanib. While we believe that our existing supplier of active pharmaceutical ingredient or an alternative supplier would be capable of continuing to produce active pharmaceutical ingredient in commercial quantities, we will need to identify a third-party manufacturer capable of providing commercial quantities of drug product. If we are unable to arrange for such a third-party manufacturing source, or fail to do so on commercially reasonable terms, we may not be able to successfully produce and market tivozanib or may be delayed in doing so.

Multiple batches of drug substance were produced to support clinical trials of AV-299 through at least phase 2 clinical trials. As of December 27, 2010, the effective date of the termination of our collaboration with Merck, we will be responsible for manufacturing future batches of AV-299 for additional clinical trials or for commercial use. If we are unsuccessful in engaging a third party to manufacture AV-299 on terms acceptable to us, future clinical trials and any commercial production of AV-299 could be adversely affected.

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As with tivozanib and AV-299, we also expect to rely upon third parties to produce materials required for the clinical and commercial production of any other product candidates. 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) 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, 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 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 these raw materials by our manufacturers. Moreover, we currently do not have any agreements for the commercial production of these raw materials. Although we generally do not begin a clinical trial unless we believe we have a sufficient supply of a product candidate to complete the clinical trial, 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.

Although we believe the current manufacturing process for the active pharmaceutical ingredient for tivozanib is adequate to support future development and commercial demand, because of the complex nature of many of our other compounds, our manufacturers may not be able to manufacture such other compounds at a cost or in quantities or in a timely manner necessary to develop and commercialize other 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 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.

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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 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.

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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 the use of an organic compound that, among other things, inhibits VEGF binding to one of the VEGF receptors. Additionally, tivozanib falls within the scope of certain pending patent applications that have broad generic disclosure and 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 AV-299, 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. We are also aware of a United States patent that contains claims related to a method of treating a tumor by administering an agent that blocks the ability of HGF to promote angiogenesis in the tumor. With regard to AV-203, we are aware of a third party United States patent that contains broad claims relating to anti-ErbB3 antibodies. 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 future strategic partners were able to obtain a license, the rights may be nonexclusive, 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.

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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 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 certain aspects of our platform technology are protected by patents exclusively licensed from other companies. 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 the Dana-Farber Cancer Institute for our MaSS screen, which is a method of using our models to screen for, and identify, novel targets for new cancer drugs. 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.

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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. We have exclusively licensed certain patent rights covering a method of using our inducible cancer models to identify new targets for cancer drugs. 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.

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.

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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.

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, Congress may pass patent reform legislation. 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. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. 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 would 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 may continue to be, highly volatile, and could fall below the price you paid.

The trading price of our common stock is likely to continue to be highly volatile and could be 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, including Roche s Avastin, Pfizer s Sutent, Onyx s Nexavar, GSK s Votrient and the timing of these introductions or announcements;

actual or anticipated results from and any delays in our clinical trials, including our phase 3 clinical trial of tivozanib, as well as results of regulatory reviews relating to the approval of our product candidates;

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;

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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;

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, securities class-action litigation has often been instituted against companies. Such 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 principal stockholders and management own a significant percentage of our stock and will be able to exercise significant influence over matters subject to stockholder approval.

To our knowledge, as of November 3, 2010, our executive officers, directors and principal stockholders, together with their respective affiliates, owned approximately 24% of our common stock, including shares subject to outstanding options and warrants that are exercisable within 60 days after November 3, 2010. Accordingly, these stockholders will be able to exert a significant degree of 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 fair market value of our common stock.

A significant portion of our total outstanding shares may be sold into the public market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is doing well.

As of November 3, 2010, there were 35,509,967 shares of our common stock outstanding, a substantial portion of which are currently freely tradable. Of these, 4.5 million shares of common stock may be sold in this offering by the selling stockholders. In addition, as of November 3, 2010, we had outstanding options to purchase an aggregate of 3,621,971 shares of common stock that, if exercised, will result in the additional shares underlying these options becoming available for sale. A large portion of our shares and options are held by a small number of persons and investment funds. Sales by these stockholders or optionholders of a substantial number of shares could significantly reduce the market price of our common stock. Moreover, certain holders of our common stock and warrants to purchase shares of common stock, including the selling stockholders, have rights, subject to certain conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may file for ourselves or other stockholders.

We have also registered for resale all common stock that we may issue under our 2010 Stock Incentive Plan, 2002 Stock Incentive Plan, and 2010 Employee Stock Purchase Plan. As of November 3, 2010, an aggregate of 1,512,103 shares of our common stock has been reserved for future issuance under the 2010 Stock Incentive Plan, plus any shares reserved and unissued under our 2002 Stock Incentive Plan, and an aggregate of 250,000 shares has been reserved for future issuance under our 2010 Employee Stock Purchase Plan. These shares can be freely sold in the public market upon issuance, subject to restrictions imposed on our affiliates under Rule 144 and any lock-up or other contractual restrictions that may exist from time to time with respect to these shares.

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If a large number of shares of our common stock are sold in the public market, such sales could reduce the trading price of our common stock.

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 trading 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;
- 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.

We have limited experience complying with public company obligations.

We face increased legal, accounting, administrative and other costs and expenses as a public company. Compliance with the Sarbanes-Oxley Act of 2002, the federal securities laws, as well as other rules of the SEC and NASDAQ, will result in significant initial cost to us as well as ongoing increases in our legal, audit and financial compliance costs.

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Failure to achieve and 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.

To achieve compliance with Section 404 within the prescribed period, we will be engaged in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan to (a) assess and document the adequacy of internal control over financial reporting, (b) take steps to improve control processes where appropriate, (c) validate through testing that controls are functioning as documented, and (d) implement a continuous reporting and improvement process for internal control over financial reporting. 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 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. Investors in this offering may never obtain a return on their investment.

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.

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 the phase 3 clinical trial of tivozanib, our lead product candidate, 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.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this prospectus, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words anticipate, believe, estimate, expect, intend, may, plan, predict, project, target, potential, will, would, could, should, continue, conte terms or other similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

The forward-looking statements in this prospectus include, among other things, statements about:

- our plans to develop and commercialize tivozanib, AV-299 and our other product candidates;
- our ongoing and planned preclinical studies and clinical trials;
- the potential benefits of strategic partnership agreements and our ability to enter into selective strategic partnership arrangements;
- the timing of and our ability to obtain and maintain regulatory approvals for our product candidates;
- the rate and degree of market acceptance and clinical utility of our products;
- our plans to leverage our Human Response Platform to discover and develop product candidates;
- our ability to quickly and efficiently identify and develop product candidates;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our intellectual property position;
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing; and
- other risks and uncertainties, including those listed under the caption Risk Factors.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the Risk Factors section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect.

The forward-looking statements in this prospectus represent our views as of the date of this prospectus. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this prospectus.

This prospectus also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. We have not independently verified the statistical and other industry data generated by independent parties and contained in this prospectus. In addition, projections, assumptions and estimates of our future performance and the future performance of the industries in which we operate are necessarily subject to a high degree of uncertainty and risk.

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USE OF PROCEEDS

We are filing the registration statement of which this prospectus is a part to permit holders of the shares of our common stock described in the section entitled Selling Stockholders to resell such shares. We will not receive any proceeds from the resale of shares by the selling stockholders.

The selling stockholders will pay any underwriting discounts and commissions and expenses incurred by such selling stockholders for brokerage, accounting, tax or legal services or any other expenses incurred by such selling stockholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, NASDAQ Global Market listing fees and fees and expenses of our counsel and our auditors.

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SELLING STOCKHOLDERS

On November 3, 2010, we sold 4.5 million shares of our common stock in a private placement to accredited and institutional accredited investors in connection with our execution of a securities purchase agreement with such parties, which we refer to herein as the securities purchase agreement. The table below sets forth, to our knowledge, information about the selling stockholders as of November 3, 2010.

We do not know when or in what amounts the selling stockholders may offer shares for sale. The selling stockholders might not sell any or all of the shares offered by this prospectus. Because the selling stockholders may offer all or some of the shares pursuant to this offering and because there are currently no agreements or understandings with respect to the sale of any shares, we cannot estimate the number of shares that will be held by the selling stockholders after completion of this offering. However, for purposes of this table, we have assumed that, after completion of this offering, none of the shares covered by this prospectus will be held by the selling stockholders.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to shares of our common stock. Unless otherwise indicated below, to our knowledge, the selling stockholders named in the table have sole voting and investment power with respect to the shares of common stock beneficially owned by them. The number of shares of common stock beneficially owned prior to the offering for each selling stockholder includes (i) all shares of our common stock held by such selling stockholder prior to the private placement, plus (ii) all shares of our common stock purchased by such selling stockholder pursuant to the private placement and being offered pursuant to the prospectus, as well as (iii) all options or other derivative securities held by such selling stockholder, which are exercisable within 60 days of November 3, 2010. The percentages of shares owned after the offering are based on 35,509,967 shares of our common stock outstanding as of November 3, 2010, which includes the outstanding shares of common stock offered by this prospectus. The inclusion of any shares in this table does not constitute an admission of beneficial ownership by the person named below.

Throughout this prospectus, when we refer to the shares of our common stock being offered by this prospectus on behalf of the selling stockholders, we are referring to the shares of our common stock sold in the private placement, unless otherwise indicated.

The selling stockholders may have sold or transferred, in transactions exempt from the registration requirements of the Securities Act, some or all of their shares of common stock since the date on which the information in the table below is presented. Information about the selling stockholders may change over time.

