NAVIDEA BIOPHARMACEUTICALS, INC.
Form PREM14A
December 05, 2016

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under §240.14a-12

NAVIDEA BIOPHARMACEUTICALS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.
x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:
Not applicable

(2) Aggregate number of securities to which transaction applies:
Not applicable

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
Not applicable

(3) Proposed maximum aggregate value of transaction:
$100,100,000

(4) Total fee paid:
$11,601.59

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:
(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

SPECIAL MEETING OF STOCKHOLDERS

__________________, 2016

Dear Stockholder:

You are cordially invited to attend a Special Meeting of Stockholders of Navidea Biopharmaceuticals, Inc., which will be held at 9:00 a.m., Eastern Standard Time, on ______________, 2017, at ____________________. The matters on the meeting agenda are described in the Notice of Special Meeting of Stockholders and proxy statement which accompany this letter.

We hope you will be able to attend the meeting, but regardless of your plans, we ask that you please complete, sign, and date the enclosed proxy card and return it in the envelope provided, or follow the instructions on the proxy card to vote online or by telephone, so that your shares will be represented at the meeting.

Very truly yours,

/s/ Michael M. Goldberg, M.D.

Michael M. Goldberg, M.D.
President and Chief Executive Officer

NAVIDEA BIOPHARMACEUTICALS, INC.

5600 Blazer Parkway, Suite 200

Dublin, Ohio 43017

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of

NAVIDEA BIOPHARMACEUTICALS, INC.:

A Special Meeting of the Stockholders of Navidea Biopharmaceuticals, Inc., a Delaware corporation (the "Company" or "Navidea"), will be held at ____________________, __________, on ________________, 2017, at 9:00 a.m., Eastern Standard Time, for the following purposes:

1. To authorize the sale (the "Asset Sale") by Navidea of its assets used in connection with Navidea's Lymphoseek® business in North America, as defined in and pursuant to the Asset Purchase Agreement, dated as of November 23, 2016, by and between Navidea and Cardinal Health 414, LLC, as more fully described in the enclosed proxy statement;

2. To approve the Navidea Biopharmaceuticals, Inc. 2016 Stock Incentive Plan;

3. To adjourn the Special Meeting to a later date, if necessary or appropriate, to allow for the solicitation of additional proxies in favor of the proposal to approve the Asset Sale if there are insufficient votes to approve the Asset Sale; and

4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on ______________, 2016, as the record date for the determination of stockholders entitled to notice of and to vote at the Special Meeting and any adjournment thereof. A list of stockholders will be available for examination by any stockholder at the Special Meeting and for a period of 10 days before the Special Meeting at the executive offices of the Company.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders to be Held on _____________, 2017: The proxy statement is available at www.proxyvote.com.

Whether or not you plan to attend the Special Meeting, please complete, sign, and date the enclosed proxy card and return it in the envelope provided, or follow the instructions on the proxy card to take advantage of the opportunity to vote your proxy online or by telephone.

By Order of the Board of Directors

/s/ Michael M. Goldberg, M.D.

Michael M. Goldberg, M.D.
President and Chief Executive Officer

Dublin, Ohio

________________________, 2016

PROXY STATEMENT FOR

SPECIAL MEETING OF STOCKHOLDERS

TABLE OF CONTENTS

Appendices

NAVIDEA BIOPHARMACEUTICALS, INC.

5600 Blazer Parkway, Suite 200

Dublin, Ohio 43017

SPECIAL MEETING OF STOCKHOLDERS

[DATE], 2017

PROXY STATEMENT

Dated __________________, 2016

INTRODUCTION

This proxy statement is being furnished to the holders of common stock, $0.001 par value per share ("Common Stock"), of Navidea Biopharmaceuticals, Inc., a Delaware corporation, in connection with the solicitation of proxies for use at a Special Meeting of Stockholders to be held at 9:00 a.m., Eastern Standard Time, on _______________, 2017, at ____________________, and at any adjournment of that meeting. This proxy statement is first being mailed to stockholders on or about ________________, 2016.

In this proxy statement the terms "Navidea," "Company," "we," "our," "ours," and "us" refer to Navidea Biopharmaceuticals, I and its subsidiaries. The term "Asset Purchase Agreement" refers to the Asset Purchase Agreement, dated as of November 23, 2016, by and between the Company and Cardinal Health 414, LLC, as it may be amended, restated, modified or superseded from time to time in accordance with its terms. The terms "Lymphoseek" and the "Product" refer to the Company's radioactive diagnostic agent marketed under the Lymphoseek® trademark for current approved indications by the FDA and similar indications approved by the FDA in the future. The Company develops, manufactures and commercializes a product used for (1) lymphatic mapping, (2) lymph node biopsy, and (3) the diagnosis of metastatic spread to lymph nodes for the staging of cancer (the "Business"), including the Product. The term "Asset Sale" refers to the proposed sale of the assets of the Company used, held for use or intended to be used in connection with the operation of the Business in Canada, Mexico and the United States (including their respective territories and possessions) (the "Territory"), as contemplated by the Asset Purchase Agreement. The term "Cardinal" refers to Cardinal Health 414, LLC, a wholly-owned subsidiary of Cardinal Health, Inc. ("Cardinal Health"), an Ohio corporation with common stock listed on the New York Stock Exchange under the symbol "CAH." Each of Navidea and Cardinal are sometimes referred to in this proxy statement as a party, or collectively as the parties.

SUMMARY

This summary highlights selected information contained in this proxy statement and does not contain all of the information that may be important to you. We urge you to read carefully this proxy statement in its entirety, as well as the appendices. For your convenience, we have included cross references to direct you to a more complete description of the topics described in this summary. Additional, important information is also contained in the documents incorporated by reference into this proxy statement; see the section entitled "Where You Can Find More Information; Incorporation by Reference."

The Asset Sale (page 20)

- On November 23, 2016, the members of our Board of Directors adopted and unanimously approved the Asset Sale pursuant to the Asset Purchase Agreement, a copy of which is included as *Appendix A* to this proxy statement. Please read it carefully. Pursuant to the terms of the Asset Purchase Agreement, among other things:

- we agreed to sell all of our assets used, held for use, or intended to be used in operating the Business in the Territory (giving effect to the license-back described below and excluding certain assets specifically retained by the Company), such assets consisting primarily of, without limitation, (i) intellectual property used in or reasonably necessary for the conduct of the Business, (ii) inventory of, and certain customer, distribution, and product manufacturing agreements related to, the Business, (iii) all product registrations related to the Product, including the new drug application approved by the U.S. Food and Drug Administration ("FDA") for the Product and all regulatory submissions in the United States that have been made with respect to the Product and all Health Canada regulatory submissions and, in each case, all files and records related thereto, (iv) all related clinical trials and clinical trial authorizations and all files and records related thereto; and (v) all right, title and interest in and to the Product (collectively, the "Acquired Assets").

- in exchange for the Acquired Assets, Cardinal agreed to: (i) make a cash payment to us at closing of $80,000,000 (reduced by an aggregate of approximately $64.5 million of indebtedness to be repaid to Capital Royalty Partners II, L.P. ("CRG") and Platinum-Montaur Life Sciences LLC and its affiliates ("Platinum") on behalf of the Company, the amount by which, if any, transferred Product inventory is less than $6 million, and estimated transaction costs of $600,000); (ii) assume certain liabilities of the Company associated with the Product as specified in the Asset Purchase Agreement; and (iii) make periodic earnout payments (to consist of contingent payments and milestone payments which, if paid, will be treated as additional purchase price) to us based on the "Net Sales" derived from the purchased Product, subject, in each case, to Cardinal's right to off-set. In no event shall the sum of all earnout payments, as further described below, exceed an aggregate of $230 million. "Net Sales" is defined as gross amounts invoiced to third parties for the Product sold or leased in the Territory for current approved indications by the FDA and similar indications approved by the FDA in the future by Cardinal, its licensees, sublicensees and affiliates, or in any combination thereof (other than the Company and its sublicensees and affiliates), less the sum of the following actual and customary deductions where applicable and separately listed: cash, trade, or quantity discounts or rebates (as allowed under applicable law); sales tax, use tax, tariff, import/export duties or other excise taxes imposed on particular sales (except for value-added and income taxes imposed on the sales of Product in foreign countries); credits to customers because of rejections or returns, or transfers of Product without charge for charitable, promotional, non-clinical, clinical research or regulatory purposes. For purposes of calculating Net Sales, transfers to Cardinal's licensees, sublicensees or affiliates (other than the Company and its sublicensees and affiliates) of Product without an invoice for (i) end use (but not resale) by such licensee, sublicensee or affiliate shall be treated as sales by Cardinal at Cardinal's list price for the Product or (ii) resale by such licensee, sublicensee or affiliate shall be treated as sales at the list price of such sublicensee or affiliate.

- during the period commencing on the date of closing of the Asset Sale and ending on the earlier of (i) June 30, 2026 or (ii) such time as $160,000,000 in contingent payments have been earned by the Company (the "Contingent Payment Period"), Cardinal will pay to the Company contingent payments in an amount equal to eight percent of the Net Sales for each measuring year, or each fiscal year ending June 30th through and including June 30, 2026; provided that the first measuring year shall be from the closing of the Asset Sale through and including June 30, 2017. In the case of contingent payments to be made with respect to the first three measuring years during the Contingent Payment Period, Cardinal will make such payments on a quarterly basis (equal to the greater of (a) eight percent of Net Sales during the applicable fiscal quarter, or (b) $1,675,000) to the Company within 30 days following the end of each fiscal quarter during the applicable measuring year. Notwithstanding the foregoing, with respect to the first measuring year, the minimum contingent payment will be pro rated based on a fraction, the numerator of which equals the number of days elapsed between the closing of the Asset Sale through and including June 30, 2017 and the denominator of which equals 365, and, to the extent such pro ration results in the Company receiving less than the minimum contingent payment for such first measuring period, Cardinal will pay the Company a "catch-up contingent payment" in an amount equal to the difference between what the Company received and the minimum contingent payment for such first measuring period within 30 days following the end of the second fiscal quarter of the fourth measuring year. Notwithstanding the foregoing, if the contingent payment in any of the first three measuring years would be less than $6.7 million (as pro rated for the first measuring year) based upon the calculation of Net Sales, then the contingent payment to the Company for the applicable measuring year will be deemed to be $6.7 million (as pro rated for the first measuring year) (each such contingent payment during the first three measuring years and the catch up contingent payment, collectively being the "guaranteed payments"), subject to Cardinal's right to off-set the difference between $6.7 million and the amount that would have otherwise been payable in the absence of this minimum threshold against any future earnout payments that are not guaranteed. In no event will the sum of all contingent payments exceed $160,000,000 (of which $20,100,000 are guaranteed payments), subject, in each case, to Cardinal's right to off-set.

4

- during the Contingent Payment Period, subject to Cardinal's right to off-set, Cardinal will pay to the Company the following additional milestone payments upon the achievement by or on behalf of Cardinal of the following milestone events:

  - $10,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $100,000,000;
  - $15,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $200,000,000;
  - $20,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $300,000,000;
  - $25,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $400,000,000.

In no event will the aggregate of all such milestone payments exceed $70,000,000, provided, however, that more than one milestone payment can be earned in the same fiscal year.

- As part of the Asset Sale, the parties have agreed that simultaneous with the closing, subject to certain conditions, Cardinal will enter into a license-back agreement, a "License Back," with the Company pursuant to which Cardinal will grant to the Company a sublicensable (subject to conditions) and royalty-free license to use certain intellectual property rights included in the Acquired Assets and owned by Cardinal as of the closing of the Asset Sale to the extent necessary for the Company to (i) on an exclusive basis, subject to certain conditions, develop, manufacture, market, sell and distribute new pharmaceutical and other products that are not Competing Products (as defined below), and (ii) on a non-exclusive basis, develop, manufacture, market, sell and distribute the Product throughout the world other than in the Territory. As used in the License-Back, a "Competing Product" is any pharmaceutical or other product that: (i) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (a) lymphatic mapping or (b) identifying the existence, location or staging of cancer in a body; (ii) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product; or (iii) is marketed for unapproved uses that allow such product to compete with the Product. Subject to the Company's compliance with certain restrictions in the License-Back, the License-Back also restricts Cardinal from using the intellectual property rights included in the Acquired Assets to develop, manufacture, market, sell or distribute any product other than the Product or other product that (a) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (1) lymphatic mapping or (2) identifying the existence, location or staging of cancer in a body, or (b) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product. Pursuant to the License-Back and subject to rights under existing agreements, Cardinal will be provided with a right of first offer to market, sell and/or market any new products developed from the intellectual property rights licensed by Cardinal to the Company by the License-Back.

- Also as part of the Asset Sale, the Company shall grant to Cardinal a five (5) year warrant to purchase up to 10 million shares of the Company's Common Stock at an exercise price of $1.50 per share, which warrant is subject to anti-dilution and other customary terms and conditions.

- If all necessary approvals have been obtained or waived, including stockholder approval and any third party consents to the Asset Sale, we expect to complete the Asset Sale shortly after this Special Meeting scheduled for ______________, 2017.

