

ENTREMED, INC.

Notice of Annual Meeting of Stockholders

- Date:** Thursday, June 11, 2009
- Time:** 10:00 a.m., local time
- Place:** University System of Maryland
The Universities at Shady Grove
9630 Gudelsky Drive
Building II — Bethesda/Gaithersburg Room
Rockville, Maryland 20850
- Purposes:**
1. To elect two directors to the Board of Directors of EntreMed, Inc. to a term of three years expiring at the later of the annual meeting of stockholders in 2012, or upon a successor being elected and qualified;
 2. To approve an amendment to the Company's 2001 Long-Term Incentive Plan increasing the number of shares of Common Stock reserved for issuance from 9,250,000 to 10,250,000;
 3. To ratify the appointment of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending December 31, 2009; and
 4. To consider and take action upon such other matters as may properly come before the Annual Meeting or any postponement or adjournment thereof.

Who Can Vote: Stockholders at the close of business on April 15, 2009.

The Board of Directors has fixed April 15, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. Only stockholders of record at the close of business on that date will be entitled to notice of, and to vote at, the Annual Meeting.

Details regarding the matters to be acted upon at the Annual Meeting appear in the accompanying Proxy Statement. Please give this material your careful attention.

You are cordially invited to attend the Annual Meeting. Whether or not you expect to attend, you are respectfully requested by the Board of Directors to sign, date and return the enclosed proxy promptly. Stockholders who execute proxies retain the right to revoke them at any time prior to the voting thereof. A return envelope, which requires no postage if mailed in the United States, is enclosed for your convenience.

By Order of the Board of Directors,

Michael M. Tarnow
Executive Chairman

April 29, 2009

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR
THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 11, 2009**

This Proxy Statement relating to the 2009 Annual Meeting of Stockholders and the Annual Report to Stockholders for the year ended December 31, 2008 are available for viewing, printing and downloading at www.entremed.com.

ENTREMED, INC.

**9640 Medical Center Drive
Rockville, Maryland 20850
(240) 864-2600**

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To be held on Thursday, June 11, 2009

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of EntreMed, Inc., a Delaware corporation (the "Company"), the principal executive offices of which are located at 9640 Medical Center Drive, Rockville, Maryland 20850, for the Annual Meeting of Stockholders. The Annual Meeting will be held at the University System of Maryland, The Universities at Shady Grove, 9630 Gudelsky Drive, Building II-Bethesda/Gaithersburg Room, Rockville, Maryland 20850 on Thursday, June 11, 2009, at 10:00 a.m. (local time) and for any postponement, or adjournments thereof (the "Annual Meeting"), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. Any stockholder giving a proxy has the power to revoke it at any time before it is voted. Written notice of such revocation should be forwarded directly to the Secretary of the Company at the Company's executive offices. Attendance at the Annual Meeting will not have the effect of revoking the proxy unless written notice is given or the stockholder votes by ballot at the Annual Meeting.

If the enclosed proxy is properly executed and returned, the shares represented thereby will be voted in accordance with the specified directions and otherwise in accordance with the judgment of the persons designated as proxies. Any proxy returned on which no direction is specified will be voted in favor of the actions described in this Proxy Statement, including the election of the director nominees set forth under the caption "Election of Directors," the approval of the amendment to the 2001 Long-Term Incentive Plan, and the ratification of the appointment of Ernst & Young LLP as the independent auditors of the Company.

The approximate date on which this Proxy Statement and the accompanying form of proxy will first be mailed or given to the Company's stockholders is May 4, 2009. Pursuant to rules promulgated by the U.S. Securities and Exchange Commission, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by posting our proxy materials on the Internet. This proxy statement and our 2008 Annual Report to Stockholders are available at www.entremed.com.

Your vote is important.

Whether or not you plan to attend the Annual Meeting, please sign and return the accompanying proxy card so that we can be assured of having a quorum present at the meeting and so that your shares may be voted in accordance with your wishes.

Common Questions Regarding Proxies

Q: Why am I receiving this Proxy Statement and proxy card?

A: You are receiving a Proxy Statement and proxy card from us because you own shares of Common Stock of the Company as of the record date. This Proxy Statement describes issues on which we would like you, as a stockholder, to vote. It also gives you information on these issues so that you can make an informed decision.

Michael M. Tarnow, Executive Chairman, and Cynthia W. Hu, the Company's Chief Operating Officer & General Counsel, were named by the Board of Directors as proxy holders. Mr. Tarnow and Ms. Hu will vote all proxies, or record an abstention or withheld vote, in accordance with the directions on the proxy. This way, your shares will be voted whether or not you attend the Annual Meeting. Even if you plan to attend the meeting, please complete, sign and return your proxy card in advance of the meeting just in case you are unable to attend. You can always decide to vote in person. If no contrary direction is given, the shares will be voted as recommended by the Board of Directors.

Q: What is the record date?

A: The record date is April 15, 2009. Only holders of record of Common Stock and the Series A Convertible Preferred Stock (which votes on an as-converted basis with the Common Stock) as of the close of business on this date will be entitled to vote at the Annual Meeting.

Q: How many shares are outstanding?

A: As of the record date, the Company had 87,728,644 shares of Common Stock outstanding.

In addition, as discussed in greater detail in the Proxy Statement, Celgene Corporation owns 3,350,000 shares of our Series A Convertible Preferred Stock (the "Convertible Preferred Stock"). Celgene has the right to vote its Convertible Preferred Stock with the Common Stock on an "as converted" basis, currently equal to 16,750,000 shares of Common Stock. Celgene Corporation also holds an aggregate of 10,364,864 shares of Common Stock acquired through the exercise of warrants and pursuant to previous financing transactions with the Company. This means that at the Annual Meeting, Celgene will be allowed to vote as if it owned 27,114,864 shares of our Common Stock. On a pro-forma basis (assuming the conversion of the Convertible Preferred Stock), this represents approximately 26% of the shares of our Common Stock entitled to vote at the meeting. Therefore, we expect that Celgene's vote may affect the outcome of the vote on each proposal.

Q: What am I voting on?

A: You are being asked to vote on the election of two directors to the terms described in the Proxy Statement, the approval of the amendment to the Company's 2001 Long-Term Incentive Plan, and the ratification of Ernst & Young LLP as the independent auditors of the Company, and to transact such other business as may properly come before the Annual Meeting or any postponement or adjournment.

Q: How does the Board of Directors recommend I vote?

A: Please see the information included in the proxy statement relating to the proposals to be voted on. Our Board of Directors unanimously recommends that you vote:

1. **"FOR"** each of the nominees to the Board of Directors
2. **"FOR"** the amendment to the Company's 2001 Long-Term Incentive Plan
3. **"FOR"** ratification of Ernst & Young LLP as our independent auditor

Q: What happens if additional matters are presented at the Annual Meeting?

A: Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting in accordance with Delaware law and our Bylaws.

Q: How do I vote?

A: You may either vote by mail or in person at the Annual Meeting. To vote by mail, please sign your proxy card and mail it in the enclosed, prepaid and addressed envelope. If you mark your voting instructions on the proxy card, your shares will be voted in accordance with your instructions. If you return a signed card but do not provide voting instructions, your shares will be voted based on the recommendations of the Board of Directors. We will pass out written ballots to anyone who wants to vote at the Annual Meeting. If you hold your shares through a brokerage account and do not have a physical shares certificate, you must request a legal proxy from your stockbroker in order to vote at the Annual Meeting.

Q: What does it mean if I receive more than one proxy card?

A: It means that you have multiple accounts at the transfer agent and/or with stockbrokers. Please sign and return all proxy cards to ensure that all your shares are voted.

Q: How many votes do you need to hold the meeting?

A: A majority of the Company's outstanding shares of Common Stock (on an as-converted basis) as of the record date must be present at the meeting, in person or in proxy, in order to hold the Annual Meeting and conduct business. This is called a quorum. Proxies received but marked as abstentions, if any, will be included in the calculation of the number of shares considered to be present at the meeting for quorum purposes.

Q: What if I abstain from voting?

A: Because abstentions represent shares entitled to vote, the effect of an abstention will be the same as a vote against a proposal. However, abstentions will have no effect on the election of directors. Accordingly, if a quorum is present, abstentions have no effect on the outcome of the vote for directors of the Company, but will count as a vote against the amendment to the Company's 2001 Long-Term Incentive Plan and a vote against the ratification of the Company's independent auditors.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will vote your shares only if the proposal is a matter on which your broker has discretion to vote (such as the election of directors), or if you provide instructions on how to vote by following the instructions provided to you by your broker.

Q: What if I don't provide voting instructions to my broker?

A: If your shares are held in street name and you do not provide voting instructions to your broker, then your shares will not be voted on matters which your broker does not have voting discretion and will not be considered as present and entitled to vote with respect to those matters. Shares represented by such "broker non-votes," however, will be counted in determining whether there is a quorum present.

Q: How many votes must the nominees have to be elected?

A: In order for a director to be elected, he or she must receive the affirmative vote of a plurality of the shares voted. In other words, the two nominees to receive the greatest number of votes cast will be elected.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. You may revoke your proxy at any time before its exercise. You may also revoke your proxy by voting in person at the Annual Meeting. If your shares are held in street name, you must contact your brokerage firm or bank to change your vote or obtain a proxy to vote your shares if you wish to cast your vote in person at the meeting.

Q: How are votes counted?

A: Voting results will be tabulated and certified by our transfer agent, American Stock Transfer & Trust Company.

Q: Where can I find the voting results of the Annual Meeting?

A: We will announce the voting results at the Annual Meeting. We will also publish the results in our quarterly report on Form 10-Q for the second quarter of 2009. We will file that report with the Securities and Exchange Commission (SEC), and you can obtain a copy, at no charge:

- by contacting EntreMed corporate offices via phone at (240) 864-2600 or by email at ginnyd@entremed.com; or
- at www.sec.gov or by contacting the SEC's public reference room at (202) 551-8090.

VOTING SECURITIES

Holders of record of shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), and of the Company's Series A convertible preferred stock, \$1.00 par value per share (the "Convertible Preferred Stock", and together with Common Stock, the "Shares") as of the close of business on April 15, 2009 (the "Record Date"), are entitled to notice of and to vote at the Annual Meeting on all matters. On the Record Date, the Company had outstanding 87,728,644 shares of Common Stock and 3,350,000 shares of Convertible Preferred Stock convertible into 16,750,000 shares of Common Stock. Each outstanding share of Common Stock is entitled to one vote upon all matters to be acted upon at the Annual Meeting. Each outstanding share of Convertible Preferred Stock is entitled to one vote for each share of Common Stock into which the Convertible Preferred Stock is convertible, which is currently five. A majority of the outstanding shares of Common Stock, assuming the conversion of the Convertible Preferred Stock, entitled to vote on any matter and represented at the Annual Meeting, in person or by proxy, shall constitute a quorum.

Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting. Assuming a quorum is present, the affirmative vote of a plurality of the Shares cast in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors is required to elect the director nominees. Broker non-votes will not affect the outcome of the election of directors.

The affirmative vote of a majority of the Shares cast in person or represented by proxy at the Annual Meeting and entitled to vote on the matter is necessary to approve the amendment to the Company's 2001 Long-Term Incentive Plan, and to ratify the appointment of Ernst & Young LLP as the independent auditors of the Company. An abstention from voting on any of these proposals will have the same legal effect as a vote "against" the proposal, even though the stockholder may interpret such action differently. Broker non-votes will not be counted for any purpose in determining whether these proposals have been approved and will not affect the outcome of the vote on these proposals.

Celgene Corporation owns all of the 3,350,000 outstanding shares of our Convertible Preferred Stock. The terms of the Convertible Preferred Stock provide that the holders of the Convertible Preferred Stock have the right to one vote for each share of Common Stock into which such shares of Convertible Preferred Stock could then be converted. Celgene Corporation also holds an aggregate of 10,364,864 shares of Common Stock acquired through the exercise of warrants and pursuant to previous financing transactions with the Company. This means that at the Annual Meeting, Celgene will be permitted to vote as if it owned 27,114,864 shares of our Common Stock. On a pro-forma basis (assuming the conversion of the Convertible Preferred Stock), this represents approximately 26% of the shares of our Common Stock entitled to vote at the meeting. Therefore, Celgene's vote may affect the outcome on each proposal.

The Company is not currently aware of any matters that will be brought before the Annual Meeting (other than procedural matters) that are not referred to in the enclosed Notice of Annual Meeting.

**SECURITY OWNERSHIP OF MANAGEMENT AND
CERTAIN BENEFICIAL HOLDERS**

The following table sets forth the beneficial ownership of the Company's Common Stock as of March 31, 2009 for (i) each Director (including nominees), (ii) each named executive officer named in the Summary Compensation Table, (iii) all Directors (including nominees) and executive officers of the Company as a group, and (iv) each person or group known by us to beneficially own more than 5% of our outstanding stock.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership(1)</u>	<u>Percentage of Common Stock Outstanding</u>
Michael M. Tarnow	578,539(2)	*
Donald S. Brooks	368,539(2)	*
Dwight L. Bush	342,289(2)	*
Jennie C. Hunter-Cevera, PhD	348,539(2)	*
Peter S. Knight	414,947(2)	*
Mark C.M. Randall	397,289(2)	*
James S. Burns(3)	432,800(2)	*
Dane R. Saglio(3)	180,500(2)	*
Kenneth W. Bair, PhD(3)	195,000(2)	*
Carolyn F. Sidor, MD	408,483(2)	*
Cynthia W. Hu, JD	174,583(2)	*
Kathy R. Wehmeir-Davis	57,250(2)	*
All executive officers and directors as a group (10 persons)(2)(5) . . .	3,184,208(2)(5)	3.52%(2)(5)
More than 5% Beneficial Owner:		
Celgene Corporation	27,547,296(4)	26.37%(4)
86 Morris Avenue		
Summit, NJ 07901		

(1) Beneficial ownership is defined in accordance with the rules of the SEC and the information does not necessarily indicate beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares over which the person or entity has sole or shared voting power or investment power and also any shares that the person or entity can acquire within 60 days of March 31, 2009 through the exercise of any stock option or other right. For purpose of computing the percentage of outstanding shares of common stock held by each person or entity, any shares that the person or entity has the right to acquire within 60 days after March 31, 2009 are deemed to be outstanding with respect to such person or entity but are not deemed to be outstanding for the purpose of computing the percentage of ownership of any other person or entity. Unless otherwise noted, each individual has sole voting and investment power with respect to the shares shown in the table above.