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Name of Selling Stockholders	Shares of Common Stock Beneficially Owned Prior to Offering		Number of Shares of Common Stock Being Offered	Shares of Common Stock to be Beneficially Owned After Offering	
	Number	Percentage (%)		Number	Percentage (%)
Variable Insurance Products Fund II: Contrafund Portfolio[1]	625,140	1.76%	107,096	518,044	1.46%
Fidelity Advisor Series I: Fidelity Advisor Balanced Fund[1]	22,447	*	3,908	18,539	*
Fidelity Devonshire Trust: Fidelity Series All-Sector Equity Fund[1]	362,552	1.02%	61,752	300,800	*
Fidelity Puritan Trust: Fidelity Balanced Fund[1]	431,444	1.21%	77,244	354,200	1.00%
Fidelity Destiny Portfolios: Fidelity Advisor Capital Development Fund[1]	404,600	1.14%	404,600	0	*
Fidelity Securities Fund: Fidelity Dividend Growth Fund[1]	1,063,609	3.00%	290,609	773,000	2.18%
Fidelity Advisor Series I: Fidelity Advisor Dividend Growth Fund[1]	99,352	*	27,497	71,855	*
Fidelity Advisor Series VII: Fidelity Advisor Health Care Fund[1]	57,566	*	28,715	28,851	*
Variable Insurance Products Fund IV: Health Care Portfolio[1]	8,876	*	4,421	4,455	*
Fidelity Central Investment Portfolios LLC: Fidelity Health Care Central Fund[1]	102,992	*	51,392	51,600	*
Variable Insurance Products Fund III: Balanced Portfolio[1]	140,563	*	39,037	101,526	*
Fidelity Select Portfolios: Health Care Portfolio[1]	234,832	*	117,323	117,509	*
Janus Investment Fund on behalf of its series Janus Global Life Sciences Fund[2]	380,050	1.07%	78,609	301,441	*
Janus Capital Funds plc on behalf of its sub-fund Janus Global Life Sciences Fund[2]	36,312	*	7,797	28,515	*
HealthCor, L.P.[3]	113,346	*	113,346	0	*
HealthCor Offshore Master Fund, L.P.[3]	230,170	*	230,170	0	*
HealthCor Hybrid Offshore Master Fund, L.P.[3]	56,484	*	56,484	0	*
Alyeska Master Fund, L.P.[4]	498,247	1.40%	428,571	69,676	*
Deutsche Bank AG London[5]	199,299	*	171,429	27,870	*
Baupost Group Securities, L.L.C.[6]	2,000,000	5.63%	2,000,000	0	*
Plutus Holdings 2 LTD[7]	1,043,696	2.94%	200,000	843,696	2.38%
Total	8,111,577	22.8%	4,500,000	3,611,577	10.2%

* Less than one percent

(1) Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of such shares as a result of acting as investment adviser to various investment companies (the Fidelity Funds) registered under Section 8 of the Investment Company Act of 1940. Each of Edward C. Johnson III and FMR LLC, through its control of Fidelity and the Fidelity Funds has power to dispose of the shares owned by the Fidelity Funds. Through their ownership of voting common shares and a shareholders voting agreement, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson III, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Fidelity Funds Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Fidelity Funds Boards of Trustees.

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(2) Andrew Acker, portfolio manager for Janus Capital Management LLC (Janus), may be deemed to have discretionary investment authority with respect to such shares. Mr. Acker or any authorized officer of Janus may be deemed to share discretionary voting authority with respect to such shares.
(3) The partners of HealthCor Management, L.P. may be deemed to share voting and investment power with respect to such shares.
(4) Alyeska Investment Group, L.P., which is the investment manager of Alyeska Master Fund, L.P., may be deemed to have voting and investment power with respect to such shares.
(5) Alyeska Investment Group, L.P., which is the subadvisor to DB Alternative Strategies Limited, which is the advisor to Deutsche Bank AG London, may be deemed to have voting and investment power with respect to such shares.
(6) The Baupost Group, L.L.C., (Baupost), manager to Baupost Group Securities, L.L.C., and each of SAK Corp., the manager of Baupost, and Seth A. Klarman, the director of SAK Corp., may be deemed to share voting and investment power with respect to such shares.
(7) Herve Benzakein, director of Senebier Ltd, acting as director of Plutus Holdings 2 LTD, may be deemed to have voting and investment power with respect to such shares.

Relationships with the Selling Stockholders

Certain funds registered under Section 8 of the Investment Company Act of 1940 and beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC, beneficially owned approximately 12.3% of our voting securities prior to purchasing shares of our common stock in the private placement.

In connection with the sale of shares to the selling stockholders, we entered into a securities purchase agreement and a registration rights agreement with the selling stockholders. The registration statement of which this prospectus is a part has been filed in accordance with the registration rights agreement and securities purchase agreement.

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PLAN OF DISTRIBUTION

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales effected after the date the registration statement of which this prospectus is a part is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted by applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions

they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

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The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, to the extent applicable, we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with such registration statement or (2) the date on which all of the shares may be sold without restriction pursuant to Rule 144 of the Securities Act.

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DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock and our ability to pay cash dividends is currently prohibited by the terms of our debt financing arrangements. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends to our stockholders in the foreseeable future.

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MARKET PRICE INFORMATION

Our common stock began trading on the NASDAQ Global Market on March 12, 2010 under the symbol AVEO . Prior to that time, there was no established public trading market for our common stock. The following table sets forth the high and low sale prices per share for our common stock on the NASDAQ Global Market for the period indicated:

	High	Low
2010		
First Quarter (beginning March 12, 2010)	$ 9.02	$ 8.16
Second Quarter	$ 9.91	$ 6.90
Third Quarter	$ 11.23	$ 6.01
Fourth Quarter (through November 9, 2010)	$ 17.72	$ 11.24

On November 9, 2010, the last reported sale price of our common stock on the NASDAQ Global Market was $16.45 per share.

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INDUSTRY AND MARKET DATA

We obtained the industry, market and competitive position data in this prospectus from our own internal estimates and research as well as from industry and general publications and research surveys and studies conducted by third parties. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data from third-party sources. While we believe our internal company research is reliable and the market definitions we use are appropriate, neither such research nor these definitions have been verified by any independent source.

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DILUTION

This offering is for sales of common stock by the selling stockholders on a continuous or delayed basis in the future. Sales of common stock by the selling stockholders will not result in a change to the net tangible book value per share before and after the distribution of shares by such selling stockholders.

There will be no change in net tangible book value per share attributable to cash payments made by purchasers of the shares being offered. Prospective investors should be aware, however, that the price of shares of common stock may not bear any rational relationship to net tangible book value per share of the common stock.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data together with our financial statements, the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

We derived the annual consolidated financial data from our audited financial statements, the last three years of which are included elsewhere in this prospectus. We derived the interim consolidated financial data from our unaudited interim consolidated financial statements included elsewhere in this prospectus. We derived the summary statement of operations data for the years ended December 31, 2005 and 2006 and the balance sheet data as of December 31, 2005, 2006 and 2007 from our audited financial statements not included in this prospectus. Our unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the information set forth therein.

Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results for a full fiscal year.

	Years Ended December 31,					Nine Months Ended September 30,	
	2005	2006	2007	2008	2009	2009	2010
	(in thousands, except per share data)					(in thousands, except per share data)	
						(unaudited)	(unaudited)
Statement of operations data:							
Revenue	$ 6,213	$ 7,783	$ 11,034	$ 19,660	$ 20,719	$ 14,683	$ 32,725
Operating expenses:							
Research and development	17,758	26,845	29,248	41,821	51,792	38,326	68,867
General and administrative	4,783	5,161	6,502	9,164	10,120	7,504	10,199
Total operating expenses	22,541	32,006	35,750	50,985	61,912	45,830	79,066
Income (loss) from operations	(16,328)	(24,223)	(24,716)	(31,325)	(41,193)	(31,147)	(46,341)
Other income and expense:							
Other income (expense), net	7			18	(333)	(273)	722
Loss on loan extinguishment				(248)			(582)
Interest expense	(635)	(1,591)	(2,437)	(2,086)	(2,811)	(2,141)	(2,361)
Interest income	859	909	2,171	1,168	144	121	87
Other income (expense), net	231	(682)	(266)	(1,148)	(3,000)	(2,293)	(2,134)
Net loss before taxes	(16,097)	(24,905)	(24,982)	(32,473)	(44,193)	(33,440)	(48,475)
Tax benefit					100	63	
Net loss	$ (16,097)	$ (24,905)	$ (24,982)	$ (32,473)	$ (44,093)	$ (33,377)	$ (48,475)
Net loss per share applicable to common stockholders-basic and diluted	$ (12.35)	$ (18.73)	$ (17.89)	$ (21.08)	$ (27.43)	$ (20.87)	$ (2.13)
Weighted average number of common shares used in net loss per share calculation basic and diluted	1,303	1,330	1,396	1,541	1,607	1,599	22,773

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	2005	2006	As of December 31, 2007	2008	2009	As of September 30, 2010 (unaudited)
			(in thousands)			
Balance sheet data:						
Cash, cash equivalents, and marketable securities	$ 25,991	$ 16,748	$ 61,742	$ 32,364	$ 51,301	$ 87,022
Working capital	17,087	3,674	42,542	16,073	18,789	57,325
Total assets	33,074	22,448	67,654	40,087	59,844	96,512
Loans payable, including current portion, net of discount	7,076	19,365	15,078	21,055	19,745	23,140
Preferred stock warrant liability		727	905	1,211	1,459	
Convertible preferred stock	66,223	66,223	123,720	123,720	156,705	
Accumulated deficit	(51,323)	(76,176)	(101,158)	(133,631)	(177,725)	(226,200)
Total stockholders equity (deficit)	(49,817)	(74,547)	(98,458)	(128,688)	(170,291)	23,411