5

Parties to the Asset Sale (page 20)

- *Navidea Biopharmaceuticals, Inc.* is a biopharmaceutical company focused on the development and commercialization of precision immunodiagnostic agents and immunotherapeutics. Navidea is developing multiple precision-targeted products based on our Manocept™ platform to help identify the sites and pathways of undetected disease and enable better diagnostic accuracy, clinical decision-making, targeted treatment and, ultimately, patient care. Navidea's Manocept platform is predicated on the ability to specifically target the CD206 mannose receptor expressed on activated macrophages. The Manocept platform serves as the molecular backbone of the Product (technetium Tc 99m tilmanocept), the first product developed and commercialized by Navidea based on the platform. After consummation of the Asset Sale, Navidea intends to distribute the Product in Europe, where the Product received European approval in imaging and intraoperative detection of sentinel lymph nodes in patients with melanoma, breast cancer or localized squamous cell carcinoma of the oral cavity. Navidea also intends to continue developing its remaining candidates using the Manocept platform.

- *Cardinal Health, 414, LLC* is a wholly-owned subsidiary of Cardinal Health, a global integrated healthcare services and products company providing customized solutions for hospital systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices worldwide. Cardinal is the exclusive distributor of the Product in the United States.

Reasons for the Asset Sale (page 23)

- In arriving at its determination that the Asset Sale is advisable to, and in the best interests of, the Company and our stockholders, our Board of Directors considered various factors, including without limitation, the need to pay off or refinance the Company's outstanding debt obligations to CRG, as discussed below. For the material factors considered by our Board of Directors in reaching its decision to adopt and approve the Asset Sale and the Asset Purchase Agreement, see "The Asset Sale—Reasons for the Asset Sale," beginning on page 23.

Risk Factors (page 14)

- In evaluating the Asset Sale and Asset Purchase Agreement, you should carefully read this proxy statement and especially consider the factors discussed in the section entitled "Risk Factors" beginning on page 14 of this proxy statement.

Post-Closing Business and Proceeds from the Asset Sale (page 25)

- If the Asset Sale is approved by our stockholders and the other conditions to the closing of the Asset Sale are satisfied or waived, Cardinal will acquire the Acquired Assets. We will retain all of our other assets and maintain a license to sell the Product outside of the Territory pursuant to the License-Back as a means to grow our revenues following the Asset Sale. We will also retain all debts and liabilities of the Company not assumed by Cardinal pursuant to the Asset Purchase Agreement.

- We intend to use the initial cash proceeds payable at closing of the Asset Sale to pay off our debt to CRG and Platinum in the aggregate amount of approximately $64.5 million and for transaction costs associated with the Asset Sale. Any proceeds remaining, together with guaranteed payments of $20.1 million payable to us during the three years following closing, may be used, at the discretion of our Board of Directors, to fund future business activities and for general working capital purposes.

- If the Asset Sale is not approved by the holders of a majority of our outstanding shares of Common Stock, then Cardinal or Navidea may terminate the Asset Purchase Agreement and, among other things, we will not be able to repay our debt to CRG or Platinum. In such instance, our Board of Directors and management will be required to reassess our options in light of our long-term strategic goals. Our Board of Directors and management will also need to focus on our ability to generate sufficient cash flow to sustain our operations and obtain alternative financing to pay off or refinance the CRG debt and the Platinum debt, which financing alternatives have, to date, been unsuccessful or not on terms as favorable to our stockholders as the Asset Sale.

Recommendation of Our Board of Directors (page 26)

- After careful consideration, our Board of Directors unanimously determined the Asset Sale to be advisable and in the best interests of the Company and our stockholders, and unanimously recommends to our stockholders that the Asset Sale be adopted and approved by our stockholders.

Other Agreements and Transactions Related to the Asset Sale (page 26)

- In addition to the Asset Purchase Agreement, we intend to enter into a number of related agreements with Cardinal, including, without limitation, the License-Back and a transition services agreement pursuant to which we shall provide certain transitional, administrative and support services to Cardinal on a short-term basis.

- Under the Asset Purchase Agreement, we are required to amend and restate our license agreement with The Regents of the University of California (San Diego) ("UCSD") pursuant to which UCSD grants a license to us to exploit certain intellectual property rights owned by UCSD and Cardinal will separately enter into a license agreement with UCSD pursuant to which UCSD will grant a license to Cardinal to exploit certain intellectual property rights owned by UCSD for Cardinal to sell the Product in North America.

- The Company shall grant to UCSD a five (5)-year warrant to purchase up to 1 million shares of the Company's Common Stock at an exercise price of $1.50 per share, which warrant is subject to anti-dilution and other customary terms and conditions.

Appraisal Rights (page 27)

- You will not experience any change in your rights as a stockholder as a result of the Asset Sale. Delaware law, our certificate of incorporation, and our bylaws do not provide for appraisal or other similar rights for dissenting stockholders in connection with the Asset Sale, and we are not independently providing stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Asset Sale.

Material U.S. Federal, State and Local Income Tax Consequences (page 27)

- The Asset Sale will not result in any material U.S. federal, state or local income tax consequences to our stockholders. The transaction will be a taxable event to us for U.S. federal, state and local income tax purposes, but we anticipate that a portion of the taxable gain for U.S. federal, state and local income tax purposes resulting from the Asset Sale will be offset by net operating losses and tax credits. For a complete description of the material tax consequences of the Asset Sale to Navidea, you are urged to read the discussion under the section entitled "Material U.S. Federal, State and Local Income Tax Consequences," beginning on page 27 and to consult your tax advisor as to the United States federal income tax consequences of the Asset Sale, as well as the effects of state, local and foreign tax laws.

Regulatory Matters (Page 27)

- We do not believe that the Asset Sale is subject to the reporting and waiting requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Cardinal is subject to the terms of the Final Order and Stipulated Permanent Injunction entered by the U.S. District Court for the Southern District of New York on April 23, 2015 in Federal Trade Commission v. Cardinal Health, Inc. (Civ. No. 15-CV-3031(ER)) (the “FTC Order”), and a condition to Cardinal’s obligation to close the Asset Sale is that the waiting period (and any extension thereof) under such order will have expired or will have been terminated or otherwise determined to be inapplicable.

- Except as set forth above, we are not aware of any other material regulatory consents that are required in connection with the Asset Sale.

Covenants and Agreements (page 33)

- The parties have agreed to certain covenants, including, without limitation, covenants requiring that:

- the Company preserve the present business operations, organization and goodwill of the Business and preserve present relationships with customers, suppliers and employees of the Business until the closing of the Asset Sale;

- the Company continue to operate its Business generally in the ordinary course until the closing of the Asset Sale;

- the Company not initiate, solicit, facilitate, or encourage alternative acquisition proposals involving the Acquired Assets or the sale of the Company as a whole, or provide information or engage in discussions with third parties in connection with any such acquisition proposal; and

- from and after the closing date of the Asset Sale, the Company shall cease to make use of the name “Lymphoseek” and certain of our similar trade names and trademarks.

Covenant Not to Compete (page 34)

- Under the Asset Purchase Agreement, we have also agreed, subject to certain exceptions, that for five years following the closing of the Asset Sale, the Company will not, either directly or indirectly, engage in any business that competes with the Business (including marketing any products for unapproved uses that allow such products to compete with the Product) in the Territory.

- Pursuant to the License-Back, and subject to the Company's compliance with certain restrictions in the License-Back, Cardinal will not use the intellectual property rights included in the Acquired Assets to develop, manufacture, market, sell or distribute any product other than the Product or any other product that (a) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (i) lymphatic mapping or (ii) identifying the existence, location or staging of cancer in a body, or (b) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product.

- Under the Asset Purchase Agreement, each of Cardinal and Navidea covenant to use its good faith, commercially reasonable efforts to ensure that all labeling with respect to the products manufactured by or for the benefit of such party, for a period of five years following the closing of the Asset Sale, shall not suggest that users thereof may use such products in any manner (such as promoting "off-label" use) that would violate the restrictions of such party set forth in the Asset Purchase Agreement (with respect to Navidea) or the License-Back Agreement (with respect to Cardinal).

Termination of Supply and Distribution Agreement (page 34)

- The Supply and Distribution Agreement, dated November 15, 2007 (as amended, the "Supply and Distribution Agreement"), between Cardinal and the Company will be terminated as of the closing of the Asset Sale and that the provisions thereof shall be of no further force or effect from and after the closing of the Asset Sale (other than any indemnification, notification or data sharing obligations which shall survive the termination).

Conditions to Completion of the Asset Sale (page 35)

- Before we can complete the Asset Sale, a number of conditions must be satisfied or waived by the appropriate party. These include, among other things:

  - the receipt of our stockholders' approval;

- all filings with governmental authorities, if any, shall have been made and any necessary authorizations, consents or approvals required from such authorities shall have been obtained;

- If any notification is required by the Hart-Scott Rodino Act, the waiting period (and any extension thereof) under such act shall have expired or will have been terminated;

- the absence of any valid order, statute, rule, regulation, executive order, stay, decree, judgment or injunction which prohibits or prevents the consummation of the Asset Sale; and

    - The amended and restated license agreement between UCSD and the Company, and the license agreement between UCSD and Cardinal, shall each have been executed by the respective parties.

- In addition, the obligations of Cardinal to complete the Asset Sale are subject to the satisfaction by us or waiver by Cardinal of conditions, including the following:

- Our fundamental representations and warranties set forth in the Asset Purchase Agreement shall be true and correct in all material respects as of the date of execution of the Asset Purchase Agreement and as of the closing date, and all other representations and warranties set forth therein shall be true and correct (without regard to any qualifications therein as to materiality or material adverse effect) as of the date of execution of the Asset Purchase Agreement and as of the Closing Date as though such representations and warranties were made as of the Closing Date (or as of the specific date referred to for any representation or warranty which specifically refers to an earlier date), except in each case for breaches or inaccuracies of such representations or warranties that, individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect;

8

- We shall have performed and complied in all material respects with all agreements contained in the Asset Purchase Agreement required to be performed or complied with prior to the closing of the Asset Sale;

- After the date of the Asset Purchase Agreement no Material Adverse Effect (as defined below under "Asset Purchase Agreement – Representations and Warranties") shall have occurred; and

- All investigations relating to the Field Alert Report submitted by Cardinal to the FDA on March 31, 2016 will have been completed and closed, and any flawed assay method that may be the root cause for the failure that led to the Field Alert Report will have been addressed to the satisfaction of Cardinal.

- Finally, our obligations to complete the Asset Sale are subject to the satisfaction by Cardinal or waiver by us of certain conditions, including the following:

- Cardinal's fundamental representations and warranties set forth in the Asset Purchase Agreement shall be true and correct in all material respects as of the date of execution of the Asset Purchase Agreement and as of the closing date, and all other representations and warranties set forth therein shall be true and correct (without regard to any qualifications therein as to materiality or material adverse effect) as of the date of execution of the Asset Purchase Agreement and as of the Closing Date as though such representations and warranties were made as of the Closing Date (or as of the specific date referred to for any representation or warranty which specifically refers to an earlier date), except in each case for breaches or inaccuracies of such representations or warranties that, individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on the ability of Cardinal to perform its obligations under the Asset Purchase Agreement or to consummate the transactions contemplated by such agreement; and

- Cardinal shall have performed and complied in all material respects with all agreements contained in the Asset Purchase Agreement required to be performed or complied with at or prior to the closing of the Asset Sale.

Termination (page 36)

- Under certain circumstances, the Asset Purchase Agreement may be terminated and the Asset Sale may be abandoned at any time prior to the closing, whether before or after approval of the Asset Sale by our stockholders. If the Asset Purchase Agreement is terminated, we may be responsible for payment of termination fees and/or reasonable out-of-pocket expenses, and/or be required to extend the term of the Supply and Distribution Agreement with Cardinal for an additional three-year period, as described below and in the section entitled "Asset Purchase Agreement – Termination Fees and Expenses."

Termination Fees; Expenses (page 37)

- If the Company terminates the Asset Purchase Agreement at any time prior to obtaining stockholder approval because the Company enters into another acquisition agreement providing for the implementation of transactions contemplated by a superior proposal, as defined in the Asset Purchase Agreement, or Cardinal terminates the Asset Purchase Agreement as a result of (i) the Company's board adversely changing its favorable recommendation that the Company's stockholders approve the Asset Sale, (ii) the Company failing to reconfirm its favorable recommendation of the Asset Sale in certain instances upon request by Cardinal, (iii) the Company or its Board of Directors making certain public disclosure with respect to any acquisition proposal other than the Asset Sale, or (iv) the Company breaching in any material respect any of its exclusivity obligations under the Asset Purchase Agreement, then the Company will be required to pay a termination fee of $3,000,000 to Cardinal and reimburse Cardinal for its reasonable out-of-pocket expenses, actually documented and incurred or payable by or on behalf of Cardinal in connection with or in anticipation of the Asset Sale and the agreements related thereto, including all attorney's fees, financial advisor's fees, accountants' fees and filing fees not to exceed $2,000,000 in the aggregate; provided, however, that if Cardinal elects to extend the Supply and Distribution Agreement pursuant to the terms of the Asset Purchase Agreement, the termination fee will not be paid and Cardinal will only be eligible to receive a reimbursement of expenses.