(2) Includes shares issuable upon exercise of options which are exercisable within 60 days in the following amounts: Michael M. Tarnow, 497,500; Donald S. Brooks, 312,500; Dwight L. Bush, 266,250; Jennie C. Hunter-Cevera, 292,500; Peter S. Knight, 346,250; Mark C.M. Randall, 341,250; Cynthia W. Hu, 163,750; Carolyn F. Sidor, 408,483; Kathy R. Wehmeir-Davis, 57,250; and all officers and directors as a group, 2,779,483.

(3) Employment with the Company terminated as of December 31, 2008.

(4) Includes 3,350,000 shares of the Company's Series A convertible preferred stock convertible into 16,750,000 shares of common stock, and 432,432 shares exercisable under a warrant which the reporting person has a right to acquire within 60 days.

(5) Includes beneficial ownership for Dr. Mark R. Bray who was designated an executive officer as of January 1, 2009.

* Less than 1%

PROPOSAL 1
ELECTION OF DIRECTORS

Our Board of Directors currently consists of six members and is divided into three classes, as nearly equal in number as reasonably possible, with terms currently expiring at the Annual Meeting and the annual meetings of stockholders to be held in 2010 and 2011, respectively. At the Annual Meeting, two directors will be elected by the stockholders to serve a three-year term. Upon the recommendation of the Nominating and Corporate Governance Committee, the Board recommends that Michael M. Tarnow and Dwight L. Bush be elected as directors of the Company, and it is intended that the accompanying proxy will be voted **FOR** the election as directors of the two persons named below, unless the proxy contains contrary instructions. The Company has no reason to believe that any of the nominees will not be a candidate or will be unable to serve. However, in the event that any of the nominees should become unable or unwilling to serve as a director, the persons named in the proxy have advised that they will vote (unless authority has been withdrawn) for the election of such person or persons as shall be designated by management.

Each of the two nominees currently serves as a director of the Company. Each of the nominees has consented to being named in this Proxy Statement and to serve if elected.

The following table sets forth the nominees to be elected at the Annual Meeting, our other current directors, the year each such nominee or director was first elected a director, the positions with the Company currently held by each nominee or director and the year each nominee's or director's current term will expire:

<u>Nominee's or Director's Name and Year First Became a Director</u>	<u>Position(s) with the Company</u>	<u>Year Current Term will Expire</u>
Nominees for Election:		
Michael M. Tarnow — 2003	Executive Chairman	2009
Dwight L. Bush — 2004	Director	2009
Continuing Directors:		
Donald S. Brooks — 1996.	Director	2010
Peter S. Knight — 2000	Director	2010
Jennie C. Hunter-Cevera, PhD — 2001	Director	2011
Mark C. M. Randall — 1996.	Director	2011

Vote Required

Election of each director requires the affirmative vote of a plurality of the shares of common stock present or represented and entitled to vote at the meeting. This means each nominee will be elected if he receives more affirmative votes than votes withheld for such director. Broker non-votes will not affect the outcome of the election of directors.

Board of Directors Recommendation

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE ELECTION OF THE NOMINATED DIRECTORS AND SIGNED PROXIES THAT ARE RETURNED WILL BE SO VOTED UNLESS OTHERWISE INSTRUCTED ON THE PROXY CARD.

MANAGEMENT

Directors and Executive Officers

The following table sets forth the director nominees to be elected at the Annual Meeting, the directors and executive officers of the Company, their ages, and the positions currently held by each such person with the Company immediately prior to the Annual Meeting, as of March 31, 2009.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Director Nominees for Election:		
Michael M. Tarnow(4)	64	Executive Chairman
Dwight L. Bush(4)(5)	52	Director
Continuing Directors:		
Donald S. Brooks(2)	73	Director
Jennie C. Hunter-Cevera, PhD(3)(4)	61	Director
Peter S. Knight(1)(2)(7)	58	Director
Mark C. M. Randall(1)(6)	46	Director
Executive Officers:		
Cynthia W. Hu, JD	39	Chief Operating Officer & General Counsel
Carolyn F. Sidor, MD	61	Vice President and Chief Medical Officer
Kathy R. Wehmeir-Davis	54	Principal Accounting Officer
Mark R. Bray, PhD.	43	Vice President, Research

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- (1) Member of Audit Committee
 - (2) Member of Compensation Committee
 - (3) Member of Nominating and Corporate Governance Committee
 - (4) Member of Executive Committee
 - (5) Chairman of Audit Committee
 - (6) Chairman of Compensation Committee
 - (7) Chairman of Nominating and Corporate Governance Committee

Nominees for Election

Michael M. Tarnow. Mr. Tarnow was appointed Chairman of our Board in February 2003 and was appointed Executive Chairman on February 2, 2009. Since 1995, Mr. Tarnow has been an advisor to and member of the boards of directors of several healthcare-related organizations in the U.S., Canada and Europe. He also serves on the Boards of the University of Illinois College of Law, Massachusetts College of Art Foundation and the Food Drug Law Institute. From 1995-2000, he was President and CEO of Boston-based Creative BioMolecules, Inc. Prior to that, he spent 22 years at Merck & Co., Inc., where he served in a wide variety of positions including heading corporate development, President and CEO of Merck Frosst Canada and Executive Vice President of Merck-Medco.

Dwight L. Bush. Mr. Bush has been a Director of the Company since June 2004. Mr. Bush is currently Managing Director of D.L. Bush & Associates, a Washington, DC-based financial advisory and business consulting firm. Mr. Bush was previously President & CEO of Urban Trust Bank, Urban Trust Holdings and President of UTB Education Finance, LLC from 2006 through 2007. From 2002-2006, Mr. Bush was a principal in an Arlington-based investment firm and prior to that served in various financial and management roles in financial institutions. Mr. Bush currently serves on the Board of Trustees of Cornell University, the GAVI Fund, and The National Symphony Orchestra.

Continuing Directors

Donald S. Brooks. Mr. Brooks has been a Director of the Company since April 1996 and was Vice President, Legal Affairs of the Company from 1998 until August 2001. Between 2001 and 2004, Mr. Brooks served as a consultant to the Company. Prior to that, Mr. Brooks was a practicing attorney and was previously employed by Merck & Co., Inc. for 27 years in various business and legal capacities. He currently serves as a member of the Board of Directors of BioDiem, Ltd., an Australian biotechnology company. In addition, he recently served as a director of Xenon Pharmaceuticals, Inc., a Canadian biotechnology firm, and currently acts as a consultant to that company.

Jennie C. Hunter-Cevera, PhD. Dr. Hunter-Cevera has been a Director of the Company since June 2001. Dr. Hunter-Cevera is the President of the University of Maryland Biotechnology Institute. Prior to joining the University of Maryland in October 1999, Dr. Hunter-Cevera had been the head of the Center for Environmental Biotechnology at Lawrence Berkeley National Laboratory between November 1994 and October 1999, Director of Fermentation, Research and Development at Cetus Corporation and a scientist at E.R. Squibb and Company. She was co-founder of The Biotic Network and Blue Sky Laboratories in Sonora, CA. Dr. Hunter-Cevera was elected to the American Academy of Microbiology in 1995, the recipient of the 1996 SIM Charles Porter Award, elected as a SIM Fellow in 1997 and the 1999 Nath Lecturer at West Virginia University. She is the 2004 recipient of the ASM Porter Award for achievement in biodiversity research and was elected as a AAAS fellow in 2007.

Peter S. Knight. Mr. Knight has been a Director of the Company since June 2000. Mr. Knight has been President of Generation Investment Management US, a London-based asset management company, since August 2004. From 2001-2003, he was a Managing Director of MetWest Financial. Prior to that, Mr. Knight's business experience included serving as general counsel of Medicis Pharmaceutical and a practicing attorney. Mr. Knight's experience also includes serving as chief of staff to Al Gore when Mr. Gore was a member of the U.S. House of Representatives and later the U.S. Senate and holding senior positions with four presidential campaigns, including serving as campaign manager for the successful 1996 re-election of President Clinton. Mr. Knight currently serves as a director of Medicis Pharmaceutical Corp. and Par Pharmaceuticals. He is also a director of Schrodgers' mutual fund and hedge fund family, a member of the Cornell University College of Arts and Sciences Advisory Council, and the Johnson School Center for Sustainable Global Enterprise.

Mark C. M. Randall. Mr. Randall has been a Director of the Company since April 1996. He has been CEO of Commander Asset Management Ltd. since May 2002. Prior to this appointment, he was associated with Sarasin International Securities Limited, a wholly owned subsidiary of Bank Sarasin and Cie, a private bank based in Switzerland, where he was a director and later a managing director.

Executive Officers

Cynthia W. Hu, JD. Ms. Hu joined EntreMed in June 2006 as Vice President, General Counsel & Secretary and was appointed Chief Operating Officer in December 2008. Prior to joining EntreMed, from January 2000 to May 2006, Ms. Hu served as senior attorney for the corporate and finance practice group at Powell Goldstein LLP in Washington, DC, where she advised clients on all corporate matters, including complex public and private financings, mergers and acquisitions, SEC and regulatory compliance, and corporate governance and compliance. Before that, Ms. Hu served as counsel for ING Annuities (formerly Golden American Life Insurance Company) and an attorney with the law firms of Klehr, Harrison, Harvey & Branzburg, LLP and Littman & Krooks, LLP focusing on corporate transactions and compliance with corporate and securities laws.

Carolyn F. Sidor, MD. Dr. Sidor joined EntreMed in 2001 as Vice President, Clinical & Regulatory Affairs and was appointed Chief Medical Officer in September 2004. Dr. Sidor is a board-certified hematologist/medical oncologist. Prior to joining EntreMed, Dr. Sidor held various leadership positions at Cato Research Ltd., a prominent Clinical Research Organization (CRO), including Vice President, Scientific and Medical Development; Medical Director; Senior Clinical Research Physician; and Project Director.

Kathy R. Wehmeir-Davis. Ms. Wehmeir-Davis joined EntreMed in November 2003 as the company's Controller and was appointed Principal Accounting Officer in December 2008. She is responsible for managing the financial accounting operations of the Company and ensuring the Company's compliance with the internal control

requirements of the Sarbanes-Oxley Act of 2002. Prior to joining EntreMed, from 2000 to 2003, Ms. Wehmeir-Davis served as Senior Accountant for Avemco Insurance Company of Frederick, MD, a subsidiary of HCC Insurance Holdings, Inc. Ms. Wehmeir-Davis' career began in public accounting, serving 15 years with McLean, Koehler, Sparks & Hammond, CPAs, as Senior Accountant and Auditor.

Mark R. Bray, PhD. Dr. Bray joined EntreMed in January 2006 as Senior Director, Research and in November 2007, Dr. Bray was promoted to Vice President, Research. Dr. Bray has spent his scientific career working towards the development of drugs for oncology and inflammatory diseases. Dr. Bray joined EntreMed in 2006 following the acquisition of Miikana Therapeutics, Inc., a biopharmaceutical company co-founded by Dr. Bray and others, which was focused on the development of targeted therapeutics for the treatment of cancer. Prior to the founding of Miikana in November 2002, Dr. Bray was Head of Quantitative Biology at the Amgen Research Institute in Toronto, Canada, and acted as Project Team Leader for multiple drug discovery efforts at Amgen, Thousand Oaks, CA.

All executive officers of the Company are elected by the Board of Directors on an annual basis and serve until their successors have been duly elected and qualified.

CORPORATE GOVERNANCE

Director Independence

Our Board of Directors currently consists of six members and is divided into three classes, as nearly equal in number as reasonably possible. Mr. James S. Burns, the Company's former President & CEO, resigned from the Board of Directors effective as of December 12, 2008 in connection with our corporate restructuring, as further described below.

At its meeting held on February 26, 2009, the Board affirmatively determined that each of the directors, with the exception of Mr. Tarnow, qualify as "independent" as defined by applicable NASDAQ and SEC rules. In making this determination, the Board concluded that none of these members has a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Mr. Tarnow does not serve on any independent committees.

Board Meetings

The Board of Directors of the Company held seven meetings and took action by written consent one time during the fiscal year ended December 31, 2008 ("fiscal 2008"). Each director attended 75% or more of the meetings of the Board of Directors and committees of which they were members. The Company encourages, but does not require, Board members to attend the Company's annual meeting of stockholders. All of the Company's current directors attended the Annual Meeting of Stockholders in 2008.

Board Committees

The Board of Directors has three standing committees. These are the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each member of these committees is independent as defined under applicable NASDAQ and SEC rules. Each of the Audit, Compensation and Nominating and Corporate Governance committees has a written charter approved by the Board. In connection with the Company's corporate restructuring in December 2008, an Executive Committee was established to actively

oversee the business strategies, goals and direction of the Company. The current members of each of the committees are identified below:

<u>Director</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating and Corporate Governance</u>	<u>Executive</u>
Donald S. Brooks		X		
Dwight L. Bush	X (chairman and financial expert)			X
Jennie Hunter-Cevera			X	X
Peter S. Knight	X	X	X (chairman)	
Mark C.M. Randall	X	X (chairman)		
Michael M. Tarnow				X

Audit Committee

The primary purpose of the Audit Committee is to oversee: (a) management’s preparation of the financial statements and management’s conduct of the Company’s accounting and financial reporting process, (b) management’s maintenance of the Company’s internal control over financial reporting, (c) the Company’s compliance with legal and regulatory requirements, and (d) the qualifications, independence and performance of the Company’s independent auditors. The Audit Committee held four meetings during fiscal 2008.