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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 at the end of this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, and in any amendments or supplements we may make to this prospectus, 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 of this prospectus 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 focused on discovering, developing and commercializing novel cancer therapeutics. Our product candidates are directed against important mechanisms, or targets, known or believed to be involved in cancer. Tivozanib, our lead product candidate, is a highly potent and selective oral inhibitor of the vascular endothelial growth factor, or VEGF, receptors 1, 2 and 3. Our clinical trials of tivozanib to date have demonstrated a favorable safety and efficacy profile for tivozanib. We have completed a successful 272-patient phase 2 clinical trial of tivozanib in patients with advanced renal cell cancer, or RCC. In this trial, we measured, among other things, each patient s progression-free survival, which refers to the period of time that began when a patient entered the clinical trial and ended when either the patient died or the patient s cancer had grown by a specified percentage or spread to a new location in the body. The overall median progression-free survival of patients in the phase 2 clinical trial was 11.8 months. In a retrospective analysis of the subset of 176 patients in our phase 2 clinical trial who had the clear cell type of RCC and who had undergone prior removal of their affected kidney, referred to as a nephrectomy, both of which are inclusion criteria for our phase 3 clinical trial of tivozanib, the median progression-free survival was 14.8 months. The incidence of side effects in the phase 2 clinical trial, such as diarrhea, fatigue, rash, mucositis, stomatitis and hand-foot syndrome, which are commonly associated with other VEGF receptor inhibitors, was notably low, with moderate to severe episodes of these side effects occurring in fewer than two percent of treated patients. In August 2010, we completed enrollment of our 517-patient phase 3 clinical trial of tivozanib in patients with advanced RCC, which we refer to as the TIVO-1 study. The TIVO-1 study is a randomized, controlled clinical trial of tivozanib compared to Nexavar (sorafenib) in advanced clear cell RCC patients who have undergone a prior nephrectomy, and who have not received any prior VEGF-targeted therapy. Nexavar is an oral VEGF receptor inhibitor approved for the treatment of RCC. In its phase 3 clinical trial in patients with advanced clear cell RCC, 94% of whom had undergone a prior nephrectomy, Nexavar demonstrated a median progression-free survival of 5.5 months. Progression-free survival is the primary endpoint in the TIVO-1 study. The TIVO-1 study is designed so that a difference in progression-free survival of three months or more between the treatment arms would be statistically significant.

In addition to the TIVO-1 study, we are currently conducting multiple clinical trials of tivozanib including: a phase 1b clinical trial in combination with Torisel (temsirolimus), an approved inhibitor of the receptor known as mammalian target of rapamycin, or mTOR, in patients with advanced RCC; a phase 1b clinical trial in combination with the FOLFOX6 chemotherapy regimen in patients with advanced gastrointestinal cancers; a phase 1b clinical trial in combination with paclitaxel in patients with metastatic breast cancer; and a phase 1b clinical trial as a monotherapy in patients with non-small cell lung cancer. We expect that the results of these clinical trials will help to inform our clinical development plans for tivozanib in additional indications. 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) in 2006. Under the license agreement, we obtained an exclusive license to research, develop, manufacture and commercialize tivozanib, pharmaceutical compositions thereof and associated biomarkers for the diagnosis, prevention and treatment of any and all human diseases and conditions. Kyowa Hakko Kirin has retained rights to tivozanib in Asia. We have obligations to make milestone, royalty and sublicensing revenue payments to Kyowa Hakko Kirin.

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In addition to tivozanib, we have a pipeline of monoclonal antibodies derived from our Human Response Platform , a novel method of building preclinical models of human cancer, which are intended to more accurately represent cancer biology in patients. AV-299, our next most advanced product candidate, is an antibody which binds to hepatocyte growth factor, or HGF, thereby blocking its function. Through the use of our Human Response Platform, our scientists have identified the HGF/c-Met pathway as being a significant driver of tumor growth. We have completed a phase 1 clinical trial of AV-299 and recently initiated a phase 2 clinical trial for non-small cell lung cancer. In 2007, we entered into an agreement with Merck & Co., Inc. (formerly Schering-Plough Corporation), or Merck, under which we granted Merck exclusive worldwide rights to co-develop and commercialize AV-299 and under which Merck funded all development and manufacturing expenses, subject to an agreed-upon budget. On September 28, 2010, we received notice from Merck of termination of the collaboration agreement effective as of December 27, 2010 at which point we will be responsible for funding all future development manufacturing and commercialization costs for the AV-299 program.

Our Human Response Platform was designed to overcome many of the limitations of traditional approaches to modeling human cancer. The traditional method of modeling human cancer uses a model referred to as a xenograft. A xenograft model is created by adapting cells from a human tumor to grow in a petri dish, and then injecting these cells into a mouse, where they grow into tumors. However, the resulting tumors differ from the original tumor in important respects, and, accordingly, xenograft models are often poor predictors of the success of cancer drugs in human clinical trials. In our Human Response Platform, we use patented genetic engineering techniques to grow populations of spontaneous tumors in animals containing human-relevant, cancer-causing mutations and tumor variation 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. We are utilizing this Human Response Platform alone and with our strategic partners to (i) identify and validate target genes which drive tumor growth, (ii) evaluate drugs which can block the function of these targets and (iii) identify biomarkers, which are indicators of drug response and resistance in patients, in an effort to evaluate which patients are most likely to respond favorably to treatment with such drugs.

In addition, we have identified a number of other promising targets for the development of novel cancer therapeutics using our Human Response Platform. We have preclinical antibody discovery programs underway focusing on targets that appear to be important drivers of tumor growth, including the ErbB3 receptor (partnered with Biogen Idec), the RON receptor, the Notch receptors and the Fibroblast Growth Factor receptors.

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 support of these operations. We have generated no revenue from product sales and, through September 30, 2010, have principally funded our operations through:

- $118.1 million of non-dilutive capital in the form of license fees, milestone payments and research and development funding received from our strategic partners;
- $169.6 million of funding from the sale of convertible preferred stock to our investors, 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 in March 2010; and
- $25.0 million of loan proceeds in connection with the loan agreement with Hercules Technology II, L.P. and Hercules Technology III, L.P.

We have never been profitable and, as of September 30, 2010, we had an accumulated deficit of $226.2 million. We incurred net losses of approximately $25.0 million, $32.5 million and $44.1 million during the years ended December 31, 2007, 2008 and 2009, respectively. We incurred net losses of approximately $33.4 million and $48.5 million during the nine months ended September 30, 2009 and 2010, respectively. We expect to incur significant and increasing operating losses for the foreseeable future as we advance our product candidates from discovery through preclinical studies and clinical trials to seek regulatory approval and eventual commercialization. We will need additional financing to

support our operating activities.

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Recent Financing

On October 28, 2010, we entered into a definitive agreement with respect to the private placement of 4.5 million shares of our unregistered common stock at $13.50 per share to a group of institutional and accredited investors. We completed the private placement on November 3, 2010, resulting in approximately $56.6 million in net proceeds to us.

Financial Obligations Related to the License and Development of Tivozanib

In December 2006, we entered into a license agreement with Kirin Brewery Co. Ltd. (now Kyowa Hakko Kirin) under which we obtained an exclusive license 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. Kyowa Hakko Kirin has retained rights to tivozanib in Asia. Under the license agreement, we obtained exclusive rights in our territory under certain Kyowa Hakko Kirin 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.

Upon entering into the license agreement with Kyowa Hakko Kirin, we made a one-time cash payment in the amount of $5.0 million. We also made a $10.0 milestone payment to Kyowa Hakko Kirin in March 2010 in connection with the initial dosing of patients in our phase 3 clinical trial of tivozanib. In addition, we may be required to make up to an aggregate of $50.0 million in additional milestone payments upon the achievement of specified regulatory milestones. We are also required to pay tiered royalty payments on net sales we make of tivozanib in our territory. The royalty rates under the agreement range from the low to mid teens as a percentage of our net sales of tivozanib. In the event we sublicense the rights licensed to us under the license agreement, we are required to pay Kyowa Hakko Kirin 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.

Strategic Partnerships

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. Our strategic partnership with OSI 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. We are currently working with OSI on the development of proprietary target-driven tumor models for use in target validation, drug screening and biomarker identification to support OSI s drug discovery and development activities. The research program portion of our strategic partnership began in October 2007 and will expire at the end of June 2011 unless the agreement is terminated earlier by either party. Under the terms of our agreement, OSI may, but has no obligation to, elect to obtain exclusive rights, with the right to grant sublicenses, under certain aspects of our intellectual property, to research, develop, make, sell and import drug products and associated diagnostics directed to a specified number of targets identified and/or validated under the agreement. OSI has sole responsibility and is required to use commercially reasonable efforts to develop and commercialize drugs and associated diagnostics directed to the targets to which it has obtained rights. 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. Further, as part of our expanded strategic partnership, we granted OSI an option to receive non-exclusive perpetual rights to certain elements of our Human Response Platform and our bioinformatics platform, including the right to obtain certain of our tumor models and tumor archives. If OSI elects to exercise this additional option and we transfer the relevant technology to OSI, OSI will be required to pay us license expansion fees equal to, in the aggregate, $25.0 million.

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In September 2007, OSI paid us an up-front payment of $7.5 million, which was recorded in deferred revenue and is being amortized over our period of substantial involvement, which is now determined to be through July 2011. OSI also paid us $2.5 million for the first year of research program funding, which was recorded in deferred revenue and was recognized as revenue over the performance period and, thereafter, made sponsored research payments of $625,000 per quarter through July 2009. In addition, OSI purchased 1,833,334 shares of our series C convertible preferred stock, at a per share price of $3.00, resulting in gross proceeds to us of $5.5 million. We determined that the price paid of $3.00 per share by OSI represents a premium of $0.50 over the price per share for shares of our series D convertible preferred stock sold in April 2007; accordingly, we will recognize the premium of $917,000 as additional license 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 C convertible preferred stock were converted into one share of common stock.

In July 2009 under the amended agreement, OSI paid us an up-front payment of $5.0 million, which was recorded in deferred revenue and will be amortized over our remaining period of substantial involvement. OSI also agreed to fund research costs through June 30, 2011. In addition, OSI purchased 3,750,000 shares of our series E convertible preferred stock at a per share price of $4.00, resulting in gross proceeds to us of $15.0 million. We determined that the price of $4.00 per share paid by OSI represents a premium of $1.04 per share over the fair value of the series E convertible preferred stock of $2.96 as calculated by us in our retrospective stock valuation; accordingly, we will recognize the premium of $3.9 million as additional license 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.