- In the event that the Asset Purchase Agreement is terminated pursuant to the termination provisions of the Asset Purchase Agreement and within twelve months after such termination, the Company accepts a written offer for, or otherwise enters into an agreement or consummates one or more transactions that, directly or indirectly, result in a sale, license or other transfer of the Business, the Product or all or substantially all of the Company or its assets to a third party, then the Supply and Distribution Agreement shall, subject to the applicable requirements of the FTC Order, be extended under the existing terms for a period of three years from its then-existing expiration date; provided, however, that if the parties are unable to extend the Supply and Distribution Agreement under the FTC Order due to the action of any governmental authority or for any other reason, Cardinal will be eligible to be paid the termination fee of $3,000,000.

- If the Asset Purchase Agreement is terminated by (i) Cardinal (so long as Cardinal is not then in material breach of the Asset Purchase Agreement) if a breach of the Asset Purchase Agreement by the Company results in or would result in certain conditions of the Asset Purchase Agreement not being satisfied and such breach cannot be cured or, if curable, remains uncured for a period of 30 days after the Company has received written notice from Cardinal of the occurrence of such breach (of, if earlier, the date of termination), and such conditions have not been waived by Cardinal, or (ii) either party if the Asset Sale is not approved by the stockholders, then the Company will reimburse Cardinal for its reasonable out-of-pocket expenses, actually documented and incurred or payable by or on behalf of Cardinal in connection with or in anticipation of the Asset Sale and the agreements related thereto, including all attorney's fees, financial advisor's fees, accountants' fees and filing fees not to exceed $2,000,000 in the aggregate. In addition, if prior to such termination there exists another proposal for the acquisition, merger, consolidation or other business combination involving the Product or the Company, and within twelve months after such termination the Company or its subsidiaries accepts a written offer for, or otherwise enters into an agreement to consummate or consummates, such other acquisition, merger, consolidation or other business combination involving the Product or the Company, then upon the signing of a definitive agreement related to any such transaction, or, if no such agreement is signed, then upon consummation of any such transaction, the Company will pay to Cardinal a $3,000,000 termination fee unless Cardinal elects to extend the Supply and Distribution Agreement in accordance with the Asset Purchase Agreement and such term is actually so extended.

QUESTIONS AND ANSWERS ABOUT THE ASSET SALE

The following questions and answers briefly address some commonly asked questions about the Asset Sale and the Asset Purchase Agreement. These questions and answers may not address all questions that may be important to you as a stockholder. You should still carefully read this entire proxy statement, including each of the appendices and the documents referred to or incorporated by reference in this proxy statement because the information in this section does not provide all the information that may be important to you as a stockholder of the Company with respect to the proposals.

The Asset Sale

Q: What is the proposed transaction?

A: The Asset Purchase Agreement provides for the sale of our assets used, held for use, or intended to be used in operating the Business in the Territory (giving effect to the license-back described below and excluding certain assets specifically retained by the Company), such assets consisting primarily of, without limitations (i) intellectual property used in or reasonably necessary for the conduct of the Business, (ii) inventory of, and certain customer, distribution, and product manufacturing agreements related to, our Product, (iii) the new drug application approved by the U.S. Food and Drug Administration for the Product and all files and records related thereto; and (iv) all right, title and interest in and to the Product, for: (i) a cash payment of $80,000,000 (reduced by an aggregate of approximately $64.5 million of indebtedness to be repaid to CRG and Platinum on behalf of the Company, the amount by which, if any, transferred Product inventory is less than $6 million, and estimated transaction costs of $600,000); (ii) the agreement of Cardinal to assume certain liabilities of the Company associated with the Product as specified in the Asset Purchase Agreement; and (iii) periodic earnout payments (to consist of contingent payments and milestone payments) to us based on the annual “Net Sales” derived from the purchased Product, subject to Cardinal’s right to off-set. As part of the Asset Sale, subject to certain conditions, Cardinal will enter into a license-back agreement with the Company pursuant to which Cardinal will grant to us a sublicensable (subject to conditions) and royalty-free license to use certain intellectual property rights included in the Acquired Assets and owned by Cardinal as of the closing of the Asset Sale to the extent necessary for the Company to (i) on an exclusive basis, subject to certain conditions, develop, manufacture, market, sell and distribute new pharmaceutical and other products that are not Competing Products, and (ii) on a non-exclusive basis, develop, manufacture, market, sell and distribute the Product throughout the world other than in the Territory. As used in the License-Back, a Competing Product is any pharmaceutical or other product that: (i) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (a) lymphatic mapping or (b) identifying the existence, location or staging of cancer in a body; (ii) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product; or (iii) is marketed for unapproved uses that allow such product to compete with the Product. Subject to the Company’s compliance with certain restrictions in the License-Back, the License-Back also restricts Cardinal from using the intellectual property rights included in the Acquired Assets to develop, manufacture, market, sell or distribute any product other than the Product or other product that (a) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (1) lymphatic mapping or (2) identifying the existence, location or staging of cancer in a body, or (b) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product. Pursuant to the License-Back, Cardinal will be provided with a right of first offer to market, sell and/or market any new products developed from the intellectual property rights licensed by Cardinal to the Company by the License-Back. Also as part of the Asset Sale, the Company shall grant to Cardinal a five (5)-year warrant to purchase up to 10 million shares of the Company’s common stock, par value $.001 per share, at an exercise price of $1.50 per share.

Q: Why are we asking for a stockholder vote?

A:

Stockholder approval of the Asset Sale is a condition to the closing of the Asset Sale under the terms of the Asset Purchase Agreement we negotiated with Cardinal.

Q: What is the purpose of the proposed transaction?

A: The Company and its subsidiary Macrophage Therapeutics, Inc. ("Macrophage"), as guarantor, are parties to a loan agreement with CRG and other lenders (the "CRG Loan Agreement") pursuant to which there is an aggregate amount of approximately $55 million outstanding owed to CRG. During April 2016, the Company received several notices from CRG which claimed that certain events of default had occurred under the CRG Loan Agreement and, as such, interest on the Company's debt to CRG would begin to accrue at a default rate at 18% per annum until paid. On May 31, 2016, CRG declared all of the Company's obligations under the CRG Loan Agreement and all other loan documents to be immediately due and payable. The Company disputes the amount claimed to be due and believes that CRG does not have the right to accelerate the loan. Furthermore, the Company believes that CRG's actions to accelerate the loan constitute a material breach of the CRG Loan Agreement and therefore, the Company is no longer subject to certain provisions of such agreement. This matter is currently being litigated in Harris County Court, Texas.

In addition, the Company's loan agreement with Platinum (the "Platinum Loan Agreement"), pursuant to which there is an aggregate amount of approximately $9.5 million outstanding, carries standard non-financial covenants typical for commercial loan agreements, many of which are similar to those contained in the CRG Loan Agreement, that impose significant requirements on the Company. The Company's ability to comply with these provisions may be affected by changes in our business condition or results of our operations, or other events beyond our control. The breach of any of these covenants would result in a default under the Platinum Loan Agreement, permitting Platinum to terminate our ability to obtain additional draws under the Platinum Loan Agreement and accelerate the maturity of the debt, subject to the limitations of a subordination agreement with CRG. Such actions by Platinum could materially adversely affect our operations, results of operations and financial condition, including causing us to substantially curtail our product development activities.

As a result of the foregoing, the Company believes the best course of action is to pay off its debt to CRG and Platinum and that the Asset Sale will provide the Company with the cash proceeds needed to do so. In addition, in connection with the Asset Sale, the $20.1 million of guaranteed payments (subject to Cardinal's right to off-set from such payments any indemnification obligations of the Company) paid to us during the first three years following the closing of the Asset Sale will provide the Company with needed financial liquidity and flexibility, and provide the Company with the opportunity to continue to operate its Remaining Businesses, as defined below, while pursuing other initiatives intended to increase stockholder value.

Q: What are the estimated net cash proceeds from the Asset Sale?

A: We currently estimate the net cash proceeds from the Asset Sale to be approximately $15 million after the payment of $55 million principal, accrued interest and fees to CRG, $9.5 million principal to Platinum, and estimated transaction costs of $600,000. This estimate assumes that the Asset Sale is completed by January 10, 2017, and does not include the potential additional $230 million in earnout payments (inclusive of contingent and milestone payments) available pursuant to the terms of the Asset Purchase Agreement, of which $20.1 million is guaranteed to be paid. The actual amount of net cash proceeds from the Asset Sale may vary from this estimate. In addition, this estimate does not include, and the actual amount of cash proceeds from the Asset Sale will be reduced by, among other things, continuing benefit costs for departing employees.

Q: How does Navidea plan to use the net cash proceeds from the Asset Sale?

A: We currently anticipate that we will use the majority of the initial net cash proceeds from the Asset Sale to pay off our indebtedness owed to CRG and Platinum. We anticipate that the balance from such proceeds, along with $20.1 million of guaranteed payments and any contingent payments under the Asset Purchase Agreement, will be used for working capital and general corporate purposes and to continue to invest in (i) Macrophage, our majority-owned subsidiary that was formed specifically to further explore immune-therapeutic applications for the Manocept platform; (ii) advancing our technology for the early diagnosis and disease monitoring for Cardiovascular diseases or "CVD," rheumatoid arthritis or "RA," along with other macrophage involved diseases; and (iii) the development, manufacture, and commercialization of the Product outside the Territory (hereinafter referred to collectively as the "Remaining Businesses"). We may also use proceeds from the Asset Sale for future acquisitions complementary to our Remaining Businesses; however, at this time no specific acquisition targets have been identified. If we have adequate working capital and establish adequate cash reserves without using all of our cash, and if we are unable to identify suitable acquisition targets that are appropriately valued, we will consider alternate uses of any excess cash in order to enhance stockholder value.

Q: When will the Asset Sale be consummated?

A: In the event the stockholders approve the Asset Sale and the Asset Purchase Agreement, we expect that the Asset Sale will close promptly following our Special Meeting. However, the consummation of the Asset Sale is contingent upon a number of closing conditions, including: (i) the absence of a material adverse effect on the Acquired Assets subject to the Asset Sale, the liabilities to be assumed by the Buyer, or the financial condition or results of operations attributed to the Product; (ii) the representations and warranties of the parties being true and correct at closing except as would not reasonably be expected to have a material adverse effect; (iii) there being no material breaches of the terms of the Asset Purchase Agreement; (iv) the absence of any litigation or other legal requirement prohibiting the consummation of the Asset Sale; (v) the receipt of certain third party consents; and (vi) certain other customary closing conditions.

Q: Will Navidea continue to be publicly traded following the Asset Sale? Will its NYSE MKT ticker symbol change?

A: The Company will continue to be a publicly traded company whether or not the Asset Sale closes so long as we continue to meet the requirements for continued listing under the rules and regulations of the United States Securities and Exchange Commission (the “SEC”) and the NYSE MKT. There can be no assurances in this regard. As long as we continue to trade publicly, we do not intend to change our NYSE MKT ticker symbol, and will remain “NAVB” whether or not the Asset Sale closes.

Q: What vote of our stockholders is required to adopt and approve the Asset Sale?

A: For us to complete the Asset Sale, stockholders holding at least a majority of the shares of our outstanding Common Stock at the close of business on the record date (_____________, 2016) must vote “FOR” the proposal adopting and approving the Asset Sale.

Q: What will happen if the Asset Sale is not approved by our stockholders?

A: If the Asset Sale is not approved by our stockholders, we will not complete the Asset Sale and the other transactions contemplated by the Asset Purchase Agreement. In that event, we will be unable to pay our existing debt to CRG and Platinum or to continue to operate the Company as we have been doing. Our Board of Directors will continue to evaluate strategic alternatives, but any such strategic alternatives previously identified have been unsuccessful and, in any event, have not been on terms as favorable to our stockholders as the Asset Sale. In addition, under the Asset Purchase Agreement, we would also be required to reimburse Cardinal an amount equal to reasonable out-of-pocket expenses, actually documented and incurred or payable by or on behalf of Cardinal in connection with or in anticipation of the Asset Sale and the agreements related thereto, including all attorney's fees, financial advisor's fees, accountants' fees and filing fees up to a maximum amount of $2,000,000 in the aggregate. Moreover, if, prior to such termination, there exists another proposal for the acquisition, merger, consolidation or other business combination involving the Product or the Company, and within twelve months after such termination the Company or its subsidiaries accepts a written offer for, or otherwise enters into an agreement to consummate or consummates, such other acquisition, merger, consolidation or other business combination involving the Product or the Company, then upon signing of a definitive agreement relating to such transaction, or, if no such agreement is signed, then upon consummation of any such transaction, the Company will pay to Cardinal a termination fee of $3,000,000 unless Cardinal elects to extend the term of the Supply and Distribution Agreement and such term is actually so extended.

Q: Who will solicit and pay the cost of soliciting proxies?