The Company’s independent auditors are ultimately accountable to the Audit Committee in its capacity as a committee of the Board. The Audit Committee has sole authority and responsibility to appoint, compensate, oversee, evaluate, and, where appropriate, replace the Company’s independent auditors. In addition, the Audit Committee must approve any audit and permitted non-audit services to be provided by the Company’s independent auditors.

The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is available on our website at www.entremed.com. All members of the Audit Committee meet the independence and financial literacy requirements as defined by applicable NASDAQ and SEC rules. During fiscal 2008, the Audit Committee consisted of Dwight L. Bush, Mark C. M. Randall and Peter S. Knight. The Board of Directors has determined that Dwight L. Bush, Chairman of the Audit Committee, is an “audit committee financial expert” as defined by the rules and regulations of the SEC.

Compensation Committee

The Compensation Committee develops and recommends to the Board of Directors the compensation and benefits of all officers (Vice Presidents and above) of the Company, reviews general policy matters relating to compensation and benefits of employees of the Company and administers the Company’s stock option plans. Additional information regarding the Compensation Committee’s policies, processes and procedures for the consideration of executive compensation is addressed in the Compensation Discussion and Analysis section below. The Compensation Committee held one meeting during fiscal 2008 and took action by unanimous written consent one time.

The Board of Directors has adopted a written charter for the Compensation Committee, a copy of which is available on our website at www.entremed.com. From January to June of fiscal 2008, the Compensation Committee consisted of Mark C.M. Randall, Peter S. Knight and Ronald Cape. Dr. Cape resigned from the Board effective as of the 2008 Annual Meeting. In June 2008, Mr. Brooks was appointed to the Compensation Committee to replace Dr. Cape. All members of the Compensation Committee are “independent” as defined by applicable NASDAQ rules.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee (the “Nominating Committee”) is responsible for recommending to the Board the slate of director nominees to be elected at the Company’s Annual Meetings of Stockholders, recommending to the Board persons to fill vacancies on the Board and the members of all standing Board committees, and making other determinations relating to the Board and appropriate standards for its members. The Nominating Committee held one meeting during fiscal 2008.

The Board has adopted a Charter for the Nominating and Corporate Governance Committee, a copy of which is available on our website at www.entremed.com. From January to June of fiscal 2008, the Nominating Committee consisted of Peter S. Knight and Ronald Cape. Dr. Cape retired from the Board effective as of the 2008 Annual Meeting on which date Dr. Hunter-Cevera was appointed to the Nominating Committee. All members of the Nominating Committee are “independent” as defined by applicable NASDAQ rules.

Executive Committee

In December 2008, in connection with the Company’s reprioritization of its business strategies, the Company implemented a 60% reduction-in-force (the “corporate restructuring”). The corporate restructuring included the elimination of the offices of President & Chief Executive Officer; Chief Financial Officer; Senior Vice President, Research & Development; and Senior Vice President, Corporate & Business Development. As part of the restructuring, the Board of Directors established an Executive Committee charged with developing and overseeing the overall business strategies, goals and direction of the Company and in so doing regularly meet with the officers of the Company. The Executive Committee consists of Michael M. Tarnow, Dwight L. Bush, and Jennie Hunter-Cevera. In February 2009, Mr. Tarnow was appointed Executive Chairman.

Director Candidates

The Nominating and Corporate Governance Committee identifies potential nominees from various sources, including personal contacts and the recommendations of current directors and executive officers. In the past the Company has used third party consultants to assist in identifying and evaluating potential nominees and the Nominating Committee may do so in the future.

The Nominating and Corporate Governance Committee will consider nominees for director recommended by a stockholder. Stockholders who wish to recommend a director nominee for consideration by the Nominating and Corporate Governance Committee should submit a nomination in accordance with the procedures outlined in the Company’s Bylaws, if any, or other procedures adopted by the Nominating and Corporate Governance Committee. Currently, the Committee’s procedures require stockholders to provide written notice of a proposed nominee to: EntreMed, Inc., Attn: Secretary, 9640 Medical Center Drive, Rockville, Maryland 20850, not later than 90 days before the date on which the previous year’s proxy was mailed. Such notice must include all information relating to such proposed nominee that would be required to be disclosed in solicitations of proxies for the election of directors, including such proposed nominee’s: (i) name, age and business or home address; (ii) business experience, including principal occupation or employment; and (iii) beneficial ownership of Company securities, including class and the number of shares. The nomination should also include the name and home or business address of the stockholder making such recommendation, the number of shares beneficially owned by such person and the manner in which such shares are held (i.e. directly or in street name). Additionally, if applicable, the notice must include a description of all arrangements or understands between or among the stockholder giving the notice, the beneficial owner on whose behalf the notice is given, each nominee and any other person pursuant to which the nominations are being made by the stockholder, as well as any other information required to be included in the proxy statement with respect to the nominee if such nominee had been nominated by the Board of Directors. Any such recommendation must also be accompanied by a written consent of the proposed nominee to stand for election if nominated by the Board of Directors and to serve if elected by the stockholders.

The Nominating and Corporate Governance Committee does not have specific, minimum qualifications for nominees and has not established specific qualities or skills that it regards as necessary for one or more of the

Company's directors to possess. In evaluating potential director candidates, the Committee may take into account all factors and criteria it considers appropriate, which shall include, among others:

- Whether the director/potential director possesses personal and professional integrity, sound judgment and forthrightness;
- The director/potential director's educational, business or scientific experience and other directorship experience;
- Whether the director/potential director assists in achieving a mix of Board members that represents a diversity of background and experience;
- Whether the director/potential director, by virtue of particular business, professional or technical expertise, experience or specialized skill relevant to the Company's current or future business, will add specific value as a Board member;
- Whether the director/potential director meets the independence requirements of NASDAQ listing standards; and
- Whether the director/potential director is free from conflicts of interest with the Company.

There are no differences in the manner in which the Committee evaluates potential director nominees based on whether the potential nominee was recommended by a stockholder or through any other source.

Executive Sessions of Independent Directors

Non-management members of the Board typically meet in executive sessions independent of any employee director of the Company following regularly scheduled meetings of the Board of Directors. Accordingly, in 2008, the Company's former President & CEO and director, James S. Burns, did not participate in the executive sessions. The Board continues to meet in closed sessions (without the presence of management) following each regularly scheduled meeting. In February 2009, the Company's chairman, Michael M. Tarnow, was appointed Executive Chairman of the Company, and in so being, could potentially not be considered "independent" under the independence requirements promulgated by NASDAQ. When necessary, the Board will hold executive sessions of the independent directors without the presence of our Executive Chairman, and Mr. Bush, chair of the Audit Committee, will be responsible for chairing these executive sessions.

Compensation Committee Interlocks and Insider Participation

From January to June of fiscal 2008, Messrs. Randall, Knight and Cape served as members of the Compensation Committee. Dr. Cape retired from the Board effective as of the 2008 Annual Meeting, on which date Mr. Brooks was appointed to the Compensation Committee to replace Dr. Cape.

During 2008, no executive officer of the Company served as: (i) a member of the Compensation Committee (or other committee of the Board of Directors performing equivalent functions or, in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served on the Compensation Committee of the Company; (ii) a director of another entity, one of whose executive officers served on the Compensation Committee of the Company; or (iii) a member of the Compensation Committee (or other committee of the Board of Directors performing equivalent functions or, in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served as a director of the Company.

Code of Ethics

The Company has adopted a Code of Ethics, as defined in applicable SEC and NASDAQ rules, which applies to the Company's directors, officers and employees, including the Company's principal executive officer and principal financial and accounting officer. The Company intends to disclose any amendment to or waiver of a provision of the Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on its website available at www.entremed.com. The Code of Ethics is available on the Company's website.

Director Compensation

See the Director Compensation Table on page 36 for information on director compensation in fiscal 2008 and with respect to changes made in director compensation for the year ending December 31, 2009 (“fiscal 2009”).

Communications with the Board

Any stockholder who wishes to send any communications to the Board or to individual directors should deliver such communications to the Company’s executive offices, 9640 Medical Center Drive, Rockville, Maryland 20850, ATTN: Associate Director, Corporate Communications & Investor Relations (Ginny Dunn — ginnyd@entremed.com). Any such communication should indicate whether the communication is intended to be directed to the entire Board or to a particular director(s), and must indicate the number of shares of Company stock beneficially owned by the stockholder. The Associate Director, Corporate Communications & Investor Relations will forward appropriate communications to the Board and/or the appropriate director(s). Inappropriate communications include correspondence that does not relate to the business or affairs of the Company or the functioning of the Board or its committees, advertisements or other commercial solicitations or communications, and communications that are frivolous, threatening, illegal or otherwise not appropriate for delivery to directors.

Celgene’s Rights with Respect to the Board of Directors

Pursuant to the Securities Purchase Agreement whereby Celgene Corporation purchased shares of our Convertible Preferred Stock, Celgene has the right to appoint up to two directors to our Board of Directors. If no Celgene designee is sitting on the Board, however, Celgene may appoint an observer to participate in Board meetings, although the observer does not vote. Celgene has not designated any directors to sit on our Board, but it has designated an observer who receives notices and may attend Board of Directors’ meetings.

PROPOSAL 2

APPROVAL OF AMENDMENT TO THE COMPANY’S 2001 LONG-TERM INCENTIVE PLAN, AS AMENDED

General

The Board has approved an amendment to the 2001 Long-Term Incentive Plan (the “2001 Plan”), subject to stockholder approval, to increase the maximum aggregate number of shares authorized for issuance under the 2001 Plan from 9,250,000 shares to 10,250,000 shares.

On February 26, 2009, the Board approved the amendment to increase the number of shares authorized for issuance under the 2001 Plan to ensure that the Company can continue to grant stock-based awards to directors and employees of and consultants to the Company at levels determined appropriate by the Board and a committee or committees appointed by the Board to administer the 2001 Plan. Management and the Board believe that the use of stock-based compensation is important to the Company to recruit and retain qualified persons.

Description of the 2001 Plan

The following summary of the material features of the 2001 Plan, as proposed to be amended, is qualified in its entirety by reference to the full text of the 2001 Plan, a copy of which is available at no charge upon request to the Company. Unless otherwise specified, capitalized terms used herein have the meanings assigned to them in the 2001 Plan.

Eligibility

The 2001 Plan authorizes the grant of stock options (including incentive stock options and nonqualified stock options), stock appreciation rights, restricted or unrestricted stock awards, phantom stock, performance awards, or any combination of the foregoing to all persons who are at the time of the grant of an award employees (including persons who may become employees), officers, directors, or consultants of the Company, or of any Affiliate of the

Company, as may be selected from time to time. Only employees of the Company, or of any Parent or Subsidiary of the Company, are eligible to receive grants of incentive stock options. As of March 31, 2009, 21 employees (including officers) and 6 directors (including the Executive Chairman) of the Company are eligible to receive grants under the 2001 Plan. The number of consultants to the Company eligible to receive grants under the 2001 Plan is not determinable.

Administration

The 2001 Plan is administered by the Board of Directors or by a committee or committees appointed by the Board (all of which will hereinafter be referred to as the “Administrator”). The Administrator has all the powers vested in it by the terms of the 2001 Plan, including the authority to determine eligibility, grant awards, prescribe stock option grant agreements (a “Grant Agreement”) evidencing such awards, establish programs for granting awards, determine whether a stock option shall be an incentive stock option or a nonqualified stock option, determine any exceptions to nontransferability, establish any Performance Goals applicable to Awards, determine the period during which Awards may be exercised and the period during which Awards shall be subject to restrictions, and otherwise administer the 2001 Plan. In making these determinations, the Administrator may take into account the nature of the services rendered or to be rendered by the Award recipients, their present and potential contributions to the success of the Company and its Affiliates, and such other factors as the Administrator in its discretion shall deem relevant. The Administrator may delegate to the Chief Executive Officer or an officer of the Company acting in such capacity the power to administer the 2001 Plan and to exercise the full authority of the Administrator with respect to awards granted to specified Participants or groups of Participants.

Shares Available For The Plan

If the stockholders approve the increase in the aggregate number of Shares authorized for issuance under the 2001 Plan, a maximum of 10,250,000 Shares will be available for grants and Awards, an increase of 1,000,000 Shares.

At March 31, 2009, approximately 1,491,503 Shares (excluding any Shares that might in the future be returned to the 2001 Plan as a result of cancellations or expiration of options) remained available for future grants under the 2001 Plan.

If an award expires or terminates unexercised or is forfeited, or if any Shares are surrendered to the Company in connection with an award, the Shares subject to such award and the surrendered Shares will become available for further awards under the 2001 Plan. The number of Shares subject to the 2001 Plan (and the number of Shares and terms of any award) may be adjusted by the Administrator in the event of any change in the outstanding Common Stock by reason of any stock dividend, spin-off, split-up, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of Shares and the like.

A maximum of 250,000 such Shares may be granted to an individual during any calendar year period.

Stock Options

The 2001 Plan authorizes the grant of incentive stock options and nonqualified stock options. Incentive stock options are stock options that satisfy the requirements of Section 422 of the Internal Revenue Code (the “Code”). Nonqualified stock options are stock options that do not satisfy the requirements of Section 422 of the Code. Options granted under the 2001 Plan would entitle the grantee, upon exercise, to purchase a specified number of Shares from the Company at a specified exercise price per Share. The period of time during which an option may be exercised, as well as any vesting schedule, is determined by the Administrator, except that no option may be exercised more than 10 years after the date of grant. Additionally, the exercise price per Share and manner of payment for Shares purchased pursuant to options are determined by the Administrator and, in the case of nonqualified stock options, options must have an exercise price at least equal to the par value of the Common Stock.

Incentive stock options must comply with Section 422 of the Code. Incentive stock options, thus, must have an exercise price at least equal to Fair Market Value of stock underlying the option on the date of grant. Additionally, no incentive stock option may be granted under the 2001 Plan to any person who, at the time of the grant, owns (or is

deemed to own) stock possessing more than 10% of the total combined voting power of the Company or any parent corporation or subsidiary corporation, as defined in Sections 424(e) and (f) of the Code, respectively, of the Company, unless the option's exercise price is at least 110% of the Fair Market Value of the stock subject to the option on the date of grant, and the term of the option does not exceed five years from the date of grant. For incentive stock options granted under the 2001 Plan, the aggregate Fair Market Value, determined at the time of the grant, of the shares of Common Stock with respect to which such options are exercisable for the first time by an optionee during any calendar year (under all such plans of the Company and its affiliates) may not exceed \$100,000.