Under the amended agreement, if all applicable milestones are achieved, payments for the successful achievement of discovery, development and commercialization milestones under the agreement could total, in the aggregate, over $94.0 million for each target and its associated products.

Biogen Idec

In March 2009, we entered into an exclusive option and license agreement with Biogen Idec International GmbH, a subsidiary of Biogen Idec Inc., which we collectively refer to herein as 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 outside of the United States, Canada and Mexico. 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. Within a specified time period 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 the United States, Canada and Mexico. We retain the exclusive right to commercialize ErbB3 antibody products in the United States, Canada and Mexico.

Under the terms of the agreement, Biogen Idec paid us an up-front cash payment of $5.0 million in March 2009, which will be amortized over our period of substantial involvement, defined as the twenty-year 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 includes 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 will recognize 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.

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In June 2009, we received 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 received in June 2009 is a near term milestone and not considered to be substantive and at risk, 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. This milestone was considered substantive and at risk and has been included in revenue for the quarter ended March 31, 2010. We could also receive (i) a $5.0 million pre-clinical discovery and development milestone payment, and (ii) if Biogen Idec exercises its option to obtain exclusive rights to commercialize ErbB3 antibody products in its territory, an option exercise fee and regulatory milestone payments of $50.0 million in the aggregate.

Schering-Plough (now Merck)

In March 2007, we entered into an agreement with Schering-Plough Corporation, or Schering-Plough (now Merck & Co., Inc., or 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 hepatocyte growth factor, or HGF, including AV-299, 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. We also are using our Human Response Platform to conduct translational research to guide the clinical development of AV-299. Prior to Merck s termination of its collaboration agreements with us, Merck was responsible for all costs related to the clinical development of AV-299 and clinical and commercial manufacturing. On September 28, 2010, we received notice from Merck of termination of the collaboration agreement effective as of December 27, 2010, at which point we will be responsible for funding all future development, manufacturing and commercialization costs for the AV-299 program.

Under the agreement, Merck paid us an up-front payment of $7.5 million in May 2007, which is being amortized over our period of substantial involvement, which was initially estimated to be through completion of the first phase 2 proof-of-concept trial for AV-299 (which was expected to be the first half of 2012), but has been adjusted to reflect the termination of the agreement effective as of December 27, 2010. In addition, Merck purchased 4,000,000 shares of our series D convertible preferred stock, at a per share price of $2.50, resulting in gross proceeds to us of $10.0 million. The amount paid for the series D convertible preferred stock represented fair value as it was the same as the amounts paid by unrelated investors in March and April 2007. 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 D convertible preferred stock were converted into one share of common stock.

In June 2010, we earned and received an $8.5 million milestone payment from Merck in connection with the enrollment of patients in our phase 2 clinical trial of AV-299 under the agreement. Since the $8.5 million milestone payment earned in June 2010 was considered substantive and at risk, it has been included in revenue for the nine months ended September 30, 2010.

Financial Overview

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, 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 until 2013 at the earliest. 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.

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Research and Development Expense

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 and benefits;
- 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;
- 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;
- stock-based compensation expense to employees and non-employees; and
- costs associated with non-clinical activities and regulatory approvals.

We expense research and development costs as incurred. Non-refundable 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.

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 plan to increase our research and development expenses for the foreseeable future as we seek to complete development of our most advanced product candidate, tivozanib, and to further advance the AV-299 program and our earlier-stage research and development projects.

We track external development expenses and personnel expense on a program-by-program basis and allocate common expenses, such as scientific consultants and lab supplies, to each program based on the personnel resources allocated to each program. Facilities, depreciation, stock-based compensation, research and development management and research and development support services are not allocated and are considered overhead. Below is a summary of our research and development expenses for the years ended December 31, 2007, 2008 and 2009, and the nine months ended September 30, 2009 and 2010:

	Years Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
		(in thousands)		(unaudited, in thousands)	
Tivozanib	$ 5,810	$ 14,231	$ 23,399	$ 17,315	$ 43,980
AV-299	4,101	5,671	6,498	4,579	7,336

AV-203 program		992	1,763	1,294	2,102
Platform collaborations	2,025	2,836	2,960	2,139	2,339
Antibody pipeline	4,660	5,176	5,523	4,094	4,473
Other research and development	5,010	3,437	2,358	1,892	1,109
Overhead	7,642	9,478	9,291	7,013	7,528
Total research and development expenses	$ 29,248	$ 41,821	$ 51,792	$ 38,326	$ 68,867

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Tivozanib

We have completed a phase 2 clinical trial for tivozanib and in August 2010 completed enrollment of our 517-patient phase 3 clinical trial for tivozanib in advanced RCC. We are also conducting phase 1 clinical trials of tivozanib in various combinations and dosing regimens in advanced RCC and additional solid tumor indications. Future research and development costs for the tivozanib program are not reasonably certain because such costs are dependent on a number of variables, including the cost and design of any additional clinical trials, such as additional trials in combination with other drugs, the timing of the regulatory process, and the success of the ongoing phase 3 clinical trial. Our current estimate for the cost of the phase 3 clinical trial, including the cost of the comparator drug, Nexavar, is approximately $67.0 million. In the first quarter of 2010, we paid Kyowa Hakko Kirin a $10.0 million milestone in connection with the initial dosing of patients in our phase 3 clinical trial of tivozanib. We may also be required to make up to an aggregate of $50.0 million in milestone payments to Kyowa Hakko Kirin upon the achievement of specified regulatory milestones. Further, we are 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. In the event we sublicense the rights licensed to us under the license agreement, we are required to pay Kyowa Hakko Kirin 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.

AV-299

We entered into a license agreement related to AV-299 with Merck (formerly Schering-Plough) pursuant to which Merck was responsible for all expenses relating to development of AV-299 in accordance with an agreed-upon budget prior to Merck s termination of the agreement. We recorded revenue and expenses on a gross basis under this arrangement. We completed a phase 1 clinical trial of AV-299 and initiated a phase 2 clinical trial of AV-299 in the second quarter of 2010, for which we earned an $8.5 million milestone payment from Merck. On September 28, 2010, we received notice from Merck of termination of the agreement effective as of December 27, 2010, at which point we will be responsible for funding all future development, manufacturing and commercialization costs for the AV-299 program. Due to the unpredictable nature of preclinical and clinical development, we are unable to estimate with certainty the costs we will incur in the future development of AV-299.

AV-203 Program

Our AV-203 program is focused on identifying inhibitors of ErbB3 and is currently in preclinical development. 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 the United States, Canada and Mexico. Due to the unpredictable nature of preclinical and clinical development and given the early stage of this program, we are unable to estimate with certainty the costs we will incur in the future development of any candidate identified from this program. We selected a development candidate in the first quarter of 2010 for which we earned a $5.0 million milestone payment from Biogen Idec. We commenced process development for manufacturing of this candidate in September 2010 in preparation for preclinical and human clinical trials.

Platform Collaborations

We perform research services for third parties using our Human Response Platform. The related expenses, including personnel and related expenses, are captured as a cost of our various agreements with such third parties. Expenses incurred under our existing agreement with OSI Pharmaceuticals are fully supported by the revenue from that agreement.

Antibody Pipeline

We expect that the expenses related to our antibody pipeline will continue to increase as we seek to identify additional targets for preclinical research and additional personnel are added to these projects. Future research and development costs for our antibody pipeline are not reasonably certain because such costs are dependent on a number of variables, including the success of preclinical studies on these antibodies and the identification of other potential candidates across multiple oncology indications.

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Other Research and Development

Other research and development includes expenses related to AV-412, a product candidate for which we decided not to pursue further development, and certain funding related to our Human Response Platform, which is not specifically related to a particular product candidate or a specific strategic partnership. AV-412 was the subject of a license agreement with Mitsubishi Pharma Corporation. We terminated the license agreement with Mitsubishi Pharma effective January 26, 2010. The costs to wind down this program are expected to be minimal.

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 remainder of the development of our product candidates, or the period, if any, in which material net cash inflows may commence from our product candidates. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the progress and results of our clinical trials;
- the scope, progress, results and costs of preclinical development, laboratory testing and clinical trials for any other product candidate;
- the costs, timing and outcome of regulatory review of our product candidates;
- our ability to establish and maintain strategic partnerships and the terms and success of those strategic partnerships, if any, including the timing and amount of payments that we might receive from potential 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 discussed above, we are unable to determine the duration and completion costs of current or future clinical stages of our product candidates (except for the estimates we have made for the cost of our phase 3 clinical trial of tivozanib) or when, or to what extent, we will generate revenues from the commercialization and sale of any of our product candidates (except for our expectation related to the earliest we might generate revenue from product sales under Financial Overview Revenue above). 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 of each product candidate, as well as ongoing assessment of the product candidate s commercial potential. We plan to develop additional product candidates internally which will increase significantly our research and development expenses in future periods. We will need to raise additional capital in the future in order to complete the commercialization of tivozanib and to fund the development of the AV-299 program and our other product candidates.

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General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, business development, marketing, information technology, legal and human resources 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, auditing and tax services.

We anticipate that our general and administrative expenses will increase for, among others, the following reasons:

- we expect to incur increased general and administrative expenses to support our research and development activities, which we expect to expand as we continue the development of our product candidates;
- we may also begin to incur expenses related to the sales and marketing of our product candidates in anticipation of commercial launch before we receive regulatory approval of a product candidate; and
- we expect our general and administrative expenses to increase as a result of increased payroll, expanded infrastructure and higher consulting, legal, accounting and investor relations costs, and directors and officers insurance premiums, associated with being a public company.

Interest Income and Interest Expense

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

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

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 accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events and various other factors that are believed 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 prospectus. 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 typically include payment to us of one or more of the following: non-refundable, up-front license 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 components of the arrangement represent separate units of accounting. This evaluation requires subjective determinations and requires management to make judgments about the fair value of the individual elements and whether such elements are separable from the other aspects of the contractual relationship.