A: All expenses in connection with this solicitation of proxies will be paid by us. Proxies will be solicited principally by mail, but directors, officers and certain other individuals authorized by us may personally solicit proxies.

Q: Who can help answer any other questions I might have?

A: If you have additional questions about the Asset Sale or need assistance in submitting your proxy or voting your shares of our Common Stock, please contact Laurel Hill Advisory Group, 2 Robbins Lane, Suite 201, Jericho, NY 11753, our proxy solicitor. Banks and brokers may call (516) 933-3100; all others may call toll-free at (888) 742-1305. You can also refer to the section of this proxy statement entitled, "Where You Can Find More Information; Incorporation by Reference."

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement, and the documents to which we refer you to in this proxy statement, contain forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, including, among others, under the headings "Summary Term Sheet," "Questions and Answers About the Asset Sale," "Asset Sale," "The Asset Purchase Agreement," "Proposal No 1 – The Asset Sale and the Asset Purchase Agreement," and in statements containing the words “anticipates,” “believes,” “could,” “estimates,” “expects,” “intends,” “may,” “should,” “plans,” “targets” and/or simi expressions. Forward-looking statements also include the following: (1) statements containing projections of revenues, operating expenses, income (or loss), earnings (or loss) per share, capital expenditures, dividends, capital structure, and other financial items; (2) statements concerning the plans and objectives of the Company’s management for future operations, including plans or objectives relating to its products or services; (3) statements of future economic performance; (4) statements of the assumptions underlying or relating to any statement described in (1), (2), or (3); and (5) statements regarding the timing or completion of the Asset Sale. Actual results could differ materially from those predicted by these forward-looking statements.

You should be aware that forward-looking statements involve known and unknown risks and uncertainties as well as assumptions, among other things, about us and regulatory, clinical, economic and market factors, among others. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that the actual results or developments we anticipate will be realized, or even if realized, that they will have the expected effects on the business or operations of the Company. These forward-looking statements speak only as of the date on which the statements were made and we undertake no obligation to publicly update or revise any forward-looking statements made in this proxy statement or elsewhere as a result of new information, future developments or otherwise.

Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those contemplated by forward-looking statements. You should not place undue reliance on any forward-looking statements contained herein, which speak only as of the date of this proxy statement, or, in the case of documents referred to in this proxy statement, as of the respective dates of such documents. These and other factors are discussed in our current filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, and our subsequent SEC filings. In addition to other factors and matters contained in this document, we believe the following factors could cause actual results to differ materially from those discussed in the forward-looking statements:

- the failure to satisfy any of the conditions to complete the Asset Sale, including the receipt of the required stockholder approval;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Asset Purchase Agreement;
- the outcome of any legal proceedings instituted against us and others in connection with the CRG Loan Agreement or proposed Asset Sale;
- the failure of the Asset Sale to close for any other reason;
- the amount of the costs, fees, expenses and charges relating to the Asset Sale;
- business uncertainty and contractual restrictions prior to the Asset Sale close;
- the failure of Cardinal to maximize Net Sales of the Product in the Territory after the Asset Sale closing, and our earnout payments;
- competition generally and the increasingly competitive nature of our industry;
- stock price and interest rate volatility; and
- failure to operate our business successfully.

The foregoing list and the risks reflected in this proxy statement should not be construed to be exhaustive. Actual results or matters related to the Asset Sale could differ materially from the forward-looking statements contained in this proxy statement as a result of the timing of the completion of the Asset Sale or the impact of the Asset Sale on our results of operations, financial condition, cash flows, capital resources, profitability, cash requirements, management resources and liquidity. In view of these uncertainties, you should not place undue reliance on any forward-looking statements, which are based on our current expectations.

RISK FACTORS

You should consider carefully the risk factors described below and those risk factors generally associated with our business contained in our Annual Report on Form 10-K for the year ended December 31, 2015, and our subsequent SEC filings, along with other information provided to you in this proxy statement, in deciding how to vote on the proposal to approve the Asset Sale pursuant to the terms of the Asset Purchase Agreement. See “Where You Can Find More Information; Incorporation by Reference.”

The risk factors described below are not the only ones facing the Company. Additional considerations not presently known to us or that we currently believe are immaterial may also impair our business operations. If any of the following risk factors actually occur, our business, financial condition or results of operations could be materially adversely affected, the market price of our Common Stock may decline, and you may lose all or part of your investment.

If the Asset Sale is not completed or is delayed if the conditions to closing are not satisfied or waived, our business may be harmed.

The Asset Sale may not be completed or may be delayed because the conditions to closing, including approval of the Asset Sale by our stockholders and the absence of a material adverse effect before the closing, may not be satisfied or waived. If the Asset Sale is not completed for either of these reasons or any other reason, we will not have sufficient cash on hand to repay our outstanding indebtedness to CRG or Platinum because we intend to utilize a substantial portion of the initial cash proceeds from the Asset Sale for this purpose. As a result, CRG could foreclose on their security interest in substantially all our assets and Platinum could terminate our ability to obtain additional draws under the Platinum Loan Agreement and accelerate the maturity of the debt, subject to the limitations of the Company’s subordination agreement with CRG. As a result, the Company would not likely be able to continue as a going concern. In addition, if the Asset Sale is not completed, the Company will not be paid guaranteed payments of $20.1 million during the first three years following the closing of the Asset Sale as provided in the Asset Purchase Agreement, which payments are needed to provide the Company with financial liquidity and flexibility, and the opportunity to continue to operate its Remaining Businesses while pursuing other initiatives intended to increase stockholder value.

In addition, if we fail to complete the Asset Sale, we may have difficulty recouping the costs incurred in connection with negotiating the Asset Sale, our relationships with our customers, suppliers and employees may be damaged, and our business may be harmed. As a result of our announcement of the Asset Sale, third parties may be unwilling to enter into material agreements with respect to our Product. New or existing customers and business partners may prefer to enter into agreements with our competitors who have not expressed an intention to sell their business because customers and business partners may perceive that such new relationships are likely to be more stable. Employees working in areas of our business related to the Product may become concerned about the future of the business and lose focus or seek other employment. If we fail to complete the Asset Sale, the failure to maintain existing business relationships or enter into new ones could adversely affect our business, results of operations, and financial condition. If we fail to complete the Asset Sale, we will also retain the Product. The resultant potential for loss or disaffection of employees or customers could have a material, negative impact on the value of the Product.

Furthermore, if the Asset Sale is not consummated, our directors, executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the transaction, and we will have incurred significant third party transaction costs, in each case, without any commensurate benefit, which may have a material and adverse effect on our stock price and results of operations.

Failure to complete the Asset Sale may cause the market price for our Common Stock to decline.

If our stockholders fail to approve the Asset Sale, or if the Asset Sale is not completed for any other reason, the market price of our Common Stock may decline due to various potential consequences, including:

- we will not be able to repay $55 million of debt to CRG and $9.5 million of debt to Platinum;
- we may not be able to sell the Product or Business to another party on terms as favorable to us as the terms of the Asset Purchase Agreement;
- the failure to complete the Asset Sale may create substantial doubt as to our ability to effectively implement our current business strategies or continue as a going concern;
- our costs related to the Asset Sale, such as legal and accounting fees, must be paid even if the Asset Sale is not completed; and
- we will be obligated to reimburse Cardinal up to $2 million of expenses relating to the Asset Sale.

If the Asset Sale is not completed, we may explore other potential transactions, but the alternatives may be less favorable to us, and there can be no assurance that we will be able to complete an alternative transaction.

If the Asset Sale is not completed, we may explore other potential transactions, including a sale to another party on such terms as the Board of Directors may approve. The terms of an alternative transaction may be less favorable to us than the terms of the Asset Sale and there can be no assurance that we will be able to reach agreement with or complete an alternative transaction with another party.

The amount of net proceeds that we will receive from the Asset Sale is subject to uncertainties.

Pursuant to the Asset Purchase Agreement, the amount that we receive from the Buyer is subject to the possibility of reduction by virtue of a purchase price adjustment described below under "The Asset Purchase Agreement—General." The amount of net proceeds is subject to further reduction after the closing if the Buyer successfully asserts claims for indemnification pursuant to the indemnification provisions of the Asset Purchase Agreement. See "The Asset Purchase Agreement—Indemnification." In addition, the amounts paid to CRG and Platinum are subject to final negotiation of payoff amounts, including interest accrued through the closing date. Furthermore, we may have unforeseen liabilities and expenses that must be satisfied from the after-tax net proceeds of the Asset Sale, leaving less to fund our remaining operations.

Pursuant to the Asset Purchase Agreement, the Company has the potential to be paid up to an aggregate of $230 million in earnout payments after the $80 million at closing of the Asset Sale, including $20.1 million of guaranteed payments. Earnout payments are calculated based on Net Sales that are entirely within the control of Cardinal. There can be no assurances that after the closing of the Asset Sale, Cardinal will focus on Product sales or that Cardinal will not decide to reduce or terminate the Product line. Accordingly, we cannot determine with any certainty the amount of earnout payments (other than guaranteed payments) which the Company will be paid.

Stockholders are not guaranteed any of the proceeds from the Asset Sale.

The purchase price for the Asset Sale will be paid directly to our Company. You should not vote in favor of the Asset Sale based upon the assumption that you will receive any portion of the net proceeds from the Asset Sale.

Management could allocate, spend or invest the net proceeds from the Asset Sale in ways with which our stockholders may not agree.

Our management could allocate, spend or invest the proceeds from the sale of the Business to Cardinal in ways with which our stockholders may not agree. The investment of these proceeds may not yield a favorable return.

If the Asset Sale is completed, we will be a relatively small public company.

Once the Asset Sale is completed, we will remain a publicly traded company and will continue to be subject to SEC and NYSE MKT rules and regulations, including the Sarbanes-Oxley Act of 2002. While all public companies face the costs and burdens associated with being publicly traded, given the size of our company, the costs and burden of being a public company will be a significant portion of our annual revenues.

If the Asset Sale is completed, we will have no FDA approved products.

Once the Asset Sale is completed, we will not own any FDA approved products and will be reliant on developing new revenue producing products. There can be no assurances we will develop such products.

We will be unable to compete with Cardinal for a period of five years after the date of the closing of the Asset Sale.

The Asset Purchase Agreement provides that for a period of five years after the date of the closing of the Asset Sale, we will be prohibited from activities with respect to North America that involve (i) developing, manufacturing, marketing, selling or distributing any product that accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose (a) of lymphatic mapping or (b) identifying the existence, location or staging of cancer in a body; (ii) developing, manufacturing, marketing, selling or distributing any product that provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product; or (iii) marketing any products for unapproved uses that allow such products to compete with the Product. These restrictions may prevent us from pursuing business opportunities that would be attractive to us or our stockholders.

The Asset Purchase Agreement will expose us to contingent liabilities that could have a material adverse effect on our financial condition.

We have agreed to indemnify Cardinal for breaches of any representation, warranty, or covenant made by us in the Asset Purchase Agreement and the other related agreements, for losses arising out of or in connection with excluded assets or excluded liabilities, the Acquired Assets and for certain other matters. Significant indemnification claims by Cardinal could have a material adverse effect on our financial condition. We will not be obligated to indemnify Cardinal for the breach of the non-fundamental representations or warranties made by us under the Asset Purchase Agreement until the aggregate amount of claims for indemnification exceeds $400,000. In the event that claims for indemnification for breach of such representations and warranties made by us under the Asset Purchase Agreement exceed this threshold, we will be obligated to indemnify the Buyer for any excess damages or loss resulting from such breach up to 15.0% of the purchase price (including the cash payment at closing and all earnout payments received). Claims for indemnification for breaches of covenants made by us under the Asset Purchase Agreement, breaches of representations and warranties classified as fundamental representations and indemnification claims based upon excluded assets or liabilities will not be subject to the deductible or aggregate liability cap described above.

The Asset Purchase Agreement limits our ability to pursue alternatives to the Asset Sale.

The Asset Purchase Agreement contains provisions that make it more difficult for us to sell our Business to any party other than Cardinal. These provisions include the prohibition on our ability to solicit competing proposals and the requirement that we pay a termination fee of $3 million and reimburse Cardinal for its reasonable out-of-pocket expenses up to $2,000,000 in the aggregate, if the Asset Purchase Agreement is terminated in specified circumstances. See “The Asset Purchase Agreement—Termination” and “The Asset Purchase Agreement—No Negotiation or Solicitation of Competing Transaction.” These provisions could discourage a third party that might have an interest in acquiring all of or a significant part of Navidea or the Business from considering or proposing an alternative transaction, even if that party were prepared to pay consideration with a higher value than the consideration to be paid by Cardinal.

If our stockholders vote against adoption of the 2016 Stock Incentive Plan we will be unable to make awards to key personnel.

If the 2016 Stock Incentive Plan is not approved by our stockholders at the Special Meeting, we may be unable to make awards to key personnel, we may be put at a significant competitive disadvantage and our business may be adversely affected. In addition, pursuant to our employment agreement with Dr. Michael Goldberg, our president and chief executive officer, if stockholder approval of the 2016 Stock Incentive Plan is not obtained, for a period of five years from the date of the Special Meeting, if the certain specified conditions are met, Dr. Goldberg shall be entitled to a cash bonus upon his written notice to us calculated as the per share closing price of our common stock on the date of such notice minus $1.00 multiplied by 5,000,000. There can be no assurance that the Company would be in a position to pay any such bonus.