Other Awards

In addition to stock options, the 2001 Plan authorizes the grant of restricted stock, stock appreciation rights, stock awards, phantom stock and performance awards. To date, the Company has issued only options and restricted stock awards under the 2001 Plan. The Company does not currently expect to issue any other type of awards under the 2001 Plan.

Subject to the terms of a particular grant, the exercise of a stock appreciation right under the 2001 Plan would entitle the grantee to receive in cash, Common Stock, or a combination thereof, as specified in the Grant Agreement, the excess of the Fair Market Value of a specified number of Shares on the date of exercise over the base price per Share specified in the Grant Agreement. The 2001 Plan also authorizes the grant of restricted and unrestricted stock awards on terms and conditions, which terms and conditions may condition the vesting or payment of such awards on the achievement of one or more Performance Goals (as described below) established by the Administrator.

In addition, the 2001 Plan authorizes the grant of phantom stock in the form of awards denominated in stock-equivalent units on terms and conditions, which terms and conditions may condition the vesting or payment of such awards on the achievement of one or more Performance Goals (as described below), established by the Administrator. An award of phantom stock may be settled in cash, Common Stock, or a combination thereof, as specified in the Grant Agreement.

Finally, the 2001 Plan authorizes the grant of performance awards, which become payable upon attainment of one or more Performance Goals established by the Administrator. Performance awards may be paid in cash, Common Stock, or a combination thereof, as specified in the Grant Agreement.

Performance Goals

In its discretion, the Administrator may condition the grant, vesting or payment of awards under the Plan on the attainment of Performance Goals. The term "Performance Goals" means performance goals established by the Administrator which may be based on one or more business criteria selected by the Administrator that apply to an individual or group of individuals, a business unit, or the Company and/or one or more of its Affiliates either separately or together, over such performance period as the Administrator may designate, including, but not limited to, business criteria based on operating income, earnings or earnings growth, sales, return on assets, equity or investment, regulatory compliance, satisfactory internal or external audits, improvement of financial ratings, achievement of balance sheet or income statement objectives, or any other objective goals established by the Administrator, and may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated.

Transferability

Except as otherwise determined by the Administrator or provided in a Grant Agreement, Awards granted under the 2001 Plan are not transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in Code Section 414(p). Unless otherwise determined by the Administrator, Awards may be exercised only by the grantee or by permitted transferees during the lifetime of the grantee or, in the event of legal disability, by the grantee's guardian or legal representative.

Amendment and Termination

The Board of Directors may amend, alter or terminate the 2001 Plan, or any portion thereof, at any time. No award may be granted under the 2001 Plan after the close of business on May 14, 2011. Subject to other applicable provisions of the Plan, all awards made under the 2001 Plan prior to the termination of the 2001 Plan will remain in effect until those awards have been satisfied or terminated.

Summary of Certain Federal Income Tax Considerations

General

The following discussion briefly summarizes certain federal income tax aspects of stock options, stock appreciation rights, stock awards, phantom stock, and performance awards granted under the 2001 Plan. The rules governing the tax treatment of awards and the receipt of Shares and/or cash in connection with such awards are quite technical, so the following description of tax consequences is necessarily general in nature and does not purport to be complete. Moreover, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. Finally, the tax consequences under applicable state and local law may not be the same as under the federal income tax laws.

Incentive Stock Options

In general, a grantee will not recognize income on the grant or exercise of an incentive stock option. However, the difference between the exercise price and the Fair Market Value of the stock on the exercise date is an adjustment item for purposes of the alternative minimum tax. Further, if a grantee does not exercise an incentive stock within certain specified periods after termination of employment, the grantee will recognize ordinary income on the exercise of an incentive stock option in the same manner as on the exercise of a nonqualified stock option, as described below.

The general rule is that gain or loss from the sale or exchange of Shares acquired on the exercise of an incentive stock option will be treated as capital gain or loss. If certain holding period requirements are not met, however, the grantee generally will recognize ordinary income at the time of the disposition. Gain recognized on the disposition in excess of the ordinary income resulting therefrom will be capital gain, and any loss recognized will be capital loss.

Nonqualified Stock Options, Stock Appreciation Rights, Phantom Stock, and Performance Awards

A grantee generally is not required to recognize income on the grant of a nonqualified stock option, a stock appreciation right, or on the award of phantom stock or a performance award. Instead, ordinary income generally is required to be recognized on the date the nonqualified stock option or stock appreciation right is exercised, or in the case of an award of phantom stock or a performance award on the date of payment of such award in cash or Shares. In general, the amount of ordinary income required to be recognized, (a) in the case of a nonqualified stock option, is an amount equal to the excess, if any, of the Fair Market Value of the Shares on the exercise date over the exercise price, (b) in the case of a stock appreciation right, the amount of cash and the Fair Market Value of any Shares received on exercise, and (c) in the case of an award of phantom stock or a performance award, the amount of cash and the Fair Market Value of any Shares received.

Restricted Stock

Unless a grantee of Shares of restricted stock makes an election under Section 83(b) of the Code as described below, the grantee generally is not required to recognize ordinary income on the award of restricted stock. Instead, on the date the Shares vest (i.e. become transferable or are no longer subject to a substantial risk of forfeiture), the grantee will be required to recognize ordinary income in an amount equal to the excess, if any, of the Fair Market Value of the Shares on such date over the amount, if any, paid for such Shares. If a grantee makes a Section 83(b) election to recognize ordinary income on the date the Shares are awarded, the amount of ordinary income required to be recognized is an amount equal to the excess, if any, of the Fair Market Value of the Shares on the date of award

over the amount, if any, paid for such Shares. In such case, the grantee will not be required to recognize additional ordinary income when the Shares vest.

Unrestricted Stock

In general, a grantee is required to recognize ordinary income on the date of issuance of such unrestricted Shares to the grantee equal to the excess, if any, of the Fair Market Value of such Shares on such date over the amount, if any, paid for such Shares.

Gain or Loss On Sale or Exchange of 2001 Plan Shares

In general, gain or loss from the sale or exchange of Shares granted or awarded under the 2001 Plan will be treated as capital gain or loss, provided that the Shares are held as capital assets at the time of the sale or exchange. However, if certain holding period requirements are not satisfied at the time of a sale or exchange of Shares acquired upon exercise of an incentive stock option (a “disqualifying disposition”), a grantee generally will be required to recognize ordinary income upon such disposition.

Deductibility By Company

The Company generally is not allowed a deduction in connection with the grant or exercise of an incentive stock option. However, if a grantee is required to recognize income as a result of a disqualifying disposition, the Company generally will be entitled to a deduction equal to the amount of ordinary income so recognized. In general, in the case of a nonqualified stock option (including an incentive stock option that is treated as a nonqualified stock option, as described above), a stock appreciation right, a stock award, phantom stock, or a performance award, the Company generally will be allowed a deduction in an amount equal to the amount of ordinary income recognized by the grantee, provided that certain income tax reporting requirements are satisfied.

Parachute Payments

Where payments to certain persons that are contingent on a change in control exceed limits specified in the Code, the person generally is liable for a 20% excise tax on, and the corporation or other entity making the payment generally is not entitled to any deduction for, a specified portion of such payments. If the Administrator, in its discretion, grants awards, the exercise date, vesting or payment of which is accelerated by a change in control of the Company, such acceleration of the exercise date, vesting or payment would be relevant in determining whether the excise tax and deduction disallowance rules would be triggered.

Performance-Based Compensation

Subject to certain exceptions, Section 162(m) of the Code disallows federal income tax deductions for compensation paid by a publicly held corporation to certain executives to the extent the amount paid to the executive exceeds \$1 million for the taxable year. The 2001 Plan has been designed to allow the Administrator to make awards under the 2001 Plan that qualify under an exception to the deduction limit of Section 162(m) for “performance-based compensation.”

Tax Rules Affecting Nonqualified Deferred Compensation Plans

Section 409A of the Code imposes tax rules that apply to “nonqualified deferred compensation plans.” Failure to comply with, or qualify for an exemption from, the rules with respect to an award could result in significant adverse tax results to the grantee of such Award, including immediate taxation upon vesting and an additional income tax of 20 percent of the amount of income so recognized. The 2001 Plan is designed to allow the grant of awards which are intended to comply with or qualify for an exemption from Section 409A of the Code.

Vote Required For Approval

The affirmative vote of a majority of the total votes cast by the stockholders present at the meeting, in person or by proxy, and entitled to vote on this proposal is necessary for approval of the amendment to the 2001 Plan. If you

submit a proxy without direction as to a vote on this matter, the proxy will be voted “FOR” the proposal. Abstentions will have the effect of a vote against this proposal. Broker non-votes will not be treated as votes cast and will have no effect on the outcome of the vote on this proposal.

Board of Directors Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE APPROVAL OF THE AMENDMENT TO THE COMPANY’S 2001 LONG-TERM INCENTIVE PLAN.

Options Under Employee Benefit Plans

Equity Compensation Plan Information

The following table discloses certain information about the options issued and available for issuance under all outstanding Company option plans, as of December 31, 2008.

<u>Plan Category</u>	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans [Excluding Securities Reflected in Column (a)]
Equity compensation plans approved by security holders	8,345,928	\$6.60	1,480,839
Equity compensation plans not approved by security holders	7,613	\$3.55	0
Total	8,346,691	\$6.63	1,480,839

Warrants issued under the unauthorized plans represent compensation for consulting services rendered by the holders.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee, comprised solely of members of the Board of Directors that are “independent” pursuant to applicable NASDAQ and SEC rules, assists the Board in fulfilling its responsibilities with regard to compensation matters, and is responsible under its Committee charter for determining the compensation of our executive officers. The Compensation Committee sets performance goals and objectives for the chief executive officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the Compensation Committee may retain the services of a compensation consultant and consider recommendations from the Executive Chairman with respect to goals and compensation of the other executive officers. The Compensation Committee assesses the information it receives in accordance with its business judgment. The Compensation Committee also periodically reviews director compensation. All decisions with respect to executive and director compensation are approved by the compensation committee and recommended to the full board for ratification. Mark C.M. Randall (chairman), Peter S. Knight and Donald S. Brooks are the current members of the Compensation Committee.

The Compensation Committee has reviewed and discussed the “Compensation Discussion and Analysis” section of this proxy statement with management, including our Chief Operating Officer & General Counsel, Cynthia W. Hu, our Principal Accounting Officer, Kathy R. Wehmeir-Davis, and our Executive Chairman, Michael M. Tarnow. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the “Compensation Discussion and Analysis” section be included in this proxy statement.

Compensation Committee

Mark C.M. Randall, Chairman
Peter S. Knight
Donald S. Brooks

No portion of this Compensation Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, through any general statement incorporating by reference in its entirety the proxy statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed filed under either the Securities Act or the Exchange Act.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee, or the Committee, of the Board has responsibility for establishing, implementing and continually monitoring adherence with the Company's compensation philosophy. The Committee ensures that the total compensation paid to the executive officers is fair, reasonable and competitive. The Compensation Committee is comprised entirely of independent directors, consisting of Mark C. M. Randall, Peter S. Knight and Donald S. Brooks.

It is the Committee's responsibility to:

- Make recommendations and report to the Board of Directors concerning matters of executive compensation;
- Administer the Company's executive incentive plans;
- Review compensation plans, programs and policies; and
- Monitor the performance and compensation of executive officers.

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual, long-term and strategic goals that align executives' interests with those of the stockholders. The ultimate objective is to improve stockholder value, while at the same time attracting, motivating and retaining senior management. The Compensation Committee's executive compensation philosophy (which applies generally to all Company management, including its executive officers) considers a number of factors, including:

- Providing levels of compensation competitive with companies at a comparable stage of development and in the Company's geographic area;
- Integrating management's compensation with the achievement of performance goals;
- Maintaining an appropriate balance between base salary and performance-based compensation, with a higher proportion of compensation being performance-based as salary grade increases; and
- Recognizing and providing incentive for individual initiative and achievement.

Elements of 2008 Executive Compensation

The Committee evaluates both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, the Committee believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include both cash and stock-based compensation that reward performance as measured against established goals. For the fiscal year ended December 31, 2008, or fiscal 2008, the principal components of compensation for named executive officers were:

- base salary;
- potential for cash bonus; and
- long-term equity incentive compensation

In November 2007, the Compensation Committee's independent compensation consultant, Arnosti Consulting, was engaged to conduct a review of the Company's total compensation program for the Chief Executive Officer, as well as for other key executives and for the Board of Directors. The consultant's review and analysis included executive compensation for fiscal 2008. The consultant reports directly to the Compensation Committee.

In connection with setting executive compensation for fiscal 2008, the Company benchmarked all elements of total compensation, which consist of base salary, bonus, and long-term equity incentive compensation, to the competitive marketplace. The Company benchmarked its named executive officer compensation because the Committee believes this is the best way to determine whether such compensation is competitive with the Company's labor market for executive talent. The Company compares its levels of executive compensation to a peer group of publicly-traded biotechnology and pharmaceutical companies that are believed to be generally comparable to the Company with respect to metrics such as market capitalization and business model. The market data initially included over 100 companies selected based on standard industry codes and market capitalization. The consultant then worked with management to narrow the list of approximately 40 companies focusing on business models, market capitalization and headcount against which the Company believes that it competes for executive talent. The compensation peer group will be periodically reviewed by the Committee and updated.