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We typically receive up-front, non-refundable payments when licensing our intellectual property in conjunction with a research and development agreement. We believe that these payments generally are not separable from the activity of providing research and development services because the license does not have stand-alone value separate from the research and development services that we provide under our agreements. Accordingly, we account for these elements as one unit of accounting and recognize up-front, non-refundable payments as revenue on a straight-line basis over our contractual or estimated performance period, which is typically the term of our research and development obligations. If we cannot reasonably estimate when our performance obligation ends, then revenue is deferred until we can reasonably estimate when the performance obligation ends. The periods over which revenue should be recognized are subject to estimates by management and may change over the course of the strategic partnership agreement. Such a change could have a material impact on the amount of revenue we record in future periods.

Our strategic partnership agreements may also contain milestone payments. Revenues from milestones, if they are non-refundable and considered substantive, are recognized upon successful accomplishment of the milestones. If not considered substantive, milestones are initially deferred and recognized over the remaining performance obligation.

We receive payments and reimbursements for development activities undertaken by us for the benefit of our strategic partners and present them on a gross basis when we are acting as the principal in the arrangement, 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.

We have not received any royalty revenues to date.

Accrued Clinical Expenses

As part of the process of preparing our financial statements, we are required to estimate our accrued expenses. This process involves reviewing open contracts and purchase orders, 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 the service when we have not yet been invoiced or otherwise notified of actual cost. 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 the preclinical development activities.

We base our expenses related to clinical studies 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, our understanding 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 September 30, 2010, if our estimates are too high or too low by 5%, this may result in an adjustment to our accrued clinical trial expenses in future periods of approximately $275,000.

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Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Financial Accounting Standards Board Accounting Standards Codification, or ASC, 718 Accounting for Stock Based Compensation (formerly Statement of Financial Accounting Standards No. 123(R), Share-Based Payments), which we refer to as ASC 718, using the modified prospective transition method. The modified prospective transition method applies the provisions of ASC 718 to new awards and to awards modified, repurchased or cancelled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service has not been rendered that are outstanding as of the adoption date is recognized in the Statement of Operations over the remaining service period after the adoption date based on the award s original estimate of fair value. All stock-based awards granted to non-employees are accounted for at their fair value in accordance with ASC 718, and ASC 505, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, under which compensation expense is generally recognized over the vesting period of the award. 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. Calculating the fair value of stock-based awards requires that we make highly subjective assumptions. We use the Black-Scholes option pricing model to value our stock option awards. Our expected stock price volatility is based on an average of several peer companies. We utilized a weighted average method of using our own data for the quarters that we have been public, along with data we obtained from our peer companies. 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. For periods prior to 2009, we used an average of several peer companies with the characteristics described above to calculate our expected term given our limited history. For 2009 and for all periods thereafter, due to lack of available quarterly data for these peer companies, we elected to use the simplified method for plain vanilla options to estimate the expected term of the 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. 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. 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.

The fair value of stock options was estimated at the grant date using the following assumptions:

	Years Ended December 31,			Nine Months Ended September 30,
	2007	2008	2009	2010 (unaudited)
Volatility	68.16%	68.70%	70.35%-72.04%	63.92%-66.80%
Expected Term (in years)	5.58	5.61	5.50-6.25	5.50-6.25
Risk-Free Interest Rates	3.49%-5.03%	1.55%-3.34%	1.98%-3.04%	1.59%-2.92%
Dividend Yield				

We recognized stock-based compensation expense of approximately $788,000, $2.3 million and $2.4 million for the years ended December 31, 2007, 2008, and 2009, respectively, in accordance with ASC 718. We recognized stock-based compensation expense of approximately $1.7 million and $2.9 million for the nine months ended September 30, 2009 and 2010, respectively in accordance with ASC 718. As of September 30, 2010, we had approximately $5.1 million of total unrecognized compensation expense, net of related forfeiture estimates which we expect to recognize over a weighted-average period of approximately 2.0 years.

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Upon the adoption of ASC 718, we were also required to estimate the level of forfeitures expected to occur and record compensation expense only for those awards that we ultimately expect will vest. We performed a historical analysis of option awards that were forfeited prior to vesting and recorded total stock option expense that reflected this estimated forfeiture rate.

We have historically granted stock options at exercise prices not less than the fair market value of our common stock. Prior to our initial public offering in March 2010, the fair value of our common stock was determined by our board of directors, with input from management, as there was no public market for our common stock at that time. Prior to our initial public offering, our board of directors had historically determined the estimated fair value of our common stock on the date of grant based on a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector, the prices at which we sold shares of convertible preferred stock, the superior rights and preferences of securities senior to our common stock at the time of each grant, the results of operations, financial position, status of our research and development efforts, our stage of development and business strategy and the likelihood of achieving a liquidity event such as an initial public offering, or IPO, or sale of our company.

The following table presents the grant dates and related exercise prices of stock options granted to employees since December 18, 2008 through the date of our initial public offering:

Date	Number of Shares Subject to Options Granted	Exercise Price	Reassessed Fair Value of Common Stock Per Share at Date of Grant	Intrinsic Value at Date of Grant
December 18, 2008	2,500	$ 6.88	$ 7.12	$ 0.24
January 30, 2009	114,437	$ 8.00	$ 8.60	$ 0.60
April 1, 2009	145,526	$ 8.48	$ 9.28	$ 0.80
June 16, 2009	94,300	$ 8.72	$ 10.04	$ 1.32
July 17, 2009	10,000	$ 8.72	$ 10.04	$ 1.32
October 8, 2009	208,025	$ 9.64	$ 10.40	$ 0.76
December 17, 2009	18,887	$ 11.32	N/A	N/A
February 2, 2010	398,182	$ 12.24	N/A	N/A
Total	991,857			

The exercise price for stock options granted above was set by our board of directors based upon our valuation models. Our valuation models used the Market Approach and the Probability Weighted Expected Return Method as outlined in the AICPA Technical Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*, or Practice Aid. The exercise prices for stock options granted on December 18, 2008, January 30, 2009, April 1, 2009, June 16, 2009, July 17, 2009, October 8, 2009, December 17, 2009 and February 2, 2010 were determined by the results of our contemporaneous valuations completed in November 2008, January 2009, March 2009, June 2009, September 2009, December 2009 and January 2010, respectively. These valuations considered the following scenarios for achieving shareholder liquidity:

- an IPO;
- sale of the company at an equity value greater than the aggregate liquidation preference of the preferred stock; and
- sale of the company at an equity value equal to or less than the aggregate liquidation preference of the preferred stock.

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2009 and in preparing for an IPO, we reexamined the contemporaneous valuations of our common stock during the period November 2008 to September 2009. In connection with that reexamination, we prepared retrospective valuation reports of the fair value of our common stock for financial reporting purposes as of November 28, 2008, January 15, 2009, March 20, 2009, June 1, 2009 and September 25, 2009. We believe that the valuation methodologies used in the retrospective valuations and the contemporaneous valuations are reasonable and consistent with the Practice Aid. We also believe that the preparation of the retrospective valuations was necessary due to the fact that the timeframe and probability for a potential IPO had accelerated significantly since the time of our initial contemporaneous valuations.

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In the IPO scenario for our retrospective and contemporaneous valuations, on November 28, 2008 and January 15, 2009, we applied the guideline transactions method under the market approach as provided in the Practice Aid and for the subsequent valuations, we applied the guideline public company method under the market approach as provided in the Practice Aid due to the very limited number of biotechnology company IPOs in 2008 and 2009. Our selection of guideline companies included companies deemed comparable because of their disease focus (oncology), stage of clinical trials, and size.

In the sale above liquidation preference scenario for each of our retrospective and contemporaneous valuations, we applied the guideline transactions method under the market approach as provided in the Practice Aid. Our selection of guideline transactions took into account the timing of the transactions and the characteristics of the acquired companies. We selected target companies which were deemed comparable because of their disease focus (oncology), stage of clinical trials, and size.

In the liquidation scenario for each of our retrospective and contemporaneous valuations, we assumed a sale or liquidation of the company at an equity value equal to the aggregate liquidation preference of our preferred stock.

Future values for each scenario are converted to present value by applying a discount rate estimated using a size-adjusted capital asset pricing model, or CAPM. As described in the Practice Aid, the CAPM takes into account risk-free rates, an equity risk premium, the betas of selected public guideline companies and a risk premium for size. The estimated discount rate includes a premium for company-specific risk as well.

In our application of CAPM, on each of the valuation dates disclosed, we assumed a risk-free rate of 3.17% to 4.56% based on long-term U.S. Treasuries, a supply-side equity-risk premium of 5.0% to 6.2% based on Ibbotson s *SBBI Valuation Yearbook* and *PPC s Guide to Business Valuation*, a beta of 1.27 to 1.71 based on historical trading data for our guideline public companies and a risk premium for size of 2.71% to 5.82% based on Ibbotson s *SBBI Valuation Yearbook* and company-specific risk of 5.5% to 10.0%. Changes in the risk-free rate, the equity-risk premium and beta reflect changes in market conditions. Market volatility in late 2008 and early 2009 corresponded to a decline in guideline public company betas. Changes in the risk premium for size reflect changes in the value of the company relative to the categories of size reported by Ibbotson. The company-specific risk premium reflects the significant overall business risk associated with our pre-commercial stage of development prior to the IPO and also includes our:

- dependence on the success of our lead drug candidate, tivozanib, which is in phase 3 development;
- short operating history and history of operating losses since inception;
- need for substantial additional financing to achieve our goals; and
- dependence on a limited number of collaboration partners.