We may be exposed to litigation related to the Asset Sale from the holders of our common stock.

Transactions such as the Asset Sale are often subject to lawsuits by stockholders. Because the holders of our common stock may believe the consideration paid by Cardinal for the Acquired Assets is inadequate, it is possible that they may sue us or our Board of Directors. Such lawsuits could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

THE SPECIAL MEETING

Date, Time and Place of Annual Meeting. A Special Meeting of the Stockholders of Navidea Biopharmaceuticals, Inc. will be held at ____________________, on _______________, 2017, at 9:00 a.m., Eastern Standard Time.

Solicitation. This proxy statement is being mailed to the stockholders of Navidea Biopharmaceuticals, Inc., a Delaware corporation, in connection with the solicitation by the Board of Directors of the Company of proxies to be voted at a Special Meeting of Stockholders to be held on _______________, 2017, and any adjournment thereof. All expenses in connection with this solicitation of proxies will be paid by Navidea. Proxies will be solicited principally by mail, but directors, officers and certain other individuals authorized by us may personally solicit proxies. Navidea will reimburse custodians, nominees or other persons for their out-of-pocket expenses in sending proxy materials to beneficial owners.

Company Address. The mailing address of our principal executive offices is 5600 Blazer Parkway, Suite 200, Dublin, Ohio 43017.

Voting Rights. Stockholders of record at the close of business on ____________, 2016, the record date, are entitled to notice of and to vote at the Special Meeting. As of that date, there were _____________ shares of Common Stock outstanding. Each holder of Common Stock of record on the record date, is entitled to one vote per share held with respect to all matters which may be brought before the Special Meeting. For directions on how to vote, please refer to the proxy card provided.

Authorization. The shares represented by the accompanying proxy will be voted as directed if the proxy is properly completed, signed, and received by us. The proxy will be voted at the discretion of the persons acting under the proxy to transact such other business as may properly come before the Special Meeting and any adjournment thereof. If you are a holder of record and you sign, date, and send in your proxy but do not indicate how you want to vote, your proxy will be voted “For” each of the proposals to be voted on at the Special Meeting.

Revocation. Any stockholder returning the accompanying proxy has the power to revoke it at any time before its exercise by giving notice of revocation to the Company, by duly executing and delivering to the Company a proxy card bearing a later date, or by voting in person at the Special Meeting. Please note, however, if your shares are held of record by a broker, bank, or other nominee and you wish to vote at the Special Meeting, you must obtain from the record holder a proxy issued in your name.

Tabulation. Under Section 216 of the Delaware General Corporation Law (DGCL) and our bylaws, the presence, in person or by proxy, of the holders of a majority of the outstanding shares of our Common Stock is necessary to constitute a quorum for the transaction of business at the Special Meeting. Shares represented by signed proxies that are returned to the Company will be counted toward the quorum even though they are marked as “Abstain” or “Against” on one or more, or all matters, or they are not marked at all. Brokers, banks, or other nominees who hold their customers’ shares in street name, may, under the applicable rules of the exchanges and other self-regulatory organizations of which such brokers, banks, or other nominees are members, sign and submit proxies for such shares and may vote such shares on routine matters. None of the proposals are considered a routine matter under such rules. Brokers, banks, or other nominees may not vote on matters considered non-routine without specific instructions from the customer who owns the shares. Proxies signed and submitted by brokers, banks, or other nominees that have not been voted on certain matters are referred to as broker non-votes. Such proxies count toward the establishment of a quorum. We encourage you to provide voting instructions to any broker, bank or other nominee that holds your shares by carefully following the instructions provided in the proxy card from such entity.

Under Section 271 of the DGCL, the proposal to approve the Asset Sale pursuant to the terms of the Asset Purchase Agreement requires the affirmative vote of the holders of a majority of our Common Stock outstanding as of the record date. Failures to vote, abstentions and broker “non-votes” will have the same effect as votes “Against” the Asset Sale proposal.

The proposal to approve the Company's 2016 Stock Incentive Plan requires the affirmative vote of a majority of the shares of our Common Stock represented in person or by proxy at the Special Meeting. Abstentions will be counted as represented and entitled to vote and will therefore have the effect of a vote "Against" each proposal. Broker non-votes are disregarded and will have no effect.

If submitted to our stockholders at the Special Meeting, the proposal to adjourn the Annual Meeting, if necessary or appropriate, to solicit additional proxies in favor of the proposal to approve the Asset Sale, requires the affirmative vote of a majority of the shares of our Common Stock represented in person or by proxy at the Special Meeting. Neither broker non-votes nor abstentions are included in the tabulation of the voting results and, therefore, they do not have the effect of votes "Against" such proposal.

Effect of Not Casting Your Vote. If you hold your shares in street name it is critical that you cast your vote if you want it to count. If you hold your shares in street name and you do not instruct your bank, broker, or other nominee how to vote, no votes will be cast on your behalf for any of the proposals to be considered at the Special Meeting.

THE ASSET SALE

The following is a description of the material aspects of the Asset Sale, including background information relating to the proposed terms of the Asset Purchase Agreement. While we believe that the following description covers the material terms of the Asset Sale, the Asset Purchase Agreement, and other arrangements between Cardinal and us, the description may not contain all of the information that is important to you. You should carefully read this proxy statement and the other documents to which we refer, including the Asset Purchase Agreement, for a complete understanding of the terms of the Asset Sale.

Parties to the Asset Sale

Navidea Biopharmaceuticals, Inc.

Navidea is a biopharmaceutical company focused on the development and commercialization of precision immunodiagnostic agents and immunotherapeutics. Navidea is developing multiple precision-targeted products based on our Manocept™ platform to help identify the sites and pathways of undetected disease and enable better diagnostic accuracy, clinical decision-making, targeted treatment and, ultimately, patient care. The Manocept platform serves as the molecular backbone of Lymphoseek® (technetium Tc 99m tilmanocept) injection, the first product developed by Navidea based on the platform. Lymphoseek is a novel, state-of-the-art, receptor-targeted, small-molecule radiopharmaceutical used in the evaluation of lymphatic basins that may have cancer involvement in patients. Other than Lymphoseek, none of the Company's drug product candidates have been approved for sale in any market. We have agreed to sell our Lymphoseek Product pursuant to the Asset Purchase Agreement. For more information, please visit our website at www.navidea.com. Our common stock is listed on the NYSE MKT under the trading symbol "NAVB." Navidea is a Delaware corporation. Our executive offices are located at 5600 Blazer Parkway, Suite 200, Dublin, OH 43017. Our telephone number is (614) 793-7500.

Cardinal Health 414, LLC

Cardinal Health 414, LLC is a wholly-owned subsidiary of Cardinal Health, Inc. ("Cardinal Health"), a global integrated healthcare services and products company providing customized solutions for hospital systems, pharmacies, ambulatory surgery centers, clinical laboratories and physician offices worldwide. Cardinal Health provides clinically proven medical products and pharmaceuticals and cost-effective solutions that enhance supply chain efficiency from hospital to home. It connects patients, providers, payers, pharmacists, and manufacturers for integrated care coordination and better patient management. For more information, please visit www.cardinalhealth.com. Cardinal Health is an Ohio corporation. Its common stock is listed on the New York Stock Exchange under the symbol "CAH" and its executive offices are located at 7000 Cardinal Place, Dublin, Ohio 43017. The telephone number there is (614) 757-5000.

Background of the Asset Sale

In May 2015, the Company and Macrophage, as guarantor, entered into the CRG Loan Agreement with CRG in its capacity as a lender and as control agent for other affiliated lenders party to the CRG Loan Agreement in which the lenders made a term loan to Navidea in the aggregate principal amount of $50 million, with an additional $10 million in loans to be made available in certain instances. The loan with CRG is collateralized by a security interest in substantially all of Navidea's assets. The lenders may accelerate the payment terms of the CRG loan upon the occurrence of certain events of default set forth therein, which include, without limitation, the failure of Navidea to make timely payments of amounts due under the CRG Loan Agreement, the failure of Navidea to adhere to the covenants set forth in the CRG Loan Agreement, and the insolvency of Navidea.

During April 2016, the Company received several notices from CRG which claimed that certain events of default had occurred under the CRG Loan Agreement and, as such, interest on the Company's debt to CRG would begin to accrue at a default rate at 18% per annum until paid. Thereafter, on May 31, 2016, CRG declared all of the Company's obligations under the CGR Loan Agreement and all other loan documents to be immediately due and payable in the amount of $56,157,240.69. The Company disputes the amount claimed to be due and believes that CRG does not have the right to accelerate the loan. This matter is currently being litigated in Harris County Court, Texas.

In June 2016, CRG contacted Cardinal Health and demanded Cardinal Health make all future payments for Lymphoseek sales directly to CRG, rather than the Company. Cardinal Health filed an interpleader in Franklin County, Ohio Court of Common Pleas, requesting that the court make a determination as to whom it should make such payments. Rulings on June 28, 2016, and August 1, 2016 resulted in $1.0 million of Cardinal Health Payments being placed in escrow with the court, with the remaining Cardinal Health payments going directly to the Company.

In October 2016 a revised temporary restraining order was issued, allowing the Company to receive 100% of the receivables due from Cardinal Health, with an additional $1 million deposited in a pledged collateral account by the Company as a bond. The $1 million previously deposited by Cardinal Health in the Court's registry as a bond has also been transferred to the pledged collateral account.

Although the Company maintains that CRG's allegations of default under the CRG Loan Agreement are without merit and believes it has defenses against these claims, the Company determined that its best course of action is to refinance its existing debt with CRG in the quickest manner possible. With this in mind, our senior management and Board of Directors reviewed the performance of our businesses and our strategies, opportunities, and objectives in the markets in which we operate. In conjunction with those reviews, we assessed the short- and long-term prospects of our business segments and our company as a whole. We evaluated opportunities to grow our businesses based on our current assets and technology platforms, as well as, by means of mergers, acquisitions, licenses, divestitures, asset sales, and strategic alliances with other companies. Our senior management and Board of Directors concluded that pursuing a transaction with Cardinal, our primary distributor of the Product throughout the United States through its network of nuclear pharmacies, would be in the best interest of the Company. Cardinal is party to the Supply and Distribution Agreement with us, has knowledge of the Product and an interest in the success of the Business, with over 99% of the Product sales being made to Cardinal during the nine months ended September 30, 2016 and approximately 81% of accounts and other receivables were due to us from Cardinal as of September 30, 2016.

On June 3, 2016, the Company approached senior management of Cardinal to discuss a potential refinancing of the CRG debt through a royalty-based financing with Cardinal.

On June 20, 2016, after determining not to pursue a royalty-based financing, the Company met again with Cardinal's senior management to propose a potential acquisition of the Product. Throughout the month of June, our senior management and Board met internally and discussed a number of potential strategic alternatives to enhance stockholder value, including, without limitation, the possibility of selling the Product. Our management discussed these potential strategic alternatives at length with our Board of Directors at a meeting of our Board of Directors in June 2016. Our Board of Directors instructed our management to continue to evaluate potential strategic alternatives for the Product and to further apprise the Board regarding those alternatives.

On June 23, 2016, Jed Latkin, our interim chief operating officer, and Michael Goldberg, our former Chairman of the Board and current President and CEO, met with management from Cardinal to discuss the general parameters of a possible transaction and the structure. Our two companies presently work together and are familiar with each other's products, customers, and personnel. We expressed a willingness to continue discussions for the acquisition of our Product.

On June 24, 2016, we received a non-binding proposal from Cardinal to acquire the Business for $45 million in cash plus contingent payments based on annual sales of the Business.

On June 28, 2016, we made a counter-offer to Cardinal's proposal which reflected different assumptions for the transaction, including an added sales effort and a redeployment of the Company's sales force.

On June 29, 2016, senior management discussed with Evercore/ISI, an independent investment banking advisory firm, a list of comparable transactions going back over the past twenty years to gain a better understanding of what would constitute a fair multiple for the potential Cardinal transaction.

After a number of back and forth negotiations, the parties remained far apart on terms for a potential deal. The parties agreed to stay in touch should developments change in such a way that the terms may be adjusted so that a potential deal would be workable.

On July 13, 2016, a court hearing was held in Texas with respect to the aforementioned CRG litigation. At the conclusion of the hearing, the court ordered the parties to mediation and stayed any ruling on CRG's request to enjoin the Company from taking certain actions until after a mediation has been completed. Navidea immediately contacted Cardinal to discuss their interest in reengaging discussions, as Navidea believed its options to remain a going concern and raising capital sufficient to repay CRG while continuing litigation with CRG were severely damaged.

On August 29, 2016, we met with representatives of Cardinal to further discuss a new proposal. Navidea proposed terms that would (i) enable it to pay off the CRG debt, and (ii) provide sufficient excess capital to enable the development of its existing pipeline to a sufficient valuation impacting point to secure additional financing or partnership opportunities.