For fiscal 2008 compensation, the compensation peer group consisted of the following companies: Access Pharmaceuticals, Inc., Adventrx Pharmaceuticals, Inc., Anadys Pharmaceuticals, Inc., AP Pharma, Inc., Avanir Pharmaceuticals, Avant Immunotherapeutics, Inc., Avigen, Inc., Bidel, Inc., Bidelivery Sciences International, Inc., Cel Sci Corp., Chelsea Therapeutics International, Ltd., Cortex Pharmaceuticals, Inc., Curis, Inc., Cypress Bioscience, Inc., Elite Pharmaceuticals, Inc., Epicept Corp., Genaera Corp., Genta, Inc., Hemispherx Biopharma, Inc., Idera Pharmaceuticals, Inc., Insite Vision, Inc., Isolagen, Inc., Keryx Biopharmaceuticals, Inc., Middlebrook Pharmaceuticals, Inc., Neopharm, Inc., Neose Technologies, Inc., Neurobiological Technologies, Inc., Nexmed, Inc., Novadel Pharma, Inc., Optimer Pharmaceuticals, Inc., Orexigen Therapeutics, Inc., Oxigene, Inc., Panacos Pharmaceuticals, Inc., Pharmacyclics, Inc., Pharmasset, Inc., Poniard Pharmaceuticals, Inc., Progen Pharmaceuticals, Ltd., Regenerx Biopharmaceuticals, Inc., Response Genetics, Inc., RXI Pharmaceuticals Corp., Scolr Pharma, Inc., Threshold Pharmaceuticals, Inc., Vanda Pharmaceuticals, Inc., Via Pharmaceuticals, Inc., and Vion Pharmaceuticals, Inc.

Based on the compensation peer group, the compensation consultant compiled data from the Equilar database of proxy-related materials and the 2007 Radford Biotechnology compensation surveys including data on cash compensation in similar size companies as well as equity information from Radford's Options as a Percent of Outstanding Shares: Public Companies Only survey. Within the compensation peer group, the Company generally sets compensation for executive officers at the 25th to 50th percentile of compensation paid to similarly situated executives of such company group. No variation to this objective was made in setting 2008 salaries, but may be made in the future if dictated by market factors or the experience level of any new executive.

Base Salary in 2008

For each of the named executive officers, a minimum base salary is established by the terms of an employment contract. In accordance with the Company's customary practices, those base salaries are reviewed annually and subject to adjustment by the Committee. Although the Committee has the final authority to set base salaries, the Committee solicited and considered the recommendations of the Chief Executive Officer with respect to the Company's senior management. The Chief Executive Officer reviewed the benchmark data and presented the Committee with recommendations for adjustments to the fiscal 2007 base salary based on his assessment of the executive's performance and criticality to the business. This assessment was based on the duties and responsibilities that we expect each executive to discharge during the current year, the executive's performance during the previous year, and the executive's total compensation opportunity. The Chief Executive Officer's presentation to the Committee also included a proposed adjustment to his base salary that the Committee considered in the context of its evaluation of his performance.

Base salaries for each individual were not targeted at any specific percentile within the group of companies considered. On December 24, 2007, the Committee approved increases in base salary for fiscal 2008 ranging from 6.3% to 16.7% after reviewing the recommendations of the Chief Executive Officer. Those adjustments are set forth below:

<u>Name(1)</u>	<u>2008</u>	<u>2007</u>
James S. Burns , Former President and Chief Executive Officer	\$430,000	\$414,000
Dane R. Saglio , Former Chief Financial Officer	\$270,000	\$240,000
Kenneth W. Bair, PhD , Former Sr. Vice President, Research & Development	\$320,000	\$320,000(2)
Carolyn F. Sidor, MD , Vice President and Chief Medical Officer	\$300,000	\$280,000
Cynthia W. Hu, JD , Chief Operating Officer & General Counsel(3)	\$260,000	\$230,000
Kathy R. Wehmeir-Davis , Principal Accounting Officer(3)	\$100,000	—

- (1) Messrs. Burns, Bair and Saglio’s positions were eliminated as of December 31, 2008 in connection with the Company’s corporate restructuring.
- (2) Reflects base salary on an annualized basis. Dr. Bair’s date of hire was October 16, 2007. Actual salary received for the period October 16, 2007 through December 31, 2007 was \$53,000. In addition, Dr. Bair received a relocation expense payment in the amount of \$100,000 in fiscal 2007.
- (3) In connection with the Company’s restructuring, the Board of Directors (i) designated Ms. Hu as the Company’s Chief Operating Officer on December 12, 2008 and (ii) designated Ms. Wehmeir-Davis, the Company’s Controller, as an executive officer and appointed her as the Company’s Principal Accounting Officer on December 12, 2008.

No Bonuses for 2008

No cash bonuses were paid to any officer or employee for the fiscal year ended 2008.

In general, cash incentives for our executive officers are provided based upon achieving Company objectives and individual performance goals, including the qualitative aspects of strategic decisions, the execution of Company initiatives, and successfully meeting significant challenges that face the Company and the biotechnology industry in general. This focus on the quality of management’s decisions takes into account the ability of an executive manager to adapt to unique situations and changing conditions while balancing short-term strategies with long-term objectives. The Compensation Committee believes that this approach will properly reward key executive officers for their leadership in a changing business environment and in making strategic adjustments to our business plans that are in the best interests of the Company, its stockholders and its employees.

Employment contracts with the named executive officers include specified minimum bonus opportunities expressed as a percentage of base salary as follows:

<u>Name:(1)</u>	<u>Bonus Target Percentage</u>
James S. Burns, Former President and CEO(1)	40%
Dane R. Saglio, Former Chief Financial Officer(1)	25%(2)
Kenneth W. Bair, PhD, Former Sr. Vice President, R&D(1)	30%
Carolyn F. Sidor, MD, Vice President and Chief Medical Officer	25%
Cynthia W. Hu, JD, Chief Operating Officer & General Counsel	25%
Kathy R. Wehmeir-Davis, Principal Accounting Officer	25%

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- (1) Messrs. Burns, Bair and Saglio’s positions were eliminated as of December 31, 2008 in connection with the Company’s corporate restructuring.
- (2) No specific percentage is expressed in Mr. Saglio’s employment contract, but, consistent with the bonus targets available to other named executive officers, the Company recognizes an implied 25% bonus target.

The payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones, that relate to our products and our program objectives, and the Compensation Committee’s subjective assessment of individual performance during the year. The Company takes a team-based approach to the achievement of Company objectives and milestones. Given the extraordinary changes in the financial markets and the Company’s reprioritization of program objectives and restructuring of operations, no bonuses were paid to any officer or employee for the year ended December 31, 2008.

Long-Term Equity Incentive Compensation

Consistent with its belief that equity ownership by senior management is beneficial in aligning the interests of senior management with those of the stockholders, the Company provides potentially significant long-term incentive opportunities to its senior management through discretionary grants of stock options, thereby emphasizing the potential creation of long-term stockholder value. The Compensation Committee considers stock options effective long-term incentives because an executive can profit only if the value of the Common Stock increases. The Compensation Committee does not, however, target a specific level or have a formula for stock option grants. In making these grants, the Compensation Committee considers its subjective assessment of the Company’s past financial performance and future prospects, an executive officer’s current level of ownership of the Common Stock, the period during which an executive officer has been in a key position with the Company, individual performance and competitive practices within the Company’s compensation peer group. The Compensation Committee also considered recommendations from our President and Chief Executive Officer regarding option grants for members of senior management. In addition, the compensation consultant’s review of the Company’s total compensation program for executive officers included a review and analysis of proposed 2008 long-term equity incentive compensation. The proposed stock option grants generally fell below the 25th percentile of compensation paid to similarly situated executives in the Company’s compensation peer group.

Perquisites and Post-Employment Compensation

We limit the perquisites that we make available to our executive officers. Our executives are entitled to benefits that are otherwise available to all of our employees. The Company does not provide pension arrangements or post-retirement coverage for our executives or employees.

Our executive officers are eligible to participate in our 401(k) contributory defined contribution plan. In any plan year, we contribute to each participant a matching contribution equal to 50% of the first 6% of the participant's compensation contributed to the plan, subject to the maximum deferral contribution limit defined by the Internal Revenue Service annually. Other than James S. Burns and Kenneth W. Bair, all of our executive officers participated in our 401(k) plan during fiscal 2008 and received matching contributions. Our health and insurance plans are the same for all employees.

2008 Corporate Restructuring

As described above, the Company reprioritized its programs and implemented a corporate restructuring in December 2008, including the elimination of the offices of President & Chief Executive Officer; Chief Financial Officer; Senior Vice President, Research & Development; and Senior Vice President, Corporate & Business Development. Accordingly, the employment of Messrs. Burns, Saglio, Bair and Thomas Bliss, respectively, terminated effective December 31, 2008. The Board appointed a new senior management team which includes: Carolyn F. Sidor, M.D., Vice President & Chief Medical Officer; Cynthia W. Hu, Chief Operating Officer and General Counsel; Kathy R. Wehmeir-Davis, Principal Accounting Officer; as well as Mark R. Bray, Ph.D., Vice President, Research.

Accounting and Tax Considerations

Section 162(m) of the Internal Revenue Code generally denies a deduction to any publicly held corporation for compensation paid to its Chief Executive Officer and its four other highest-paid executive officers to the extent that any such individual's compensation exceeds \$1 million, subject to certain exceptions. The Committee intends to take actions to minimize the Company's exposure to nondeductible compensation expense under Section 162(m). While keeping this goal in mind, the Committee also will try to maintain the flexibility that the Committee believes to be an important element of the Company's executive compensation program.

SUMMARY COMPENSATION TABLE

The following summary compensation table includes information concerning compensation for each of our named executive officers during fiscal years ended December 31, 2008, 2007 and 2006.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation \$(3)	Total (\$)
James S. Burns Former President & CEO	2008	\$430,000	—	—	\$310,844	—	—	\$ 6,814	\$747,658
	2007	\$414,000	—	—	\$237,342	\$165,000	—	—	\$816,342
	2006	\$400,000	—	—	\$283,292	\$180,000	—	—	\$863,292
Dane R. Saglio Former CFO	2008	\$270,000	—	—	\$ 64,883	—	—	\$ 6,375	\$341,258
	2007	\$240,000	—	—	\$ 50,479	\$ 60,000	—	\$ 7,027	\$357,506
	2006	\$232,000	—	—	\$ 87,894	\$ 58,000	—	\$ 6,600	\$384,494
Kenneth W. Bair, PhD Former Sr. VP, R&D	2008	\$320,000	—	—	\$ 78,968	—	—	\$ 6,250	\$405,218
	2007	\$ 53,000(4)	—	—	\$ 98,711(4)	\$ 15,000(4)	—	\$100,000(4)	\$266,711
Carolyn F. Sidor, MD Vice President and CMO	2008	\$300,000	—	—	\$ 41,492	—	—	\$ 4,817	\$346,309
	2007	\$280,000	—	—	\$ 67,686	\$ 70,000	—	\$ 6,646	\$424,331
	2006	\$260,000	—	—	\$108,838	\$100,000	—	\$ 6,300	\$475,138
Cynthia W. Hu, JD COO & General Counsel	2008	\$260,000	—	—	\$ 51,653	—	—	\$ 3,538	\$315,191
	2007	\$230,000	—	—	\$ 52,537	\$ 58,000	—	\$ 3,720	\$344,257
	2006	\$126,000(5)	—	—	\$ 63,979(5)	\$ 30,000(5)	—	—	\$219,979
Kathy R. Wehmeir-Davis Principal Accounting Officer	2008	\$100,000	—	—	\$ 3,751	—	—	\$ 47,384(6)	\$151,135

- (1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with FAS 123R. Assumptions used in the calculation of this amount are included in footnote 8 to the Company's audited financial statements for the fiscal year ended December 31, 2008 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 13, 2009.
- (2) Amounts in this column reflect payments made pursuant to the Company's cash incentive bonus plan, which is further described above. No cash bonuses were paid to any officer or employee in fiscal 2008.
- (3) The amounts in this column represent 401(k) matching contributions by the Company in fiscal 2008.
- (4) The salary earned by Kenneth W. Bair for fiscal 2007 is prorated from October 16, 2007, his date of hire, and his bonus amount represents 28% of his prorated base salary for fiscal 2007. In addition, Dr. Bair received a relocation expense payment of \$100,000.
- (5) The salary, bonus and option award earned by Cynthia W. Hu for fiscal 2006 is prorated from June 1, 2006, date of hire.
- (6) Ms. Wehmeir-Davis became Principal Accounting Officer of the Company on December 12, 2008. Includes the Company's reimbursement of commuting expenses from Ms. Wehmeir-Davis' principal state of residence and short-term rental living expenses which were \$44,609 in 2008, and 401(k) matching contributions in the amount of \$2,775.

GRANTS OF PLAN-BASED AWARDS — 2008

The following table sets forth certain information with respect to individual grants of stock options for fiscal year ended December 31, 2008 to each of the named executive officers listed in the Summary Compensation Table.

Name and Principal Position	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value of Stock and Option Awards (\$)(2)
		Threshold (\$)	Target (\$)(1)	Maximum (\$)				
James S. Burns(3) Former President and Chief Executive Officer	01/04/2008					130,000	\$1.22	\$104,975
Dane R. Saglio(3) Former Chief Financial Officer								
Kenneth W. Bair, PhD(3) Former Sr. Vice-President, R&D								
Carolyn F. Sidor, MD Vice President and Chief Medical Officer			\$75,000					
Cynthia W. Hu, JD COO & General Counsel			\$75,000					
Kathy R. Wehmeir-Davis(4) Principal Accounting Officer			\$50,000					

- (1) Amounts in this column reflect payments made pursuant to the Company's cash incentive bonus plan, as further described above. The payments represent the payment targets as specified in each executive officer's employment contract. No cash bonuses were paid to any officer or employee for fiscal 2008.
- (2) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with FAS 123R. Assumptions used in the calculation of this amount are included in footnote 9 to the Company's audited financial statements for the fiscal year ended December 31, 2008 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2009.
- (3) Messrs. Burns, Bair, and Saglio's positions were eliminated as of December 31, 2008 in connection with the Company's restructuring of operations.
- (4) Ms. Wehmeir-Davis became Principal Accounting Officer of the Company on December 12, 2008.