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In our retrospective valuations for the period from November 2008 to September 2009 and our contemporaneous valuations for December 2009 and January 2010, we estimated the following probabilities and future sale and IPO dates:

Appraisal Date	11/28/08	1/15/09	3/20/09	6/1/09	9/25/09	12/17/09	2/2/10
Exercise price per share of options	$ 6.88	$ 8.00	$ 8.48	$ 8.72	$ 9.64	$ 11.32	$ 12.24
Reassessed fair value of common stock per share at date of grant	$ 7.12	$ 8.60	$ 9.28	$ 10.04	$ 10.40	N/A	N/A
Probabilities							
IPO in Q1 2010	20%	25%	35%	40%	25%	35%	35%
IPO in Q2 2010					25%	35%	35%
Sale above liquidation preference	70%	70%	60%	55%	45%	25%	25%
Sale below liquidation preference	10%	5%	5%	5%	5%	5%	5%
Future sale date	12/31/09	12/31/10	12/31/10	9/30/11	9/30/11	9/30/11	9/30/11
1st IPO date	12/31/09	12/31/09	3/31/10	3/31/10	3/31/10	3/31/10	3/31/10
2nd IPO date					6/30/10	6/30/10	6/30/10
Discount rate	24%	24%	24%	24%	24%	24%	24%

The estimated fair market value of our common stock at each valuation date is equal to the sum of the probability weighted present values for each scenario.

We have incorporated the fair values calculated in the retrospective valuations into the Black-Scholes option pricing model when calculating the stock-based compensation expense to be recognized for the stock options granted during the period November 2008 to September 2009. The retrospective valuations generated per share fair values of common stock of $7.12, $8.60, $9.28, $10.04 and $10.40, respectively, at November 2008 and January, March, June and September 2009, respectively. This resulted in intrinsic values of $0.24, $0.60, $0.80, $1.32 and $0.76 per share, respectively, at each grant date.

The retrospective fair values of our common stock increased throughout 2009 thereby reducing the difference between the fair value of our common stock and the estimated IPO price range. The increases were caused by business and scientific milestones, financing transactions and the proximity to a potential IPO. The retrospective fair value of our common stock underlying options to purchase 2,500 shares granted on December 18, 2008 was determined to be $7.12 per share. The fair value of the common stock on that date took into account changes in the following factors:

- initiation of a phase 1 clinical trial for AV-299, for which the first patient dosed triggered a $3.0 million milestone payment from Merck; and
- because of the unfavorable conditions in the public markets, we deemed the probability of an IPO to be low, or 20%.

The retrospective fair value of our common stock underlying options to purchase 114,437 shares granted on January 30, 2009 was determined to be $8.60 per share. The increase in value from the November 2008 valuation was primarily due to the following:

- we received a term sheet for the Biogen Idec agreement for ErbB3 that included a proposed $30.0 million investment in new series E convertible preferred stock which would be priced at a premium to our other series of convertible preferred stock;
- the expected proceeds from the Biogen Idec agreement would improve our position for funding future cash needs;

due to our progress, including continued progress of our phase 2 clinical trial of tivozanib showing a favorable safety profile in patients with advanced RCC, we deemed that the probability of an IPO increased to 25% and the probability of a sale below the liquidation preference decreased to 5%; and

the timeline for a sale above the liquidation preference was extended due to expected timing of enrollment of our phase 3 clinical trial of tivozanib.

The retrospective fair value of our common stock underlying options to purchase 145,526 shares granted on April 1, 2009 was determined to be $9.28 per share. The increase in value from the January 2009 valuation was primarily due to the following:

execution of the agreement with Biogen Idec, which included a $30.0 million investment in series E convertible preferred stock at $4.00 per share and a $5.0 million up-front payment;

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- we initiated a phase 1b/2a clinical trial of tivozanib as monotherapy for the treatment of non-small cell lung cancer; and

- due to our progress, including continued progress of our phase 2 clinical trial of tivozanib showing a favorable safety profile in patients with advanced RCC, we deemed that the probability of an IPO increased to 35%, although the assumed timing was adjusted to March 31, 2010 due to our assessment of current market conditions.

The retrospective fair value of our common stock underlying options to purchase 94,300 shares granted on June 16, 2009 was determined to be $10.04 per share. The increase in value from the March 2009 valuation was primarily due to the following:

- in May 2009, we announced additional data from our phase 2 clinical trial of tivozanib, which demonstrated an overall median progression-free survival of patients of 11.8 months and a favorable safety profile in patients with advanced RCC;

- due to our progress with respect to tivozanib, including the data noted above, we deemed that the probability of an IPO increased to 40%; and

- the timeline for a sale above the liquidation preference was extended to September 30, 2011, which is closer to the date we anticipated that data would become available from our phase 3 clinical trial of tivozanib.

The retrospective fair value of our common stock underlying options to purchase 208,025 shares granted on October 8, 2009 was determined to be $10.40 per share. The increase in value from the June 2009 valuation was primarily due to the following:

- execution of an agreement with OSI which included a $15.0 million investment in Series E convertible preferred stock at $4.00 per share and a $5.0 million up-front payment;

- our plans to commence the phase 3 clinical trial of tivozanib; and

- due to our progress and plans to commence a phase 3 clinical trial of tivozanib, we deemed that the probability of an IPO increased to 50%, with a 25% probability of an IPO being completed in the first quarter of 2010 and a 25% probability of an IPO being completed in the second quarter of 2010.

The fair value of our common stock underlying options to purchase 18,887 shares granted on December 17, 2009 was determined to be $11.32 per share. The increase in value from the October 2009 valuation was primarily due to the following:

- initiation of the phase 3 clinical trial of tivozanib; and

- due to our progress and initiation of the phase 3 clinical trial of tivozanib, we deemed that the probability of an IPO increased to 70%, with a 35% probability of an IPO being completed in the first quarter of 2010 and a 35% probability of an IPO being completed in the second quarter of 2010.

The fair value of our common stock underlying options to purchase 398,182 shares granted on February 2, 2010 was determined to be $12.24 per share. The increase in value from the December valuation was primarily due to a reduction in the period of time before the expected completion of an IPO.

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On February 9, 2010, we and the underwriters for our IPO determined the range for the IPO. The midpoint of the range was $14.00 per share as compared to $12.24 per share, which was based on management s contemporaneous valuation prepared on January 22, 2010, of the estimated fair value of our common stock. The $12.24 was used on February 2, 2010, the date of our then most recent grant of stock options. This estimated fair value represents a discount of approximately 12.6% from the midpoint of the range and an increase of 8% from the estimated fair value of our common stock on December 17, 2009. We noted that, as is typical in initial public offerings, the range was not derived using a formal determination of fair value, but was determined based upon discussions between us and the underwriters. Among the factors considered in setting this range were prevailing market conditions and estimates of our business potential. In addition to this difference in purpose and methodology, we believe that the difference in value reflected between the midpoint of the range and management s determination of the estimated fair value of our common stock on January 22, 2010 is primarily the result of the following factors:

- The contemporaneous valuation we prepared on January 22, 2010 contained multiple scenarios including two IPO scenarios with an aggregate probability of 70% and two sale scenarios. If we had considered only a single scenario with 100% probability and that assumed that the IPO will be completed as of March 31, 2010, the contemporaneous valuation would have resulted in a fair value determination of $14.48 per share.

- On February 2, 2010, Ironwood Pharmaceuticals completed its initial public offering, which we believed demonstrated a significant improvement in the market for initial public offerings in the U.S. in the biopharmaceutical industry. We noted, however, that Ironwood s initial public offering was completed at $11.25 per share, or a 25% discount from the midpoint of their filing range.

- Our February 2010 discussions with the underwriters for our IPO took into account our and the underwriters perceptions of significantly increased optimism regarding the market for initial public offerings, and confirmed our and our underwriters expectations that we would complete our initial public offering by the end of the first quarter of 2010. As noted above, our January 22, 2010 contemporaneous valuation included a scenario with a 35% probability that the IPO would not be completed until the end of the second quarter of 2010.

- History has shown that it is reasonable to expect that the completion of an initial public offering will increase the value of stock as a result of the significant increase in the liquidity and ability to trade/sell such securities. However, it is not possible to measure such increase in value with precision or certainty.

The initial public offering price of our common stock was $9.00 per share. The difference between the estimated fair value of our common stock of $12.24 per share in January 2010 and the initial public offering price took into account several factors considered by our board of directors and underwriters, including:

- an analysis of the typical valuation ranges seen in initial public offerings for companies in our industry with similar market capitalization;

- a deterioration in financial markets with accompanying decrease in market capitalization of companies comparable to ours;

- increased difficulty in raising equity financing with accompanying financing uncertainty;

- a review of the then current market conditions and the results of operations, competitive position and the stock performance of our competitors; and

consideration of our history as a private company and previous valuation reports received by independent valuation firms. As of September 30, 2010, 3,481,141 shares of our common stock were issuable upon exercise of stock options.

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Results of Operations

Comparison of Nine Months Ended September 30, 2009 and 2010

	Nine Months Ended September 30,			
	2009	2010	Increase/ (decrease)	%
	(unaudited, in thousands)			
Revenue	$ 14,683	$ 32,725	$ 18,042	123%
Operating expenses:				
Research and development	38,326	68,867	30,541	80%
General and administrative	7,504	10,199	2,695	36%
Total operating expenses	45,830	79,066	33,326	73%
Loss from operations	(31,147)	(46,341)	(15,194)	49%
Other income (expense), net	(273)	140	413	(151)%
Interest expense	(2,141)	(2,361)	(220)	10%
Interest income	121	87	(34)	(28)%
Tax benefit	63		(63)	(100)%
Net loss	$ (33,377)	$ (48,475)	$ (15,098)	45%

	Nine Months Ended September 30,			
Revenue	2009	2010	Increase/ (decrease)	%
	(unaudited, in thousands)			
Strategic Partner:				
Merck	$ 7,986	$ 17,709	$ 9,723	122%
OSI Pharmaceuticals	6,619	9,313	2,694	41%
Biogen Idec		5,530	5,530	100%
Other	78	173	95	122%
	$ 14,683	$ 32,725	$ 18,042	123%

Revenue. Revenue for the nine months ended September 30, 2010 was $32.7 million compared to $14.7 million for the nine months ended September 30, 2009, an increase of approximately $18.0 million or 123%. The increase is attributable to a $8.5 million milestone payment from Merck earned in May 2010 for enrollment of patients in our phase 2 clinical trial of AV-299; a $5.0 million milestone payment from Biogen Idec earned in March 2010 for selection of the development candidate for our AV-203 program; additional research and development funding from Merck related to the AV-299 program in the amount of $1.9 million; an increase in amortization of deferred revenue associated with the amended OSI Pharmaceuticals agreement in the amount of $1.7 million; an increase in research revenue earned under the OSI Pharmaceuticals agreement of $1.0 million; and an increase of $0.5 million associated with amortization of previously deferred Biogen Idec license revenue

which began in the first quarter of 2010. These increases were partially offset by a decrease of $0.7 million in amortization of the deferred revenue under the Merck agreement due to the expiration of the research plan, and related funding, in March 2010.