On August 30, 2016, the Harris County court granted CRG's TRO request in relation to the disclosure of the Company's bank accounts and the implementation of control agreements on all non disclosed bank accounts. The decision caused an imminent threat to the Company's ability to maintain a viable business and led to a follow up meeting with Cardinal on August 31st.

On August 31, 2016, we received an updated non-binding letter of intent from Cardinal that included the final terms and conditions upon which Cardinal would acquire the Business for $80 million in cash payable at closing and make earnout payments to us of up to $230 million based on annual net sales of the Product in North America.

On September 5, 2016, we executed the non-binding letter of intent providing Cardinal with exclusivity in negotiations regarding the Business for a period of time that covered the period through which a definitive asset purchase agreement was executed. On September 6, 2016, we issued a press release in respect of the foregoing.

During the month of September 2016, the Company began responding to diligence requests from Cardinal.

On September 29, 2016, we received an initial draft of the proposed Asset Purchase Agreement from Cardinal.

On October 2, 2016, our Board of Directors met to discuss the diligence being conducted by Cardinal. Our senior management reviewed the progress of diligence and document review, the schedule for management meetings with Cardinal, and the timeline for preparation of asset purchase documents. At this meeting, our senior management also reviewed with our Board of Directors the status of the Business sale process.

Throughout October 2016, our senior management and Maslon LLP and Porzio, Bromberg & Newman, P.C., our legal advisors, held conference calls with Cardinal and its advisors to discuss the proposed terms of the Asset Purchase Agreement, to address certain due diligence items raised by Cardinal, and to negotiate various terms and conditions of the Asset Purchase Agreement and related documents, and circulated revised drafts of such documents. Also during this period, representatives of Cardinal continued their due diligence review of the Business and the Product.

On November 21, 2016, our Board of Directors convened a meeting to discuss the proposed terms of the transaction and the proposed Asset Purchase Agreement and related documents. Our senior management and our corporate counsel also were present at the meeting. At the meeting, the current status of the Asset Purchase Agreement and the transaction was discussed, as well as a memorandum previously sent to our Board of Directors summarizing the fiduciary duties of the directors owed to our stockholders. Our Board of Directors also discussed the advantages and risks of the proposed transaction that are described in “Reasons for the Asset Sale” below. Subsequently, on November 23, 2016, by unanimous written consent, our Board of Directors determined that the Asset Sale and Asset Purchase Agreement were in the best interests of Navidea and our stockholders, approved the Asset Purchase Agreement and the Asset Sale, and recommended that our stockholders adopt and approve the Asset Purchase Agreement and the Asset Sale.

The Asset Purchase Agreement was executed by Navidea and Cardinal on November 23, 2016.

On November 23, 2016, following the temporary suspension of trading on the NYSE MKT, Navidea issued a press release announcing the execution of the Asset Purchase Agreement and other matters.

Reasons for the Asset Sale

Our Board of Directors has determined that the sale of the Business in the Asset Sale is in the best interests of our stockholders because it believes that the purchase price represents the full valuation of the Business and that the Company will have a better chance of increasing stockholder value by selling the Business in this transaction than it would if it retained and continued the Business. Specifically, the initial cash proceeds of the Asset Sale will provide the Company with needed financial liquidity to eliminate all of the Company's outstanding indebtedness to CRG and Platinum, which indebtedness the Company was previously unsuccessful in refinancing through other sources. In addition, in connection with the Asset Sale, and subject to Cardinal's offset rights, the Company is guaranteed payments of $20.1 million during the first three years following the closing which, together with any initial cash proceeds remaining after CRG and other lenders of the Company are paid, will provide the Company with the opportunity to continue to operate its Remaining Businesses while pursuing other initiatives intended to increase stockholder value. Also, Cardinal, as owner of the Business after the closing of the Asset Sale, will have greater resources than the Company and a strong incentive to market the Product which factor into the amount of earnout payments up to $230 million of which can be earned by the Company during the course of ten years, without significant effort on the Company's part.

We believe that focusing on our Remaining Businesses will permit greater management and resource focus on what we believe to be the most substantial opportunity for growth and the creation of long-term stockholder value. The separation of the Business from our Remaining Businesses will better position the Business and our Remaining Businesses to each realize its full potential without any restrictions from the other. The growth of our Business will require increasing investment of our resources and focus as we seek to increase revenue, diversify revenue sources, and achieve profitability. The Asset Sale will allow us to increase our focus on the Remaining Business, including distributing the Product outside of North America.

In evaluating the Asset Purchase Agreement and the Asset Sale, our Board of Directors consulted with our senior management. Our Board of Directors also consulted with outside legal counsel regarding our Board of Directors' fiduciary duties, legal due diligence matters, and the terms of the Asset Purchase Agreement, License-Back, and related agreements. Based on the factors discussed below, our Board of Directors concluded that the Asset Sale is in the best interests of our stockholders and recommended unanimously that our stockholders adopt and approve the Asset Purchase Agreement and the Asset Sale.

The factors that our Board of Directors considered in reaching its determination included, but were not limited to, the following:

- the value and the consideration to be received by us pursuant to the Asset Purchase Agreement, including the fact that we would receive an up-front payment without the placement of any funds in escrow;

- the potential for us to receive additional consideration in the form of earnout payments in the amount of up to an aggregate of $230 million based on the Net Sales attributable to the Product, of which $20.1 million is guaranteed, subject to Cardinal's offset rights;

- the form of the consideration in the Asset Sale being cash (both in respect of the up-front payment and any continuing royalty payments), and the certainty of the value of such cash consideration compared to stock or other possible forms of consideration;

- the fact that we are in litigation with CRG and need to immediately eliminate our entire indebtedness to CRG and remove CRG's security interest in substantially all of the assets of the Company;

- that Cardinal is an obvious buyer for the Product in that Cardinal is party to the Supply and Distribution Agreement with the Company and is familiar with the Product and has an interest in the success of the Business, with over 99% of the Product sales being made to Cardinal during the nine months ended September 30, 2016 and approximately 81% of accounts and other receivables were due to us from Cardinal as of September 30, 2016.

- financial information concerning the Business and our other businesses (including, without limitation, information relating to the financial condition and prospects of the Business and other businesses), current industry, economic and market conditions relating to the Product and other businesses and the possibility that the short- and long-term prospects of the Product may face increasing market pressures while our Remaining Businesses are presented with continued opportunities to grow;
- the fact that the continued operation of both our Business and Remaining Businesses together could place certain restrictions on each of the businesses, due to strategic, competitive and operational considerations and limitations that may hinder their respective abilities to achieve their goals in the future;
- the additional financial flexibility to continue to aggressively grow our Remaining Business, both with our current assets and technologies and through additional licenses or acquisitions;
- the comprehensive review process undertaken by us which ultimately resulted in the agreement with Cardinal to acquire the Product;
- the alternatives available if we did not sell the Product to Cardinal, including independent pursuit of growth of the Business, through acquisitions or otherwise, all of which involve meaningful risks, financial commitments, and uncertainties, none of which, in the view of our Board of Directors, were as favorable to us and our stockholders as, nor more favorable to us and our stockholders than, the Asset Sale;
- the business reputation and experience of Cardinal and its management, directors and shareholders and its financial resources which our Board of Directors believed supported the conclusion that a transaction with Cardinal could be completed in an efficient and orderly manner;
- the impact of the Asset Sale on our customers, employees, and other business partners; and
- the reasonable likelihood of the consummation of the Asset Sale in light of the relatively limited conditions to Cardinal's obligations to consummate the Asset Sale, including the fact that the consummation of the Asset Sale is not contingent on Cardinal's ability to secure financing commitments or third party consents.

Our Board of Directors also identified and considered a number of uncertainties, risks and potentially negative factors in its deliberations concerning the Asset Sale, including:

- the possibility that the transactions contemplated by the Asset Purchase Agreement, including the Asset Sale, might not be consummated, and the fact that if the Asset Sale is not consummated, (a) our directors, executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the pendency of the transaction, (b) we will have incurred significant transaction costs, (c) the potential negative market perception of our continuing business could potentially result in a loss of customers, business partners, channel partners and employees, any of which may have a material and adverse effect on our results of operations and our stock price, and (d) we will not be able to repay $55 million of debt to CRG and $9.5 million of debt to Platinum and will be required to explore alternative financing arrangements;

- the effect of the public announcement of the Asset Sale and the Asset Purchase Agreement, including effects on our sales, customer and channel partner relationships, operating results, stock price, and our ability to attract and retain key management and sales and marketing personnel and technical support agents;

- the fact that, after the Asset Sale, we will be entirely dependent on the performance of our Remaining Business, which, except with respect to distribution of the Product in Europe, is in a research and development stage and has not generated any revenues to date;

- our obligations to provide services to Cardinal for a period of time following the closing pursuant to the terms of the transition services agreement;

- the restrictions on the conduct of the Business prior to completion of the Asset Sale, requiring us to conduct the Business only in the ordinary course, subject to specific limitations or Cardinal’s consent, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the Asset Sale;

24

- the restrictions on our Board of Directors’ ability to solicit or engage in discussions or negotiations with a third party regarding alternative transactions, and the requirement that we pay for Cardinal’s transaction expenses, or Cardinal’s transaction expenses plus a $3,000,000 termination fee, in certain cases in the event of a termination of the Asset Purchase Agreement;

- the risk that we will not be able to satisfy some or all of the conditions to Cardinal’s obligation to consummate the Asset Sale;

- the risk that we could be exposed to future indemnification payments for a breach or violation of the representations and warranties or covenants contained in the Asset Purchase Agreement;

- the performance of the Business as operated by Cardinal following the Asset Sale which could result in our not receiving any of the additional $230,000,000 in earnout payments available pursuant to the Asset Purchase Agreement other than $20,100,000 of guaranteed payments (subject to Cardinal’s right to off-set from such payments any indemnification obligations of the Company), based on net sales attributable to the Product in North America over the course of the next ten years after consummation of the Asset Sale;

- the expectation that a portion of the consideration we will receive in connection with the Asset Sale will be subject to certain U.S. federal, state, and local income and other taxes;

- the risk that unforeseen liabilities and expenses may be incurred that may limit the ultimate amount of net proceeds from the Asset Sale; and

- the significant costs involved in consummating the Asset Sale, including legal and accounting and other costs, which we estimate to be approximately $600,000.

After careful and due consideration, our Board of Directors concluded that overall, the risks, uncertainties, restrictions and potentially negative factors associated with the Asset Sale were outweighed by the potential benefits of the Asset Sale, and that many of these risks could be managed or mitigated prior to the consummation of the Asset Sale or were unlikely to have a material adverse effect on our Company.

The foregoing information and factors considered by our Board of Directors are not intended to be exhaustive. In view of the variety of factors and the amount of information considered, our Board of Directors did not find it practicable to, and did not, quantify, rank or otherwise assign relative weights to the specific factors it considered in approving the Asset Sale and the Asset Purchase Agreement. In addition, individual members of our Board of Directors may have given different weights to different factors. Our Board of Directors considered all of these factors as a whole, and overall considered them to be favorable to support its determination.

Post-Closing Business and Proceeds from the Asset Sale

Upon the closing of the Asset Sale, our Board of Directors and management will focus their attention on the License-Back and our Remaining Business. We will continue to pursue our growth strategy and the development of our technology for the early diagnosis and disease monitoring of cardiovascular disease and rheumatoid arthritis, along with other macrophage involved diseases, and the development, manufacture, and commercialization of the Product outside the Territory. We will also investigate possibilities for enhancing the business of Macrophage Therapeutics, Inc. that may have been less available to us, due to competitive factors, resource issues, or otherwise, when we operated both the Business and Remaining Business.

Our goals following the conclusion of the Asset Sale will be to continue to grow and diversify revenue in the Remaining Business while driving to achieve profitability, initially focusing on distribution of the Product in Europe and then by expanding the Product's sales to other regions around the globe. To achieve growth we expect to continue to expand on our current pipeline of both diagnostic products through Navidea and our emerging Therapeutic products at our Macrophage Therapeutics subsidiary. During our growth process, we expect to add some additional employees and seek to outsource to clinical research organizations and other outside individuals and groups to assist us in developing our pipeline.

Recommendation of Our Board of Directors

After careful consideration, the members of our Board of Directors unanimously adopted and approved the Asset Sale pursuant to the Asset Purchase Agreement and determined the Asset Sale to be advisable and in the best interests of the Company and our stockholders, and recommends unanimously to our stockholders that the Asset Sale be approved by our stockholders.