In connection with the management restructuring described above, the Compensation Committee granted 200,000 stock options to Dr. Sidor, 165,000 stock options to Ms. Hu and 140,000 stock options to Ms. Wehmeir-Davis on January 27, 2009, the same date on which it granted stock awards to the Company's other employees. In keeping with our general policy and practice, the exercise price of the stock options that were awarded was \$0.16, which was based on the closing price of our common stock as reported on NASDAQ on the respective grant date. The terms of the options provide for vesting in four equal annual installments commencing on the date of grant. The options have a term of ten years.

OUTSTANDING EQUITY AWARDS — 2008

The following table includes certain information which respect to the value of all unexercised options previously awarded to the executive officers named above at the fiscal year ended December 31, 2008.

Name and Principal Position	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)(1)	Number of Securities Underlying Unexercised Options Unexercisable (#)(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date(2)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
James S. Burns	500,000	—	—	\$ 2.14	03/31/2009	—	—	—	—
Former President and Chief Executive Officer	100,000	—	—	\$ 3.02	03/31/2009	—	—	—	—
	150,000	—	—	\$ 1.56	03/31/2009	—	—	—	—
	50,000	—	—	\$ 1.56	12/31/2009	—	—	—	—
	100,000	—	—	\$ 1.70	03/31/2009	—	—	—	—
	100,000	—	—	\$ 1.70	12/31/2009	—	—	—	—
	32,500	—	—	\$ 1.22	03/31/2009	—	—	—	—
	97,500	—	—	\$ 1.22	12/31/2009	—	—	—	—
Dane R. Saglio	10,000	—	—	\$53.00	04/10/2010	—	—	—	—
Former Chief Financial Officer	1,500	—	—	\$29.13	06/22/2010	—	—	—	—
	1,000	—	—	\$17.56	01/02/2011	—	—	—	—
	8,800	—	—	\$11.99	08/21/2001	—	—	—	—
	4,400	—	—	\$ 8.97	10/01/2011	—	—	—	—
	10,000	—	—	\$ 7.50	04/17/2012	—	—	—	—
	25,000	—	—	\$ 1.09	09/25/2012	—	—	—	—
	75,000	—	—	\$ 2.25	05/02/2013	—	—	—	—
	50,000	—	—	\$ 2.68	03/31/2009	—	—	—	—
	25,000	—	—	\$ 3.02	03/31/2009	—	—	—	—
	40,000	—	—	\$ 1.94	03/31/2009	—	—	—	—
	37,500	—	—	\$ 1.56	03/31/2009	—	—	—	—
	12,500	—	—	\$ 1.56	12/31/2009	—	—	—	—
	25,000	—	—	\$ 1.25	03/31/2009	—	—	—	—
	25,000	—	—	\$ 1.25	12/31/2009	—	—	—	—
Kenneth W. Bair, PhD.	175,000	—	—	\$ 1.28	12/31/2009	—	—	—	—
Former Senior Vice President, Research & Development									
Carolyn F. Sidor, MD	57,500	—	—	\$ 8.97	10/01/2011	—	—	—	—
Vice President and Chief Medical Officer	30,000	—	—	\$ 1.09	09/25/2012	—	—	—	—
	18,483	—	—	\$ 1.28	04/03/2013	—	—	—	—
	25,000	—	—	\$ 3.42	12/10/2013	—	—	—	—
	25,000	—	—	\$ 1.44	09/01/2014	—	—	—	—
	50,000	—	—	\$ 2.30	12/01/2014	—	—	—	—
	25,000	—	—	\$ 3.02	12/20/2014	—	—	—	—
	40,000	—	—	\$ 1.94	12/23/2015	—	—	—	—
	52,500	17,500	—	\$ 1.56	12/18/2016	—	—	—	—
	35,000	35,000	—	\$ 1.25	12/24/2017	—	—	—	—
Cynthia W. Hu, JD.	75,000	25,000	—	\$ 1.76	06/01/2016	—	—	—	—
COO & General Counsel	22,500	7,500	—	\$ 1.56	12/18/2016	—	—	—	—
	25,000	25,000	—	\$ 1.25	12/24/2017	—	—	—	—
Kathy R. Wehmeir-Davis	5,000	—	—	\$ 4.40	11/03/2013	—	—	—	—
Principal Accounting Officer(3)	5,000	—	—	\$ 4.40	12/20/2014	—	—	—	—
	5,000	—	—	\$ 1.94	12/23/2015	—	—	—	—
	3,750	1,250	—	\$ 1.56	12/18/2016	—	—	—	—
	3,500	3,500	—	\$ 1.25	12/24/2017	—	—	—	—

- (1) All options become exercisable in four equal annual installments beginning on the date of grant.
- (2) The term of each option is ten years.
- (3) Ms. Wehmeir-Davis became Principal Accounting Officer of the Company on December 12, 2008.

Option Exercises and Stock Vested For 2008

During fiscal 2008, there were no exercises of stock options by the named executive officers and no vesting of stock held by a named executive officer occurred.

Nonqualified Deferred Compensation

The Company does not provide any nonqualified defined contribution or other deferred compensation plans.

Potential Payments Upon Change in Control or Termination of Employment

Change-In-Control Severance Agreements

The Company was a party to Change-in-Control Severance Agreements with former officers James S. Burns, Dane R. Saglio and Kenneth W. Bair. These agreements terminated as of December 31, 2008 in connection with the officers' separation from the Company. These officers were not terminated due to a change-in-control of the Company, therefore, no payments pursuant to the Change-in-Control Severance Agreements were made. The Company is currently a party to Change-in-Control Severance Agreements with its current officers, Cynthia W. Hu, Carolyn F. Sidor, Kathy R. Wehmeir-Davis and Mark R. Bray.

Each of the Change-in-Control Severance agreements with the officers listed above provides for certain benefits either upon an involuntary termination of employment, other than for cause, or resignation for "good reason," upon a "Triggering Event." The terms of the Change-in-Control Severance Agreement are substantially the same for all of our executive officers, except that Messrs. Burns and Bair are entitled to 18 months of severance, and the other executive officers are entitled to 12 months of severance.

A Triggering Event includes a merger of the Company with and into an unaffiliated corporation if the Company is not the surviving corporation or the sale of all or substantially all of the Company's assets. "Good reason" generally means any material diminution or change in salary, responsibilities or title; relocation to an office more than 50 miles from Company headquarters; failure to continue health benefits; a failure to pay deferred compensation due under any plan; or the failure to honor any material aspect of the employment agreement.

The benefits to be received by the executive officer whose employment is terminated after a Triggering Event occurs include: (i) receipt of a lump sum severance payment equal to the executive's then current annual salary and the average of the two prior year's bonuses; (ii) pro rata current year bonus; (iii) continuation of life, health and disability benefits for twelve months after the termination of employment and (iv) all outstanding options would accelerate and become immediately exercisable.

Although a change-in-control event did not occur and the Change-in-Control Severance Agreements with our former officers are no longer operative, if a Triggering Event and termination of employment had hypothetically occurred as of December 31, 2008, we estimate that the value of the benefits under the Change-in-Control Severance Agreements would have been as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (1) (\$)</u>	<u>Bonus Severance Payment Estimate (2) (\$)</u>	<u>Continuation of Insurance Benefit(3) (\$)</u>	<u>Accelerated Vesting of Stock Options (4) (\$)</u>
James S. Burns , Former President & CEO	\$645,000	\$172,500	\$21,176	\$—
Dane R. Saglio , Former Chief Financial Officer	\$270,000	\$ 59,000	\$20,429	\$—
Kenneth W. Bair, PhD , Former Sr. Vice President, R&D	\$480,000	\$ 7,500	\$21,176	\$—
Carolyn F. Sidor, MD , Vice President & CMO	\$300,000	\$ 85,000	\$14,117	\$—
Cynthia W. Hu, JD , Chief Operating Officer & General Counsel	\$260,000	\$ 44,000	\$ 238	\$—
Kathy R. Wehmeir-Davis , Principal Accounting Officer	\$100,000	\$ 9,210	\$20,521	\$—
Mark R. Bray, PhD , Vice President, Research	\$195,543	\$ 31,000	\$ 6,206	\$—

- (1) Payment is based on each executive officer's 2008 base salary for 12 months (or 18 months in the case of the Messrs. Burns and Bair).
- (2) The Change-in-Control Severance Agreements provide for a payment based on the average of the two prior year's bonuses, plus an estimate of the pro rata current year bonus. Payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones that relate to our products and program objectives and the Compensation Committee's subjective assessment of individual performance during the year. No bonuses were paid to any officer or employee for fiscal year 2008.
- (3) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.
- (4) All outstanding stock options have an exercise price greater than the market value (\$0.16) of our common stock on December 31, 2008.

Termination of Employment

The Company was a party to employment agreements with former officers James S. Burns, Dane R. Saglio and Kenneth W. Bair. The employment of each of Messrs. Burns, Saglio and Bair was terminated, without cause, as of December 31, 2008 in connection with the Company's corporate restructuring.

James S. Burns, Former President and Chief Executive Officer

On June 15, 2004, the Company entered into an employment agreement with James S. Burns. Under the agreement, upon a termination "without cause," Mr. Burns was entitled to receive a severance benefit equal to twelve months of salary, payable in accordance with the Company's customary pay practices, a pro-rata portion of any incentive compensation he would have been entitled to for fiscal year 2008, and continued insurance coverage for up to twelve months. In addition, if Mr. Burns is terminated without cause, all of his unexpired and unvested

stock options become vested on the effective date of such termination. The employment agreement imposes confidentiality obligations and a 12-month non-compete on Mr. Burns following termination of employment.

Dane R. Saglio, Former Chief Financial Officer

On July 1, 2004, the Company entered into an employment agreement with Dane R. Saglio. Under the agreement, upon a termination “without cause,” Mr. Saglio was entitled to receive a severance benefit equal to twelve months of salary, payable in accordance with the Company’s customary pay practices, a pro-rata portion of any incentive compensation he would have been entitled to for fiscal 2008, and continued insurance coverage for up to twelve months. In addition, if Mr. Saglio is terminated without cause, all of his unexpired and unvested stock options will become vested on the effective date of such termination. The employment agreement imposes confidentiality obligations and a 12-month non-compete on Mr. Saglio following termination of employment.

Kenneth W. Bair, PhD, Former Senior Vice President, Research & Development

On October 16, 2007, the Company entered into an employment agreement with Kenneth W. Bair. Under the agreement, upon a termination “without cause,” Dr. Bair was entitled to receive a severance benefit equal to nine months of salary, payable in accordance with the Company’s customary pay practices, a pro-rata portion of any incentive compensation he would have been entitled to for fiscal 2008, and continued insurance coverage for up to nine months. The employment agreement imposes confidentiality obligations and a 6-month non-compete on Dr. Bair following termination of employment.

The payments due to each of Messrs. Burns, Saglio and Bair, in connection with their termination “without cause” under their employment agreements effective as of December 31, 2008, were as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (\$)</u>	<u>Bonus Severance Payment Estimate (4) (\$)</u>	<u>Continuation of Insurance Benefit (5) (\$)</u>	<u>Accelerated Vesting of Stock Options (6) (\$)</u>	<u>Total</u>
James S. Burns , President & CEO	\$430,000(1)	\$—	\$14,117	\$—	\$444,117
Dane R. Saglio , Chief Financial Officer	\$270,000(2)	\$—	\$20,429	\$—	\$290,429
Kenneth W. Bair, PhD , Sr. Vice President, R&D	\$240,000(3)	\$—	\$10,588	\$—	\$250,588

- (1) Payment is based on the executive’s base salary for 2008 for 12 months. Severance is payable over the severance period at the Company’s normal pay periods.
- (2) Payment is based on the executive’s base salary for 2008 for 12 months. Severance is payable over the severance period at the Company’s normal pay periods.
- (3) Payment is based on the executive’s base salary for 2008 for 9 months. Severance is payable over the severance period at the Company’s normal pay periods.
- (4) No bonus payments were made during fiscal 2008 or are due and payable in 2009 in connection with 2008 performance.
- (5) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.
- (6) All outstanding stock options have an exercise price greater than the market value (\$0.16) of our common stock on December 31, 2008.

The Company is currently a party to employment agreements with its current officers, Carolyn F. Sidor, Cynthia W. Hu, Kathy R. Wehmeir-Davis and Mark R. Bray. The terms of such agreements and the respective payments upon termination are set forth below.

Carolyn F. Sidor, MD, Vice President and Chief Medical Officer

On December 1, 2004, the Company entered into an employment agreement with Dr. Carolyn F. Sidor. The term of the employment agreement is subject to automatic one-year extensions unless either party gives at least sixty days prior written notice not to extend. The agreement provides for an annualized minimum base salary of \$240,000, with incentive compensation targeted at 25% of base salary. The base salary will be reviewed at least annually in accordance with the Company’s customary practices for executives. In addition, the Company granted Dr. Sidor stock options covering 50,000 shares, vested as to 25% on the date of grant and vesting in 25% annual cumulative installments thereafter.

After the first year of the term of the agreement, if the Company terminates Dr. Sidor “without cause” or fails to extend the employment agreement, Dr. Sidor will be entitled to a severance benefit equal to six months of base salary payable in accordance with the Company’s customary pay practices, a pro-rata portion of any incentive compensation she would have been entitled to for that year and continued insurance coverage for up to six months. Dr. Sidor also may resign at any time for “good reason,” (which generally means any material diminution or change in salary, responsibilities or title; relocation to an office more than 50 miles from Company headquarters; failure to continue health benefits; a failure to pay deferred compensation due under any plan; or the failure to honor any material aspect of the employment agreement), by providing at least sixty days prior written notice. Resignation for “good reason” or non-extension of the term of her agreement will be deemed a termination without cause. In addition, if Dr. Sidor’s employment is terminated upon disability or death, Dr. Sidor or her estate will be entitled to receive a payment equal to six months salary plus a pro-rated amount of any incentive compensation she would have been entitled to for that year. On April 16, 2007, the Company entered into an amendment with Dr. Sidor to modify the definition of “good reason” to exclude a reduction of the executive’s base salary if such reduction was made applicable to all executive officers.