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Research and Development. Research and development expenses for the nine months ended September 30, 2010 were $68.9 million compared to $38.3 million for the nine months ended September 30, 2009, an increase of $30.5 million or 80%. The increase is primarily attributable to an increase in clinical trial costs of $15.7 million resulting primarily from an increase in costs due to the phase 3 clinical trial of tivozanib, including a $11.6 million purchase of Nexavar, the comparator drug, for the clinical trial, partially offset by a reduction in costs of the phase 2 clinical trial of tivozanib as it winds down; a $10.0 million milestone payment to Kyowa Hakko Kirin in connection with the initial dosing of patients in our phase 3 clinical trial of tivozanib; a $2.8 million increase in development costs related to AV-299, which were reimbursed by Merck but recorded on a gross basis; a $2.6 million increase in salaries and benefits mainly due to an increase in personnel primarily supporting development activities for tivozanib; a $1.0 million increase in contract manufacturing for tivozanib to support an increasing number of clinical trials; and a $0.4 million increase in stock compensation expense. These increases were partially offset by a decrease of $1.3 million for preclinical studies as we wind down certain preclinical activities primarily related to toxicology; a decrease of $0.4 million for outsourcing costs due to timing of work performed on certain projects; and a decrease in scientific advisory board fees of $0.4 million.

Included in research and development expenses were stock-based compensation charges of approximately $1.3 million and $910,000 for the nine months ended September 30, 2010 and 2009, respectively.

General and Administrative. General and administrative expenses for the nine months ended September 30, 2010 were $10.2 million compared to $7.5 million for the nine months ended September 30, 2009, an increase of $2.7 million or 36%. The increase is primarily the result of an increase of $0.8 million for costs related to being a public company such as directors and officers liability insurance premiums, public relations, audit services, and an increase in board of directors compensation; a $0.8 million increase in stock-based compensation expense principally related to grants of annual individual performance options and milestone-based options to our officers in February 2010; a $0.8 million increase in costs related to market development for tivozanib; and an increase in recruiting and relocation costs of $0.3 million due to our hiring of additional personnel.

Included in general and administrative expenses were stock-based compensation charges of approximately $1.6 million and $0.8 million for the nine months ended September 30, 2010 and 2009, respectively.

Other Income (Expense), Net. Other income (expense), net for the nine months ended September 30, 2010 was $140,000 compared to $(273,000) for the nine months ended September 30, 2009, an increase of $413,000. The increase for the nine months ended September 30, 2010 is largely a result of a decrease in the value of warrants to purchase preferred stock resulting from a decrease in value of the underlying stock, partially offset by the loss on the loan extinguishment related to the refinancing of our outstanding debt with Hercules Technology Growth Capital and Comerica Bank on May 28, 2010 (see footnote 5 of the notes to our unaudited condensed consolidated financial statements).

Interest Expense. Interest expense for the nine months ended September 30, 2010 was $2.4 million compared to $2.1 million for the nine months ended September 30, 2009, an increase of $0.2 million or 10%. The increase is due to the overall debt increasing in 2010 due to the refinancing of our outstanding debt with Hercules Technology Growth Capital and Comerica Bank on May 28, 2010.

Interest Income. Interest income for the nine months ended September 30, 2010 was $87,000 compared to $121,000 for the nine months ended September 30, 2009, a decrease of $34,000 or 28%. Although average cash balances were higher for the nine months ended September 30, 2010 compared to the same period in 2009, interest rates decreased to only slightly above 0% in 2010, causing the decrease in interest income.

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Comparison of Years Ended December 31, 2008 and 2009

	Years Ended December 31,		Increase/	
	2008	2009	(decrease)	%
	(in thousands)			
Revenue	$ 19,660	$ 20,719	$ 1,059	5%
Operating expenses:				
Research and development	41,820	51,792	9,972	24%
General and administrative	9,165	10,120	955	10%
Total operating expenses	50,985	61,912	10,927	21%
Loss from operations	(31,325)	(41,193)	(9,868)	32%
Other income (expense), net	18	(333)	(351)	(1,950)%
Loss on loan extinguishment	(248)		248	(100)%
Interest income	1,168	144	(1,024)	(88)%
Interest expense	(2,086)	(2,811)	(725)	35%
Loss before taxes	(32,473)	(44,193)	(11,720)	36%
Taxes		100	100	
Net loss	$ (32,473)	$ (44,093)	$ (11,620)	36%

	Years Ended December 31,		Increase/	
Revenue	**2008**	**2009**	**(decrease)**	**%**
	(in thousands)			
Strategic Partner:				
Schering-Plough (Merck)	$ 13,349	$ 10,853	$ (2,496)	(19)%
OSI Pharmaceuticals	6,144	9,788	3,644	59%
Kyowa Hakko Kirin		78	78	
Eli Lilly	167		(167)	(100)%
	$ 19,660	$ 20,719	$ 1,059	5%

Revenue. Revenue for the year ended December 31, 2009 was $20.7 million compared to $19.7 million for the year ended December 31, 2008, an increase of approximately $1.1 million or 5%. Revenue for the year ended December 31, 2008 included a $3.0 million milestone payment from Schering-Plough (now Merck) for the first human dosed in the phase 1 clinical trial of AV-299. There was no corresponding milestone in 2009. Excluding the $3.0 million milestone payment in 2008, revenue for the year ended December 31, 2009 increased $4.1 million over the same period in 2008. The increase was attributable to an increase in amortization of deferred revenue associated with the amended OSI agreement in the amount of $2.4 million; an increase in research revenue earned under the OSI agreement of $1.3 million; additional research and development revenue of $1.0 million earned under the agreement with Schering-Plough (now Merck); and a $0.1 million reimbursement by Kyowa Hakko Kirin for our supply of tivozanib to Kyowa Hakko Kirin to be used in a phase 1 clinical trial which Kyowa Hakko Kirin is conducting in Japan. These increases were offset by a decrease of $0.5 million in amortization of deferred revenue under the agreement with Schering-Plough (now Merck) due to a change in the estimated period of our substantial involvement and $0.2 million in revenue from Eli Lilly and Company pursuant to our agreement with Eli Lilly and Company which ended in 2008.

Research and Development. Research and development expense for the year ended December 31, 2009 was $51.8 million compared to $41.8 million for the year ended December 31, 2008, an increase of $10.0 million or 24%. The increase was primarily attributable to a $3.0 million purchase of Nexavar, the comparator drug which is used in our phase 3 clinical trial of tivozanib; an increase in clinical trial costs of $2.1 million resulting primarily from costs for the phase 3 clinical trial of tivozanib offset by a reduction in costs of the phase 2 clinical trial for tivozanib as it winds down; an increase in spending for toxicology supporting tivozanib of $1.4 million; a $1.4 million increase in salaries and benefits mainly due to an increase in personnel primarily supporting development activities for tivozanib and our antibody pipeline; a $1.0 million increase in contract manufacturing for tivozanib to support an increasing number of trials, including our phase 3 clinical trial; a $0.8 million increase in costs related to AV-299 which were reimbursed by Merck but recorded on a gross basis; a $0.5 million increase in outsourced services primarily supporting research activities for the antibody pipeline; a $0.4 million increase in lab supplies and mice; a $0.4 million increase in stock-based compensation for employees and nonemployees; and a $0.2 million increase in facility expenses as result of our lease in September 2008 of an additional 7,407 square foot of space. These increases were offset by a decrease in licensing costs of $0.8 million as a result of a license of a third party drug discovery technology in 2008 which was fully expensed in 2008; and a $0.3 million decrease in contract manufacturing costs for the AV-412 program which has been discontinued.

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Included in research and development expense were stock-based compensation charges of $1.2 million and $0.8 million for the years ended December 31, 2009 and 2008, respectively.

General and Administrative. General and administrative expense for the year ended December 31, 2009 was $10.1 million compared to $9.2 million for the year ended December 31, 2008, an increase of $1.0 million or 10%. The increase was primarily a result of $0.8 million in salaries and benefits mainly due to an increase in personnel needed to support increased research and development; a $0.2 million increase in consulting associated with finance and marketing; a $0.1 million increase in patent expenses related to AV-299 which are reimbursed by Merck but are recorded on a gross basis; a $0.1 million increase in legal expenses primarily related to the support of our phase 3 clinical trial of tivozanib; and a $0.1 million increase in public relations expense. Such increases were partially offset by a $0.4 million decrease in stock-based compensation expense. The decrease in stock-based compensation expense results from a $0.8 million share-based expense for a stock issuance in 2008 to a former consultant and an entity affiliated with a board member after a warrant held by such entity expired unexercised.

Included in general and administrative expense were stock-based compensation charges of $1.1 million and $1.5 million for the years ended December 31, 2009 and 2008, respectively. Stock-based compensation charges for 2008 included a $0.8 million share-based expense for a stock issuance in 2008 to a former consultant and an entity affiliated with a board member after a warrant held by such entity expired unexercised.