Other Agreements and Transactions Related to the Asset Sale

License-Back Agreement

As part of the Asset Sale, subject to certain conditions, Cardinal will enter into a license-back agreement with the Company pursuant to which Cardinal will grant to us a sublicensable (subject to conditions) and royalty-free license to use certain intellectual property rights included in the Acquired Assets and owned by Cardinal as of the closing of the Asset Sale to the extent necessary for the Company to (i) on an exclusive basis, subject to certain conditions, develop, manufacture, market, sell and distribute new pharmaceutical and other products that are not Competing Products, and (ii) on a non-exclusive basis, develop, manufacture, market, sell and distribute the Product throughout the world other than in the Territory. As used in the License-Back, a Competing Product is any pharmaceutical or other product that: (i) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (a) lymphatic mapping or (b) identifying the existence, location or staging of cancer in a body; (ii) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product; or (iii) is marketed for unapproved uses that allow such product to compete with the Product. Subject to the Company's compliance with certain restrictions in the License-Back, the License-Back also restricts Cardinal from using the intellectual property rights included in the Acquired Assets to develop, manufacture, market, sell or distribute any product other than the Product or other product that (a) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (1) lymphatic mapping or (2) identifying the existence, location or staging of cancer in a body, or (b) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product. Pursuant to the License-Back, Cardinal will be provided with a right of first offer to market, sell and/or market any new products developed from the intellectual property rights licensed by Cardinal to the Company by the

License-Back.

Warrant Agreement

The Company shall grant to Cardinal a five (5) - year warrant to purchase up to 10 million shares of the Company's Common Stock at an exercise price of $1.50 per share.

Transition Services Agreement

Pursuant to the Asset Purchase Agreement, we have agreed to enter into a transition services agreement with Cardinal pursuant to which we shall provide certain transitional, administrative and support services to Cardinal following the closing of the Asset Sale.

License Agreements with The Regents of the University of California (San Diego)

The Asset Purchase Agreement requires Cardinal enter into a license agreement with UCSD to sell the Product in North America, and that our license agreement with UCSD be amended and restated.

Safety Data Exchange Agreement

Pursuant to the Asset Purchase Agreement, we will enter into a safety data exchange agreement in a form acceptable to us and Cardinal, which will set forth the terms and conditions by which safety data related to the Product will be shared.

Appraisal Rights

You will not experience any change in your rights as a stockholder as a result of the Asset Sale. None of Delaware law, our certificate of incorporation, or our bylaws provides for appraisal or other similar rights for dissenting stockholders in connection with the Asset Sale, and we are not independently providing stockholders with any such right. Accordingly, you will have no right to dissent and obtain payment for your shares in connection with the Asset Sale. Our shares of Common Stock are expected to remain publicly traded on the NYSE MKT stock market following the closing of the Asset Sale.

Accounting Treatment of the Asset Sale

Under accounting principles generally accepted in the United States of America, we expect to reflect the results of operations of the Business as discontinued operations beginning on the date of the closing of the Asset Sale. The anticipated gain on the sale, net of any applicable taxes, will be reflected in our financial statements commencing with the quarter during which the Asset Sale is completed, following stockholder approval of the Asset Sale pursuant to the terms of the Asset Purchase Agreement. For further information, see the unaudited pro forma condensed financial information included in this proxy statement.

Financing; Source and Amount of Funds

The Asset Sale is not conditioned on Cardinal’s ability to obtain financing.

Material U.S. Federal, State and Local Income Tax Consequences

The Asset Sale will not result in any material U.S. federal, state or local income tax consequences to our stockholders. The transaction will be a taxable event to the Company for U.S. federal, state and local income tax purposes. The Asset Sale is expected to result in the recognition of gain for U.S. federal income tax purposes and the imposition of some U.S. federal income tax on the Company in the year of the sale and may be subject to alternative minimum tax despite our cumulative federal net operating losses and federal income tax credits. In addition, we expect that all or substantially all of the taxable gain resulting from the Asset Sale will be subject to state and local income taxes and the imposition of state and local income tax on the Company despite our cumulative state and local income tax losses and income tax credits. The Asset Sale also may result in the Company being subject to state or local sales, use, gross receipts or other taxes in jurisdictions in which we file tax returns or have assets or activities.

Regulatory Matters

We have determined that the Asset Sale is not subject to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or the reporting and waiting requirements of any other United States antitrust law. However, the Asset Sale may be subject to the FTC Order. A condition to Cardinal's obligation to consummate the Asset Sale requires that the waiting period (and any extension thereof) under such order will have expired or will have been terminated or otherwise determined to be inapplicable. We are not aware of any other material regulatory approvals that are required to complete the Asset Sale.

ASSET PURCHASE AGREEMENT

The following summary of the Asset Purchase Agreement is not complete and is qualified in its entirety by reference to the copy of the Asset Purchase Agreement attached to this proxy statement as Appendix A and incorporated by reference herein. We urge you to read the Asset Purchase Agreement carefully and in its entirety because it, and not the summary set forth in this proxy statement, is the legal document that governs the Asset Sale.

The terms of the Asset Purchase Agreement (such as the representations and warranties) are intended to govern the contractual rights and relationships, and allocate risks, between the parties in relation to the Asset Sale. The Asset Purchase Agreement contains representations and warranties that Navidea, on the one hand, and Cardinal, on the other hand, made to each other as of specific dates. The representations and warranties were negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligations to consummate the Asset Sale and may be subject to important limitations and qualifications as set forth therein, including a contractual standard of materiality different from that generally applicable under federal securities laws. In addition, certain representations and warranties relate to information that is not known currently by either party and have been negotiated such that the risk that such representations or warranties are ultimately shown to not be true is allocated between the parties.

In addition, such representations and warranties are qualified by information in confidential disclosure schedules that Navidea and Cardinal have exchanged in connection with signing the Asset Purchase Agreement. While Navidea does not believe that the disclosure schedules contain information that the securities laws require to be publicly disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached Asset Purchase Agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they are modified by the underlying disclosure schedules. These disclosure schedules contain certain information that has been included in our prior public disclosures, as well as additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Asset Purchase Agreement, which subsequent information may or may not be fully reflected in our public disclosures.

General

Under the terms of the Asset Purchase Agreement, Cardinal has agreed to purchase the Acquired Assets. Specifically, the Company will sell, assign, convey and transfer to Cardinal, free and clear of all liens, all of its right, title and interest in, to and under all tangible and intangible assets used, held for use, or intended to be used in operating the Business in the Territory, including:

- inventories used, held for use, or intended to be used in operating the Business, wherever located, including inventories of raw materials, finished goods, operating supplies, work-in-process, products, supplies, packaging, packaging materials, parts and other inventories used, held for use, or intended to be used in operating the Business, including any such being held on consignment, bailment or other arrangement;

- all tooling, dies and other supplies and equipment, wherever located, used or held for use in manufacturing, testing, storing or handling of the Product;

- all supplier and customer lists and pricing information relating to the Product;

- other than the contracts specifically excluded from the Asset Sale pursuant to the Asset Purchase Agreement, all contracts and agreements to which the Company or any of its affiliates is a party to the extent related to the development, offer or sale of, or that are otherwise material to, the Product in the Territory or any employee hired by Cardinal on or after the closing of the Asset Sale;

- all intellectual property used in or reasonably necessary to conduct the Business and the goodwill associated therewith;

- all product registrations of regulatory authorities related to the Product, including the new drug application approved by the FDA for the Product, all regulatory submissions in the United States that have been made with respect to the Product and all Health Canada regulatory submissions and, in each case, all files, data and records related thereto;

- all permits related to the Product in the Territory;
- the clinical trials and the clinical trial authorizations scheduled in the Asset Purchase Agreement and all files and records related thereto;
- all of the Company's or its affiliates' claims, causes of action, defenses and rights of offset or counterclaim against third parties relating to any Acquired Asset or any liability assumed by Cardinal under the Asset Purchase Agreement, including unliquidated rights under manufacturers' or vendors' warranties;
- all books and records of the Business, including all product designs and manufacturing drawings and all technical, sales and promotional literature used in the Territory, all correspondence with the FDA regarding an investigational new drug application ("IND") and new drug application ("NDA") for the Product, all clinical study data supporting the IND and NDA for the Product and all related historical safety and pharmacovigilance data;
- all insurance benefits to the extent relating to claims arising out of events that occurred prior to closing of the Asset Sale (if any) and associated with the Acquired Assets, including such rights and proceeds receivable or hereafter received under any insurance policy written prior to such closing;
- all right, title and interest in and to the Product; and
- all goodwill associated with the Business and the Acquired Assets.

As consideration for the Asset Sale, Cardinal agreed to: (i) make a cash payment to us at closing of $80,000,000 (reduced by an aggregate of approximately $64.5 million of indebtedness to be repaid to CRG and Platinum on behalf of the Company, the amount by which, if any, transferred Product inventory is less than $6 million, and estimated transaction costs of $600,000); (ii) assume certain liabilities of the Company associated with the Business as specified in the Asset Purchase Agreement; and (iii) make periodic earnout payments of up to $230 million, but not less than $20.1 million (to consist of contingent payments and milestone payments which, if paid, will be treated as additional purchase price) to us based on the Net Sales derived from the purchased Product, subject, in each case, to Cardinal's right to off-set.

During the Contingent Payment Period, Cardinal will pay to the Company contingent payments in an amount equal to eight percent of the Net Sales for each measuring year, or each fiscal year ending June 30th through and including June 30, 2026; provided that the first measuring year shall be from the closing of the Asset Sale through and including June 30, 2017. In the case of contingent payments to be made with respect to the first three measuring years during the Contingent Payment Period, Cardinal will make such payments on a quarterly basis (equal to the greater of (a) eight percent of Net Sales during the applicable fiscal quarter, or (b) $1,675,000) to the Company within 30 days following the end of each fiscal quarter during the applicable measuring year. Notwithstanding the foregoing, with respect to the first measuring year, the minimum contingent payment will be pro rated based on a fraction, the numerator of which equals the number of days elapsed between the closing of the Asset Sale through and including June 30, 2017 and the denominator of which equals 365, and, to the extent such pro ration results in the Company receiving less than the minimum contingent payment for such first measuring period, Cardinal will pay the Company a "catch-up contingent payment" in an amount equal to the difference between what the Company received and the minimum contingent payment for such first measuring period within 30 days following the end of the second fiscal quarter of the fourth measuring year. Notwithstanding the foregoing, if the contingent payment in any of the first three measuring years would be less than $6.7 million (as pro rated for the first measuring year) based upon the calculation of Net Sales, then the contingent payment to the Company for the applicable measuring year will be deemed to be $6.7 million (as pro rated for the first measuring year) (each such contingent payment during the first three measuring years, and the catch up contingent payment being the guaranteed payments), subject to Cardinal's right to off-set the difference between $6.7 million and the amount that would have otherwise been payable in the absence of this minimum threshold against any future earnout payments that are not guaranteed. In no event will the sum of all contingent payments exceed $160,000,000.

During the Continent Payment Period, Cardinal will pay to the Company the following additional milestone payments upon the achievement by or on behalf of Cardinal of the following milestone events:

o $10,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $100,000,000;

29

o $15,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $200,000,000;
o $20,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $300,000,000;
o $25,000,000, payable after the first fiscal year ending June 30th in which annual Net Sales exceed $400,000,000.

In no event will the aggregate of all such milestone payments exceed $70,000,000, provided, however, that more than one milestone payment can be earned in the same fiscal year.

As part of the Asset Sale, the parties have agreed that simultaneous with the closing, subject to certain conditions, Cardinal will enter into a License Back with the Company, pursuant to which Cardinal will grant to the Company a sublicensable (subject to conditions) and royalty-free license to use certain intellectual property rights included in the Acquired Assets and owned by Cardinal as of the closing of the Asset Sale to the extent necessary for the Company to (i) on an exclusive basis, subject to certain conditions, develop, manufacture, market, sell and distribute new pharmaceutical and other products that are not Competing Products, and (ii) on a non-exclusive basis, develop, manufacture, market, sell and distribute the Product throughout the world other than in the Territory. The License-Back also restricts Cardinal from using the intellectual property rights included in the Acquired Assets to develop, manufacture, market, sell or distribute any product other than the Product or other product that (a) accumulates in lymphatic tissue or tumor-draining lymph nodes for the purpose of (1) lymphatic mapping or (2) identifying the existence, location or staging of cancer in a body, or (b) provides for or facilitates any test or procedure that is reasonably substitutable for any test or procedure provided for or facilitated by the Product. Pursuant to the License-Back, Cardinal will be provided with a right of first offer to market, distribute and/or sell new products developed by the Company using the licensed intellectual property rights in the License-Back.

In addition, the Company will grant to Cardinal a five (5) - year warrant to purchase up to 10 million shares of the Company’s Common Stock at an exercise price of $1.50 per share.

Closing

Closing of the Asset Sale under the Asset Purchase Agreement will occur within three business days following the satisfaction or waiver of all conditions to the obligations of the parties to consummate the transactions contemplated thereby, including the adoption and approval of the Asset Sale and the Asset Purchase Agreement by the holders of a majority of our Common Stock outstanding on the record date, or at such other time as we and Cardinal may agree upon in writing.