The employment agreement imposes confidentiality obligations and a 12-month non-compete on Dr. Sidor following termination of employment.

If a termination of employment without cause or resignation with good reason had hypothetically occurred as of December 31, 2008, we estimate that the value of the benefits under Dr. Sidor’s employment agreement and stock option grant agreement would have been as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (1) (\$)</u>	<u>Bonus Severance Payment Estimate (2) (\$)</u>	<u>Continuation of Insurance Benefit (3) (\$)</u>	<u>Total</u>
Carolyn F. Sidor, MD , Vice President and Chief Medical Officer	\$150,000	\$—	\$7,059	\$157,059

- (1) Payment is based on 2008 base salary for 6 months. Severance is payable over the severance period at the Company’s normal pay periods.
- (2) The employment agreement provides for a payment based on a pro-rata portion of any incentive compensation Dr. Sidor would have been entitled to for that year. Payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones that relate to our products and program objectives and the Compensation Committee’s subjective assessment of individual performance during the year. No bonuses were paid to any officer or employee in fiscal 2008.
- (3) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.

The payments due to Dr. Sidor upon termination for death or disability are the same as set forth above.

On April 16, 2007, the Company entered into a change-in-control agreement with Dr. Sidor. See “Change-in-Control Severance Agreements” for information on change-in-control termination payments. These

change-in-control severance payments will be made in lieu of the severance payments under the executive's employment agreement.

Cynthia W. Hu, JD, Chief Operating Officer & General Counsel

On June 1, 2006, the Company entered into an employment agreement with Cynthia W. Hu. The term of the employment agreement is subject to automatic one-year extensions unless either party gives at least thirty days prior written notice not to extend. On December 12, 2008, Ms. Hu was designated the Company's Chief Operating Officer.

The agreement provides for an annualized minimum base salary of \$216,000, with incentive compensation targeted at 25% of base salary. The base salary will be reviewed at least annually in accordance with the Company's customary practices for executives. In addition, the Company granted Ms. Hu stock options covering 100,000 shares, vested as to 25% on the date of grant and vesting in 25% annual cumulative installments thereafter.

If the Company terminates Ms. Hu "without cause," Ms. Hu will receive a severance benefit equal to six months of salary, payable in accordance with the Company's customary pay practices, a pro-rata portion of any incentive compensation she would have been entitled to for that year, and continued insurance coverage for up to six months. Ms. Hu also may resign at any time for "good reason," (which generally means any material diminution or change in salary, responsibilities or title; relocation to an office more than 50 miles from Company headquarters; failure to continue health benefits; a failure to pay deferred compensation due under any plan; or the failure to honor any material aspect of the employment agreement), by providing at least thirty days prior written notice. Resignation for "good reason" or non-extension of the term of her agreement will be deemed a termination without cause. In addition, if Ms. Hu's employment is terminated upon disability or death, Ms. Hu or her estate will be entitled to receive a payment equal to six months salary plus a pro-rated amount of any incentive compensation she would have been entitled to for that year. On April 16, 2007, the Company entered into an amendment with Ms. Hu to modify the definition of "good reason" to exclude a reduction of the executive's base salary if such reduction was made applicable to all executive officers.

The employment agreement imposes confidentiality obligations and a 6-month non-compete (12 months in the event of a resignation for other than good reason) on Ms. Hu following termination of employment.

If a termination of employment without cause or resignation for good reason had hypothetically occurred as of December 31, 2008, based on Ms. Hu's base salary as of December 31, 2008, the value of the benefits under Ms. Hu's employment agreement and stock option grant agreement would have been as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (1) (\$)</u>	<u>Bonus Severance Payment Estimate (2) (\$)</u>	<u>Continuation of Insurance Benefit (3) (\$)</u>	<u>Total</u>
Cynthia W. Hu, JD Chief Operating Officer & General Counsel	\$130,000	\$—	\$119	\$130,119

- (1) Payment is based on the executive's base salary for 2008 for 6 months. Severance is payable over the severance period at the Company's normal pay periods.
- (2) The employment agreement provides for a payment based on a pro-rata portion of any incentive compensation Ms. Hu would have been entitled to for that year. Payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones that relate to our products and program objectives and the Compensation Committee's subjective assessment of individual performance during the year. No bonuses were paid to any officer or employee for fiscal 2008.
- (3) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.

The payments due to Ms. Hu upon termination for death or disability are the same as set forth above.

On April 16, 2007, the Company entered into a change-in-control agreement with Ms. Hu. See “Change-in-Control Severance Agreements” for information on change-in-control termination payments. These change-in-control severance payments will be made in lieu of the severance payments under the executive’s employment agreement.

Kathy R. Wehmeir-Davis, Principal Accounting Officer

The Company entered into an employment agreement with Kathy R. Wehmeir-Davis effective as of January 1, 2009 and continues for one year, subject to automatic one-year extensions unless either party gives at least thirty days prior written notice not to extend. Ms. Wehmeir-Davis was named the Company’s Principal Accounting Officer in connection with the management restructuring described above.

The agreement provides for an annualized minimum base salary of \$200,000, with incentive compensation targeted at 25% of base salary. The base salary will be reviewed at least annually in accordance with the Company’s customary practices for executives.

If the Company terminates Ms. Wehmeir-Davis “without cause,” Ms. Wehmeir-Davis will receive a severance benefit equal to six months of salary, payable in accordance with the Company’s customary pay practices, a pro-rata portion of any incentive compensation she would have been entitled to for that year, and continued insurance coverage for up to six months. Ms. Wehmeir-Davis also may resign at any time for “good reason,” (which generally means any material diminution or change in salary, responsibilities or title; relocation to an office more than 50 miles from Company headquarters; failure to continue health benefits; a failure to pay deferred compensation due under any plan; or the failure to honor any material aspect of the employment agreement), by providing at least thirty days prior written notice. “Good reason” does not include a reduction of the executive’s base salary if such reduction was made applicable to all executive officers. Resignation for “good reason” or non-extension of the term of her agreement will be deemed a termination without cause. In addition, if Ms. Wehmeir-Davis’s employment is terminated upon disability or death, Ms. Wehmeir-Davis or her estate will be entitled to receive a payment equal to six months salary plus a pro-rated amount of any incentive compensation she would have been entitled to for that year.

The employment agreement imposes confidentiality obligations and a 6-month non-compete (12 months in the event of a resignation for other than good reason) on Ms. Wehmeir-Davis following termination of employment.

Even though the Company did not enter into the employment agreement with Ms. Wehmeir-Davis until effective January 1, 2009, if a termination of employment without cause or resignation for good reason had hypothetically occurred as of December 31, 2008, we estimate, based on Ms. Wehmeir-Davis’ base salary as of December 31, 2008, that the value of the benefits under Ms. Wehmeir-Davis’ employment agreement and stock option grant agreement would have been as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (1) (\$)</u>	<u>Bonus Severance Payment Estimate (2) (\$)</u>	<u>Continuation of Insurance Benefit (3) (\$)</u>	<u>Total</u>
Kathy R. Wehmeir-Davis Principal Accounting Officer	\$50,000	\$—	\$10,260	\$60,260

- (1) Payment is based on the executive’s base salary for 2008 for 6 months. Severance is payable over the severance period at the Company’s normal pay periods. As described above, Ms. Wehmeir-Davis’ annual base salary for 2009 under her current employment agreement is \$200,000.
- (2) The employment agreement provides for a payment based on a pro-rata portion of any incentive compensation Ms. Wehmeir-Davis would have been entitled to for that year. Payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones that relate to our products and program objectives and the Compensation Committee’s subjective assessment of individual performance during the year. No bonuses were paid to any officer or employee for fiscal 2008.
- (3) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.

The payments due to Ms. Wehmeir-Davis upon termination for death or disability are the same as set forth above.

The Company also entered into a change-in-control agreement effective as of January 1, 2009 with Ms. Wehmeir-Davis. See “Change-in-Control Severance Agreements” for information on change-in-control termination payments. These change-in-control severance payments will be made in lieu of the severance payments under the executive’s employment agreement.

Mark R. Bray, PhD, Vice President, Research

The Company entered into an employment agreement with Mark R. Bray effective as of January 1, 2009 and continues for one year, subject to automatic one-year extensions unless either party gives at least thirty days prior written notice not to extend. Dr. Bray serves as the Company’s Vice President, Research.

The agreement provides for an annualized minimum base salary of \$200,000, with incentive compensation targeted at 25% of base salary. The base salary will be reviewed at least annually in accordance with the Company’s customary practices for executives.

If the Company terminates Dr. Bray “without cause,” Dr. Bray will receive a severance benefit equal to six months of salary, payable in accordance with the Company’s customary pay practices, a pro-rata portion of any incentive compensation he would have been entitled to for that year. Dr. Bray also may resign at any time for “good reason,” (which generally means any material diminution or change in salary, responsibilities or title; relocation to an office more than 50 miles from Company headquarters; failure to continue health benefits; a failure to pay deferred compensation due under any plan; or the failure to honor any material aspect of the employment agreement), by providing at least thirty days prior written notice. “Good reason” does not include a reduction of the executive’s base salary if such reduction was made applicable to all executive officers. Resignation for “good reason” or non-extension of the term of his agreement will be deemed a termination without cause. In addition, if Dr. Bray’s employment is terminated upon disability or death, Dr. Bray or his estate will be entitled to receive a payment equal to six months salary plus a pro-rated amount of any incentive compensation he would have been entitled to for that year.

The employment agreement imposes confidentiality obligations and non-compete on Dr. Bray following termination of employment.

Even though the Company did not enter into the employment agreement with Dr. Bray until effective January 1, 2009, if a termination of employment without cause or resignation for good reason had hypothetically occurred as of December 31, 2008, we estimate that, based on Dr. Bray’s base salary as of December 31, 2008, the value of the benefits under Dr. Bray’s employment agreement and stock option grant agreement would have been as follows:

<u>Name and Principal Position</u>	<u>Base Salary Severance Payment (1) (\$)</u>	<u>Bonus Severance Payment Estimate (2) (\$)</u>	<u>Continuation of Insurance Benefit (3) (\$)</u>	<u>Total</u>
Mark R. Bray, PhD Vice President, Research	\$97,772	\$—	\$3,102	\$100,874

- (1) Payment is based on the executive’s base salary for 2008 for 6 months. Severance is payable over the severance period at the Company’s normal pay periods. As described above, Dr. Bray’s annual base salary for 2009 under his current employment agreement is \$200,000.
- (2) The employment agreement provides for a payment based on a pro-rata portion of any incentive compensation Dr. Bray would have been entitled to for that year. Payment of cash bonuses is within the sole discretion of the Compensation Committee and is based, in part, on achieving specific Company goals and milestones that relate to our products and program objectives and the Compensation Committee’s subjective assessment of individual performance during the year. No bonuses were paid to any officer or employee for fiscal 2008.
- (3) Consists of health, dental and vision insurance coverage. The value is based upon the type of insurance coverage we carried for each executive officer as of December 31, 2008 and is valued at premiums in effect on December 31, 2008.

The payments due to Dr. Bray upon termination for death or disability are the same as set forth above.

The Company also entered into a change-in-control agreement effective as of January 1, 2009 with Dr. Bray. See “Change-in-Control Severance Agreements” for information on change-in-control termination payments. These change-in-control severance payments will be made in lieu of the severance payments under the executive’s employment agreement.

DIRECTOR COMPENSATION

In setting director compensation, the Company considers the significant amount of time that Directors expended in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board. We compensate our non-employee members of the Board through a mixture of cash and equity-based compensation.

Annual Director Stock Option Grants

Upon joining the Board of Directors, each new non-employee director is granted an option to purchase 50,000 shares of Common Stock. As of the date of each annual meeting of stockholders, each continuing non-employee director receives an annual grant of options to purchase 30,000 shares of Common Stock, and chairpersons of Board committees receive an option to purchase an additional 5,000 shares of Common Stock (“Annual Director Stock Options”). As approved by the Compensation Committee, commencing with the 2008 Annual Meeting, all stock options granted to directors vest immediately. Previously, director stock options had vested over three years. On June 5, 2008, each non-employee director received a grant of 30,000 options at the fair market price of the Company’s Common Stock on the date of the grant, which was \$0.64. Committee chairs received an additional 5,000 options. Until an option is exercised, shares subject to options cannot be voted nor do they receive dividends or dividend equivalents.

On February 2, 2009, each director received his or her annual grant of 30,000 options at the fair market price of the Company’s Common Stock on the date of the grant, which was \$0.17. Committee chairs received an additional 5,000 options consistent with current policy and each member of the new Executive Committee received an additional 15,000 options to reflect their additional commitment to the Company. The directors received their annual option grant in February as part of the Company’s comprehensive post-restructuring compensation review.

Annual Director Restricted Stock Grants

Non-employee directors also receive an annual retainer fee of \$25,000 that is payable solely in restricted stock (“Annual Director Restricted Stock”). On June 5, 2008, each non-employee Director received a grant of 39,063 shares of restricted stock based on the fair market price of the Company’s Common Stock on the date of the grant, which was \$0.64.

For fiscal year 2009, it is anticipated that the Annual Director Restricted Stock grant will be paid in the form of cash due to the Company’s prevailing stock price, dilution and the availability of options available under the 2001 plan. Prior to the date of the Annual Meeting, the Compensation Committee will evaluate such factors prior to determining whether the Annual Director Restricted Stock grant will be paid in cash or restricted stock.

Annual Director Cash Retainer

Our Directors also receive an annual cash retainer payment. In February 2007, after review of director compensation information provided by the Compensation Committee’s independent consultant, and review of relevant market data, the Board approved the payment of annual cash retainers to non-employee Directors, other than for Mr. Tarnow, in the amount of \$15,000, payable in one lump sum at each annual meeting. The Director who serves as chair of the Audit Committee receives an additional \$7,500 (increased to \$10,000 in 2009 as discussed below) and each Director of the Compensation Committee and the Nominating and Corporate Governance Committee receives an additional \$5,000. Directors have the option to receive shares of restricted stock in lieu of their annual cash retainer payment. If elected, the shares of restricted stock will be issued under the 2001 Plan.