Other Income (Expense), Net. Other income (expense), net for the year ended December 31, 2009 was ($0.3) million compared to $18,000 for the year ended December 31, 2008, a decrease of $0.4 million. The decrease was largely a result of a charge for the increase in the value of warrants to purchase preferred stock resulting from an increase in value of the underlying stock.

Loss on Loan Extinguishment. Loss on loan extinguishment in 2008 resulted from the repayment of an existing loan upon entering into a new loan agreement. Under the guidance for Debtor s Accounting for a Modification or Exchange of Debt Instruments, the repayment was considered an extinguishment of debt and the remaining loan discount and prepaid loan fees of $0.2 million were recorded as a loss on loan extinguishment.

Interest Income. Interest income for the year ended December 31, 2009 was $0.1 million compared to $1.2 million for the year ended December 31, 2008, a decrease of $1.0 million or 88%. Although the average cash balances were higher for the year ended December 31, 2009, interest rates decreased to only slightly above 0% in 2009 causing the significant decrease in interest income.

Interest Expense. Interest expense for the year ended December 31, 2009 was $2.8 million compared to $2.1 million for the year ended December 31, 2008, an increase of $0.7 million or 35%. The increase was due to an increase in the average loan balance in 2009 due to a drawdown of $10.0 million in September 2008 which was outstanding for the full period of 2009.

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Comparison of Years Ended December 31, 2007 and 2008

	Years Ended December 31,		Increase/	
	2007	2008	(decrease)	%
	(in thousands)			
Revenue	$ 11,034	$ 19,660	$ 8,626	78%
Operating expenses:				
Research and development	29,248	41,820	12,572	43%
General and administrative	6,502	9,165	2,663	41%
Total operating expenses	35,750	50,985	15,235	43%
Loss from operations	(24,716)	(31,325)	(6,609)	27%
Other income, net		18	18	
Loss on loan extinguishment		(248)	(248)	
Interest income	2,171	1,168	(1,003)	(46)%
Interest expense	(2,437)	(2,086)	351	(14)%
Net loss	$ (24,982)	$ (32,473)	$ (7,491)	30%

Revenue	Years Ended December 31, 2007	2008	Increase/ (decrease)	%
	(in thousands)			
Strategic Partner:				
Schering-Plough (Merck)	$ 6,624	$ 13,349	$ 6,725	102%
OSI Pharmaceuticals	1,083	6,144	5,061	467%
Merck	3,244		(3,244)	(100)%
Eli Lilly and Company	83	167	84	101%
	$ 11,034	$ 19,660	$ 8,626	78%

Revenue. Revenue for the year ended December 31, 2008 was $19.7 million compared to $11.0 million for the year ended December 31, 2007, an increase of $8.6 million, or 78%. The increase resulted from a $6.7 million increase in revenue from Schering-Plough (now Merck) consisting of a $3.0 million milestone for the start of the phase 1 clinical trial for AV-299; a $2.6 million increase in research and development funding; and a $1.1 million increase in revenue related to the amortization of up-front licensing fees and milestones. We entered into the agreement with Schering-Plough (now Merck) in March 2007, therefore, 2008 represents a full year of funding. Additionally, OSI revenue increased by $5.1 million, consisting of a $2.8 million increase in research funding and a $2.3 million increase in amortization of up-front licensing fees and milestones. The OSI agreement was signed in September 2007, therefore, 2008 represents a full year of funding. The increases in Schering-Plough (now Merck) and OSI revenues were partially offset by a decrease in revenue of $3.2 million under the initial Merck agreement as the strategic partnership was completed in 2007.

Research and Development. Research and development expense for the year ended December 31, 2008 was $41.8 million compared to $29.2 million for the year ended December 31, 2007, an increase of $12.6 million, or 43%. The increase was primarily attributable to a $6.4 million increase in clinical trial expenses principally due to the phase 2 clinical trial of tivozanib, which began in October 2006 and was fully enrolled in July 2007; an increase in salaries and benefits costs of $2.4 million due primarily to an increase in personnel related to clinical development of tivozanib, our antibody pipeline and our strategic partnerships with Merck and OSI; a $1.7 million increase in lab supplies and mice due primarily to an increase in scientific personnel and support for our agreement with OSI; a $0.9 million increase in expenses related to AV-299 which were fully reimbursed by Schering-Plough (now Merck) but are recorded on a gross basis; an increase in licensing costs of $0.8 million as

a result of a license of a third party drug discovery technology in 2008 which was fully expensed in 2008; and a $0.4 million increase in stock-based compensation expense.

Included in research and development expense were stock-based compensation charges of $424,000 and $810,000 for the years ended December 31, 2007 and 2008, respectively.

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General and Administrative. General and administrative expense for year ended December 31, 2008 was $9.2 million compared to $6.5 million for the year ended December 31, 2007, an increase of $2.7 million, or 41%. The increase was a result of a $1.0 million increase in salaries and benefits due primarily to an increase in personnel needed to support increased research and development; a $0.8 million expense for a stock issuance in 2008 to a former consultant and an entity affiliated with a board member, after a warrant held by such entity had expired unexercised; a $0.3 million increase in stock compensation expense; a $0.2 million increase in consulting expenses; a $0.1 million increase in recruiting expenses; a $0.1 million increase in travel costs; and a $0.1 million increase in facility allocation due to an increase in personnel.

Included in general and administrative expenses were stock-based compensation charges of $364,000 and $1,495,000 for the years ended December 31, 2007 and 2008, respectively. Stock-based compensation charges for the year ended December 31, 2008 included a $804,500 share-based expense for a stock issuance in 2008 to a former consultant and an entity affiliated with a board member, after a warrant held by such entity had expired unexercised as noted above.

Other Income, Net. Other income, net for 2008 represented net gains on sale of assets of $11,000 and $7,000 from the revaluation of warrants to purchase preferred stock.

Loss on Loan Extinguishment. Loss on loan extinguishment in 2008 resulted from the repayment of an existing loan upon entering into a new loan agreement. Under the guidance for Debtor s Accounting for a Modification or Exchange of Debt Instruments, the repayment was considered an extinguishment of debt and the remaining loan discount and prepaid loan fees of $248,000 were recorded as a loss on loan extinguishment.

Interest Income. Interest income for the year ended December 31, 2008 was $1.2 million compared to $2.2 million for the year ended December 31, 2007, a decrease of $1.0 million, or 46%. The decrease in interest income was a result of a decrease in interest rates from an average rate of 5.0% in 2007 to an average rate of 2.7% in 2008.

Interest Expense. Interest expense for the year ended December 31, 2008 was $2.1 million compared to $2.4 million for the year ended December 31, 2007, a decrease of approximately $0.4 million, or 14%. The decrease in interest expense was a result of a beneficial conversion charge in 2007 in the amount of $0.2 million related to a conversion option given to a financing institution which was extinguished in March 2007 upon the closing of the series D convertible preferred stock financing in which the financing institution chose not to exercise its option. The remaining $0.2 million decrease was a result of a lower principal balance under our equipment financing line with General Electric Capital Corporation.

Selected Quarterly Financial Data (unaudited)

The following tables set forth our unaudited consolidated quarterly operating results for each of the eight quarters in the two-year period ended December 31, 2009 and the three quarters in the period ended September 30, 2010. This information is derived from our unaudited financial statements, which in the opinion of management contain all adjustments consisting of only normal recurring adjustments, that we consider necessary for a fair statement of such financial data. Operating results for the period ended September 30, 2010 are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

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	Three Months Ended		
	March 31, 2010	June 30, 2010	September 30, 2010
	(in thousands, except per share data) (unaudited)		
Collaboration revenue	$ 10,881	$ 15,622	$ 6,222
Operating expenses:			
Research and development	22,618	25,997	20,252
General and administrative	2,753	3,835	3,611
	25,371	29,832	23,863
Loss from operations	(14,490)	(14,210)	(17,641)
Other income and expense:			
Other income (expense), net	712	(582)	10
Interest expense	(607)	(725)	(1,029)
Interest income	7	28	52
Other income (expense), net	112	(1,279)	(967)
Net loss before benefit for income taxes	(14,378)	(15,489)	(18,608)
Benefit for income taxes			
Net Loss	$ (14,378)	$ (15,489)	$ (18,608)
Net loss per share basic and diluted	$ (2.27)	$ (0.50)	$ (0.60)
Weighted-average number of common shares used in net loss per share basic and diluted	6,340	30,822	30,889

	Three Months Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
	(in thousands, except per share data) (unaudited)			
Collaboration revenue	$ 3,670	$ 5,096	$ 5,917	$ 6,036
Operating expenses:				
Research and development	9,729	12,071	16,526	13,466
General and administrative	2,571	2,424	2,509	2,616
	12,300	14,495	19,035	16,082
Loss from operations	(8,630)	(9,399)	(13,118)	(10,046)
Other income and expense:				
Other income (expense), net	(62)	(155)	(56)	(60)
Interest expense	(743)	(720)	(678)	(670)
Interest income	28	39	54	23
Other income (expense), net	(777)	(836)	(680)	(707)

Net loss before benefit for income taxes	(9,407)	(10,235)	(13,798)	(10,753)
Benefit for income taxes			63	37
Net Loss	$ (9,407)	$ (10,235)	$ (13,735)	$ (10,716)
Net loss per share basic and diluted	$ (5.92)	$ (6.41)	$ (8.53)	$ (6.57)
Weighted-average number of common shares used in net loss per share basic and diluted	1,590	1,596	1,611	1,630

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	Three Months Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(in thousands, except per share data) (unaudited)			
Collaboration revenue	$ 3,656	$ 3,964	$ 7,432	$ 4,608
Operating expenses:				
Research and development	9,619	10,973	10,820	10,408
General and administrative	2,953	2,011	2,086	2,115
	12,572	12,984	12,906	12,523
Loss from operations	(8,916)	(9,020)	(5,474)	(7,915)
Other income and expense:				
Other income (expense), net	74	(196)	(101)	(8