Director Meeting Fees

Except for our Executive Chairman, Michael M. Tarnow, who is paid meeting fees in the amount of \$2,500, our non-employee Directors are paid meeting fees in the amount of \$1,500 for each regular and special Board meeting, for each Executive Committee meeting, and \$1,000 for each Audit, Compensation, and Nominating & Corporate Governance Committee meeting with a duration of thirty minutes or more.

Chairman Compensation for Board Service

Pursuant to a Board Service Agreement dated February 5, 2003 between the Company and its Chairman, Michael M. Tarnow, Mr. Tarnow is paid \$5,000 per month, or \$60,000 annually (increased to \$180,000 in 2009 in connection with his appointment as Executive Chairman as discussed below) for his services as Chairman. The Board Service Agreement also provided Mr. Tarnow with an option to purchase 250,000 shares of Common Stock, 25% of which were exercisable immediately and 25% of which become exercisable each year over the next three years. As of December 31, 2008, all such shares are vested and currently exercisable. Mr. Tarnow is also reimbursed for expenses in connection with his service as Chairman, including travel to and from Board meetings and receives the Annual Director Stock Option grants and the Annual Director Restricted Stock grants. See also “Corporate Governance — Director Independence.”

Director Compensation in Fiscal 2008

The table below summarizes the compensation paid by the Company to non-employee Directors during fiscal year ended December 31, 2008.

Name(1)	Fees	Stock	Option	Non-Equity	Nonqualified	All Other	Total
	Earned or Paid in Cash						
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Michael M. Tarnow	\$67,500	\$25,694	\$24,466	—	—	—	\$117,660
Donald S. Brooks	\$22,500	\$25,694	\$24,466	—	—	—	\$ 72,660
Dwight L. Bush	\$34,000	\$25,694	\$28,543	—	—	—	\$ 88,237
Jennie C. Hunter-Cevera, PhD	\$22,500	\$25,694	\$24,466	—	—	—	\$ 72,660
Peter S. Knight	\$15,500	\$46,250	\$28,543	—	—	—	\$ 90,293
Mark C. M. Randall	\$33,500	\$25,694	\$28,543	—	—	—	\$ 87,737
Ronald Cape, PhD(1)	\$ 2,500	\$18,333	\$13,066	—	—	—	\$ 33,899
James S. Burns(1)	\$ —	\$ —	\$ —	—	—	—	\$ —

(1) As part of his personal retirement plan, Ronald Cape resigned from the Board as of June 5, 2008. James S. Burns, the Company’s Chief Executive Officer and President during 2008 was an employee of the Company and thus received no compensation for his service as Director. Mr. Burns resigned from the Board of Directors as of December 12, 2008.

(2) As of December 31, 2008, each of the non-employee Directors has the following aggregate number of shares of restricted stock: Michael M. Tarnow: 95,102; Donald S. Brooks: 95,102; Dwight L. Bush: 95,102; Jennie C. Hunter-Cevera: 95,102; Peter S. Knight: 139,010; Mark C. M. Randall: 95,102; and Ronald Cape: 65,533.

(3) Reflects the dollar amount recognized for financial statements reporting purposes of the fiscal year ended 2008 in accordance with FAS 123R, and thus includes fair value amounts at date of grant from awards granted in and prior to 2008. Assumptions used in the calculation of this amount are included in footnote 8 to the Company’s audited financial statements for the fiscal year ended December 31, 2008 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 12, 2009. As of

December 31, 2008, each Director has the following number of stock options outstanding: Michael M. Tarnow: 460,000; Donald S. Brooks: 290,000; Dwight L. Bush: 225,000; Jennie C. Hunter-Cevera: 255,000; Peter S. Knight: 320,000; Mark C. M. Randall: 315,000 and Ronald Cape: 170,000.

Modifications to Director Compensation For 2009

As described above, the Company implemented a corporate restructuring in December 2008 which eliminated the offices of President & Chief Executive Officer; Chief Financial Officer; Senior Vice President, Research & Development; and Senior Vice President, Corporate & Business Development. In connection with the restructuring, the Board of Directors formed an Executive Committee to assist with the day-to-day activities of the Company and to act on behalf of the Board of Directors when needed. The Executive Committee consists of Michael M. Tarnow, Dwight L. Bush and Jennie Hunter-Cevera. The Executive Committee meets regularly (currently, biweekly) with senior management to discuss Company affairs. In addition, Mr. Tarnow was appointed Executive Chairman. As part of the restructuring of the Board and in order to reflect the deeper involvement from the members of the Executive Committee, the following was approved for fiscal 2009:

Additional Compensation for Executive Chairman. As Executive Chairman and to reflect his unusually active role in the Company, Mr. Tarnow's meeting fee for Board and committee meetings was increased from \$1,500 to \$2,500 for fiscal 2009. In addition, his annual board services fee was increased from \$60,000 to \$180,000 for fiscal 2009.

Meeting Fee for Special Board Meetings and Executive Committee Meetings. Except as provided for Mr. Tarnow, all members of the Board will receive a meeting fee of \$1,500 for each special Board meeting in fiscal 2009 and members of the Executive Committee will receive a meeting fee of \$1,500 for each Executive Committee Meeting.

Annual Cash Retainer for Chair of Audit Committee. To reflect the more active role of the Chair of the Audit Committee in managing external relationships and providing financial guidance to management, the annual cash retainer was increased from \$7,500 to \$10,000 for fiscal 2009.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the 1934 Securities and Exchange Act (the "1934 Act") requires the Company's executive officers, directors and persons who beneficially own more than 10% of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Such executive officers, directors, and greater than 10% beneficial owners are required by SEC regulation to furnish the Company with copies of all Section 16(a) reports filed by such reporting persons.

Based solely on our review of such forms furnished to the Company and written representations from certain reporting persons, we believe that all filing requirements applicable to our executive officers, directors and greater than 10% beneficial owners were complied with during fiscal 2008.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We review all relationships and transactions in which the Company and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. The Company's senior management is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions, if any, that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company's proxy statement. In addition, the Board reviews and approves or ratifies any related person transaction that is required to be disclosed. Pursuant to the Board's unwritten policy, in the course of its review and approval or ratification of a disclosable related party transaction, the Board considers the nature of the

related person's interest in the transaction, the material terms of the transaction, and any other matters the committee deems appropriate.

Any member of the Board who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting of the committee that considers the transaction.

Other than compensation agreements and other arrangements which are described in "Compensation Discussion & Analysis," in 2008, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed \$120,000 and in which any director, executive officer, holder of five percent or more of any class of our capital stock or any member of their immediate family had or will have a direct or indirect material interest.

PROPOSAL 3 RATIFICATION OF INDEPENDENT AUDITORS

The Board of Directors recommends a vote **FOR** the ratification of the appointment of Ernst & Young LLP, Certified Public Accountants, as the Company's independent auditors for the fiscal year ending December 31, 2009 ("fiscal 2009"). Ernst & Young LLP have been the Company's auditors for the past fiscal year and have been engaged for the year ending December 31, 2009. Ernst & Young LLP has been engaged as the Company's independent auditor since their initial offering in 1996. Ernst & Young LLP has no direct or indirect financial interest in the Company. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting with the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Although the Company is not required to submit the ratification of the selection of its independent registered public accounting firm to a vote of stockholders, the Audit Committee believes that it is good corporate governance and sound policy to do so. If the stockholders fail to ratify the appointment of Ernst & Young LLP, the Audit Committee will reconsider whether or not to retain the firm. If the selection of independent registered public accounting firm is ratified, the Audit Committee, in its discretion, may nevertheless select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

Vote Required For Approval

The affirmative vote of a majority of the total votes cast by the stockholders present at the meeting, in person or by proxy, and entitled to vote on this proposal is necessary for approval of the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the current year. If you submit a proxy without direction as to a vote on this matter, the proxy will be voted "FOR" this proposal. Abstentions will have the effect of a vote against this proposal. Broker non-votes will not be treated as votes cast and will have no effect on the outcome of the vote on this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2009.

MATTERS CONCERNING OUR INDEPENDENT AUDITORS

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audits of the Company's annual financial statements for the years ended December 31, 2008 and December 31, 2007, and fees for other services rendered by Ernst & Young during those periods.

	<u>2008</u>	<u>2007</u>
Audit fees	\$397,000	\$480,000
Audit-related fees	—	10,700
Tax fees	<u>35,000</u>	<u>37,750</u>
Total	<u>\$432,000</u>	<u>\$528,450</u>

Services rendered by Ernst & Young in connection with fees presented above were as follows:

Audit Fees

The Company incurred from Ernst & Young audit fees of \$366,000 in fiscal 2008 and \$345,000 in fiscal 2007, covering professional services rendered for (1) the audit of the Company's annual financial statements and the auditor's review of the internal control over financial reporting included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and 2007 and (2) the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q for the first three quarters of 2008 and 2007.

The Company incurred from Ernst & Young audit fees of \$31,000 in fiscal 2008 and \$105,000 in fiscal 2007 for fees related to SEC filings, including comfort letters and issuances of consents.

The Company incurred from Ernst & Young audit fees of \$30,000 in fiscal 2007 for fees related to accounting consultations on matters addressed during the audit or interim reviews. The Company did not incur fees in fiscal 2008 related to accounting consultations.

Audit-Related Fees

The Company incurred from Ernst & Young audit-related fees of \$10,700 in fiscal 2007. The Company did not incur audit-related fees in fiscal 2008.

Tax Fees

The Company incurred from Ernst & Young tax fees of \$35,000 in fiscal 2008 and \$37,750 in fiscal 2007 for tax compliance services, including preparation of tax returns.

All Other Fees

The Company did not incur any other fees from Ernst & Young in fiscal 2008 or in fiscal 2007.

The Audit Committee has considered the compatibility of non-audit services with the auditor's independence. The Audit Committee pre-approves all audit and permissible non-audit services provided by our independent auditors in accordance with the Audit Committee's pre-approval policy for audit and non-audit services.

REPORT OF THE AUDIT COMMITTEE

The Board of Directors of the Company has appointed an Audit Committee composed of three directors, Messrs. Bush (chairman), Knight and Randall, each of whom is independent under NASDAQ listing standards, as applicable and as may be modified or supplemented.

The Board of Directors has adopted a written charter for the Audit Committee. A copy of that Charter is available on our website at www.entremed.com. The Audit Committee's job is one of oversight as set forth in its Charter. It is not the duty of the Audit Committee to prepare the Company's financial statements, to plan or conduct audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. The Company's management is responsible for preparing the Company's financial statements and for maintaining internal control. The independent auditors are responsible for auditing the financial statements and for expressing an opinion as to whether those audited financial statements fairly present the financial position, results of operations, and cash flows to the Company in conformity with generally accepted accounting principles.

The Audit Committee has reviewed and discussed the Company's audited consolidated financial statements with management and with Ernst & Young LLP, the Company's independent auditors for 2008.

The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, including internal control over financial reporting, and the overall quality of the Company's financial reporting.

The Audit Committee has discussed with Ernst & Young LLP the matters required to be discussed by Statement on Accounting Standards No. 61.

The Audit Committee also has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Ernst & Young LLP's communications with the Audit Committee concerning independence, and has discussed with Ernst & Young LLP its independence.

Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the SEC.

By the Audit Committee:

Dwight L. Bush, Chairman
Mark C.M. Randall
Peter S. Knight

GENERAL

Management of the Company does not know of any matters other than those stated in this Proxy Statement that are to be presented for action at the Annual Meeting. If any other matters should properly come before the Annual Meeting, it is intended that proxies in the accompanying form will be voted on any such other matters in accordance with the judgment of the persons voting such proxies. Discretionary authority to vote on such matters is conferred by such proxies upon the persons voting them.

The Company will bear the cost of preparing, printing, assembling, and mailing the proxy, Proxy Statement and other material that may be sent to stockholders in connection with this solicitation. It is contemplated that brokerage houses will forward the proxy materials to beneficial owners at the request of the Company. In addition to the solicitation of proxies by use of the mails, officers and regular employees of the Company may solicit proxies by telephone without additional compensation. The Company does not expect to pay any compensation for the solicitation of proxies.

EntreMed's Annual Report on Form 10-K for the year ended December 31, 2008 (without exhibits), is being forwarded to each shareholder with this proxy statement. This Proxy Statement and our Annual Report are also available for reviewing, printing and downloading at www.entremed.com. The exhibits to the 10-K, which are listed on the Exhibit Index in Part IV of the Annual Report on Form 10-K, are available upon written request to the company and upon payment of the nominal fees associated with copying and mailing such exhibits. All such requests should be directed to Investor Relations, EntreMed, Inc., 9640 Medical Center Drive, Rockville, Maryland 20850.

STOCKHOLDER PROPOSALS

The Annual Meeting of stockholders for the fiscal year ending December 31, 2009 is expected to be held in June 2010 (the "Next Annual Meeting"). Pursuant to the proxy rules, all proposals intended to be presented at the Next Annual Meeting must be received at the Company's executive offices, which are located at 9640 Medical Center Drive, Rockville, Maryland 20850, Attention: Corporate Secretary, no later than December 31, 2009, to receive consideration for inclusion in the Proxy Statement and form of proxy related to that meeting.

Stockholders who do not wish to follow the SEC rules in proposing a matter for action at the 2010 annual meeting of stockholders must notify the Company in writing of the information required by our amended and restated bylaws dealing with stockholder proposals. The notice must be delivered to the Company's Secretary not later than the close of business on March 1, 2010 nor earlier than January 31, 2010. As to all such matters which the Company does not have notice on or prior to that date, discretionary authority to vote on such proposal shall be granted to the persons designated in the Company's proxy related to the Next Annual Meeting.

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By Order of the Board of Directors,

Michael M. Tarnow
Executive Chairman

April 29, 2009