Representations and Warranties

The Asset Purchase Agreement contains a number of customary representations and warranties applicable to us, subject in some cases to customary qualifications, relating to, among other things, the following:

- corporate existence, qualification and good standing;
- corporate power and authority to enter into and perform the Asset Sale and the execution, delivery and enforceability of the Asset Purchase Agreement;
- binding effect of the Asset Purchase Agreement and the other agreements contemplated thereby;
- subsidiaries of the Company;
- absence of conflicts with or defaults under organizational documents, other contracts and applicable law or acceleration of material obligations, except as otherwise provided in the Asset Purchase Agreement;
- required consents;
- financial statements of the Business fairly present, in all material respects, the financial position and results of operation of the Business as of the respective dates or for the respective periods indicated;

- absence of certain material adverse changes or events effecting the Business since December 31, 2015;
- compliance with laws applicable to the Business and Acquired Assets;
- validity of governmental permits;
- absence of litigation related to the Business, the Product or the Acquired Assets or seeking to enjoin or delay consummation of the Asset Sale;
- title to property and purchased assets and sufficiency of the purchased assets for the continued conduct of the Business;
- tax compliance and related matters with respect to the Business and the Acquired Assets;
- environmental matters;
- labor and employment matters and employee benefit plans;
- intellectual property, used exclusively in connection with the Business;
- material contracts related to the Business, including materiality requirements and thresholds related thereto;
- insurance related to the Business;
- title to Acquired Assets and sufficiency of the Acquired Assets in the conduct of the Business;
- affiliate transactions;
- brokers' or finders' fees, and other fees with respect to the Asset Sale;
- suppliers of the Business;

· product recalls and product liability claims;

· FDA and regulatory matters

· use and merchantability of inventory; and

· Board of Director recommendation to approve the Asset Purchase Agreement and the Asset Sale and recommend stockholders approve the Asset Sale.

The Asset Purchase Agreement also contains a disclaimer of any other representations or warranties, express or implied, other than as set forth in the Asset Purchase Agreement or the Supply and Distribution Agreement.

Certain representations and warranties in the Asset Purchase Agreement provide exceptions for items that are not reasonably likely to have a “Material Adverse Effect.” For purposes of the Asset Purchase Agreement, a “Material Adverse Effect” means any change, effect, event, occurrence, circumstance, state of facts or development that, individually or in the aggregate, is or is reasonably likely to have a material adverse effect on (a) the Company, the Business, the Acquired Assets or the liabilities of or related to the Product to be assumed by Cardinal, or (b) the ability of the Company to timely consummate the transactions contemplated by the Asset Purchase Agreement; provided, however, that for purposes of the representations and warranties entitled “Absence of Certain Developments” and “Conduct of Business Prior to Closing” of the Asset Purchase Agreement, any adverse change, effect, event, occurrence, circumstance, state of facts or development to the extent arising from or related to any of the following will not be deemed to constitute and will not be taken into account in determining whether a Material Adverse Effect has occurred: (i) the announcement, pendency or consummation of the transactions contemplated by the Asset Purchase Agreement; (ii) conditions affecting the global economy or financial markets as a whole, or generally affecting the medical product industry; (iii) any change after the date of the Asset Purchase Agreement in any applicable legal requirements or generally accepted accounting principles; (iv) the commencement, occurrence or continuation of any war, armed hostilities or acts of terrorism; or (v) earthquakes, hurricanes, floods or other natural disasters (except in the case of the foregoing clauses (ii) through (v) to the extent such changes, effects, events, occurrences, circumstances, states of fact or developments have a disproportionate adverse impact on the Company or the Business as compared to other participants in the industry or geographies in which they operate).

The Asset Purchase Agreement also contains a number of customary representations and warranties applicable to Cardinal, subject in some cases to customary qualifications, relating to, among other things, the following:

- corporate existence, qualification and good standing;
- corporate power and authority to enter into and perform the Asset Sale and the execution, delivery and enforceability of the Asset Purchase Agreement;
- binding effect of the Asset Purchase Agreement and the other agreements contemplated thereby;
- absence of conflicts with or defaults under organizational documents, other contracts and applicable law or acceleration of material obligations, except as otherwise provided in the Asset Purchase Agreement;
- required consents;
- absence of litigation with material adverse effect on Cardinal's ability to consummate the Asset Sale;
- brokers' or finders' fees, and other fees with respect to the Asset Sale; and
- the availability of funds necessary to allow Cardinal to consummate the Asset Sale.

Indemnification; Survival of Indemnification Obligations

After the closing of the Asset Sale, we have agreed to indemnify and hold Cardinal and its affiliates harmless from any loss arising out of (i) any breach or inaccuracy of representations and warranties by us in the Asset Purchase Agreement and other related agreements, (ii) breaches by us of any covenants or agreements made or to be performed by us under the Asset Purchase Agreement or related agreements, (iii) any excluded assets or liabilities under the Asset Purchase Agreement, and (iv) certain additional items scheduled by the parties. In general, we are required to indemnify Cardinal for any indemnifiable losses arising out of a breach of our representations or warranties, subject to certain exceptions, for a period of three years following the closing date of the Asset Sale. In general, we are not obligated to make Cardinal whole for any losses suffered as a result of breaches of our representations and warranties until Cardinal suffers losses in excess of $400,000, at which point we are obligated to indemnify Cardinal for all losses in excess of $400,000, subject to limitations set forth below. In addition, our liability for any claim for indemnification brought by us for breach of a representation or warranty is, subject to certain exceptions for fundamental representations set forth in the Asset Purchase Agreement, limited to fifteen percent of the purchase price, which shall include $80 million initial cash payment at closing plus the aggregate of earnout payments up to $230 million, of which $20.1 million is guaranteed, subject to offset for indemnification claims. Claims for breaches of representations and warranties regarding our corporate existence, validity of the Asset Purchase Agreement, authority and power to enter into the Asset Sale, our subsidiaries, conflicts, consents to the Asset Sale, compliance with laws, taxes, intellectual property, title to Acquired Assets, affiliate transactions, and brokers, as fundamental representations, are not subject to the limitations on indemnification set forth above and in the Asset Purchase Agreement, and Cardinal may proceed directly against us for any such claims up to the full purchase price.

After closing of the Asset Sale, Cardinal has agreed to indemnify and hold us and our affiliates harmless from any loss arising out of (i) any breach of representations and warranties by Cardinal in the Asset Purchase Agreement and other related agreements, (ii) breaches by Cardinal of any covenants or agreements made or to be performed by it under the Asset Purchase Agreement or any agreements entered into in connection therewith, or (iii) any liability assumed by Carinal under the Asset Purchase Agreement. In general, Cardinal is not obligated to make us whole for any losses arising out of breaches of Cardinal’s representations and warranties until we suffer losses in excess of $400,000, at which point Cardinal is obligated to indemnify us for all losses in excess of $400,000. Claims for breaches of representations and warranties regarding Cardinal’s corporate existence, validity of the Asset Purchase Agreement, authority and power to enter into the Asset Sale, conflicts, consents to the Asset Sale, and brokers, are not subject to the limitations on indemnification set forth above and in the Asset Purchase Agreement, and we may proceed directly against Cardinal for any such claims.

Covenants and Agreements

Under the Asset Purchase Agreement, we have agreed to abide by certain customary covenants prior to the closing of the Asset Sale or the earlier termination of the Asset Purchase Agreement. Among others, these covenants include an agreement to not take any of the following actions without the written consent of Cardinal prior to the closing of the Asset Sale or the earlier termination of the Asset Purchase Agreement:

- fail to use reasonable efforts to preserve the present business operations, organization and goodwill of the Company's Business and preserve present relations with customers, suppliers and employees of such business, and conduct such Business in the ordinary course consistent with past practice;
- take or permit any action that, if it had been taken or permitted, would reasonably be expected to result in a breach of any representation or warranty made by us under the Asset Purchase Agreement;
- amend our certificate of incorporation or bylaws in any manner which could adversely affect the transactions contemplated by the Asset Purchase Agreement;
- merge or consolidate with any entity or acquire any equity interest in any business or entity;
- adopt a plan or complete a partial liquidation or authorize or undertake a dissolution, consolidation, restructuring, recapitalization or other reorganization;
- sell, pledge, dispose of, transfer, lease, license, guarantee, encumber or authorize the sale, pledge, disposition, transfer, lease, license, guarantee or encumbrance of any assets, other than any sale of finished product inventory in the ordinary course of business;
- take any action that would reasonably be expected to increase taxes with respect to the Business or the Acquired Assets for any taxable period beginning after the closing date of the Asset Sale or the portion of any straddle period for taxes beginning the day after the closing;
- waive, release, compromise or settle any pending or threatened action except for actions (i) with respect to which an insurer has the right to control the decision to settle or (ii) as to which such settlement does not adversely affect the Company after the closing of the Asset Sale or solely involves monetary payments, prior to the closing, of less than $75,000; or

- agree, commit or offer to or fail to perform any action that results in or legally binds the Company to do any of the foregoing.

No Negotiation or Solicitation of Competing Transaction

The Asset Purchase Agreement provides that, except as specifically provided for in the Asset Purchase Agreement, we will not (and we will cause our employees, officers, directors and agents not to), directly or indirectly, initiate, facilitate, solicit or encourage any inquiries, proposals, indications of interest or offer that constitute or could reasonably be expected to lead to any proposal with respect to any merger, consolidation or other business combination, reorganization, recapitalization, share exchange, dissolution, liquidation or similar transaction involving the Company or its subsidiaries or the purchase or sale of an equity interest representing more than 25% of the voting power of the Company or the purchase or sale of assets, businesses, securities or ownership interests representing more than 25% of the net revenues, net income or net assets of the Business, taken as a whole, or of the Company and its subsidiaries as a whole (an “Acquisition Proposal”).

Employee Matters

Cardinal may offer employment after the closing of the Asset Sale to any employee of the Company who devotes any portion of his or her time to the Business. We shall retain responsibility for all costs arising on account of periods ending with the closing of the Asset Sale with respect to all employees.

In addition, directly or indirectly, during the five year period from and after the closing of the Asset Sale, we may not solicit, encourage to leave employment, or hire any person employed by Cardinal on the date the Asset Purchase Agreement was executed, or any employee in the Business, or induce or attempt to induce, or assist anyone else to induce or attempt to induce, any customer, supplier, licensee of Cardinal to reduce or discontinue its business with Cardinal or in any way interfere with the relationship between any customer, supplier, licensee or business relation of the Business.

Exclusivity

Our Board of Directors shall not (i) withdraw, amend or modify, or propose publicly to withdraw, amend or modify, in a manner adverse to Cardinal, its recommendation that the Company's stockholders approve the Asset Sale or (ii) recommend, adopt or approve, or propose publicly to recommend, adopt or approve, or fail to reject, any acquisition proposal or (iii) approve or recommend, or propose publicly to approve or recommend, any Acquisition Proposal, or cause or permit the Company to execute or enter into any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, joint venture agreement or other similar agreement related to, or that is intended to or could reasonably be expected to lead to, any acquisition proposal. Notwithstanding the foregoing, if prior to obtaining stockholder approval of the Asset Sale, the Board of Directors determines in good faith that failure to do so would be reasonably likely to be a violation of its fiduciary duties to the stockholders of the Company under Delaware law, the Company may terminate the Asset Purchase Agreement, subject to the other terms and provisions of the Asset Purchase Agreement.

Covenant Not to Compete or Disclose

Pursuant to the Asset Purchase Agreement, the Company has agreed that it shall not, and shall cause its affiliates not to:

- for a period of five years from the closing of the Asset Sale, engage in any business that competes with the Business in North America, either directly or indirectly through any entity, as an entity, owner, partner, agent, employee, consultant or in any other capacity, and regardless of whether the Company utilizes any of Cardinal's intellectual property rights to compete with the Business;

- for a period of five years from the closing of the Asset Sale, (i) hire, solicit, encourage, or engage in any activity to induce any employee transferred to Cardinal at the closing or other then-current employee of the Business in the Territory, to terminate his or her employment or relationship with Cardinal, (ii) interfere with the relationship between Cardinal and any employee of the Business, or (iii) induce or attempt to induce any customer, supplier, licensee, or business relation of the Business to cease doing business with Cardinal in the Territory; or

· disclose any confidential information of the Business to any person, or use such information for any purpose.

Pursuant to the Asset Purchase Agreement, each of Cardinal and Navidea covenant to use its good faith, commercially reasonable efforts to ensure that all labeling with respect to the products manufactured by or for the benefit of such party, for a period of five years following the closing of the Asset Sale, shall not suggest that users thereof may use such products in any manner (such as promoting "off-label" use) that would violate the restrictions of such party set forth in the Asset Purchase Agreement (with respect to Navidea) or the License-Back Agreement (with respect to Cardinal).

Supply and Distribution Agreement

The Supply and Distribution Agreement, dated November 15, 2007, between us and Cardinal will be terminated as of the closing of the Asset Sale and the provisions thereof shall be of no further force and effect from and after the closing (other than any indemnification, notification or data sharing obligations which shall survive the termination).. Cardinal and the Company on behalf of themselves and their respective affiliates will irrevocably release and forever discharge each other from all of their respective duties, obligations and liabilities under such Supply and Distribution Agreement (other than indemnification, notification or data sharing obligations which shall survive the termination). If the closing of the Asset Sale does not occur, the Supply and Distribution Agreement may, in certain circumstances and subject to certain conditions, be extended under its existing terms for a period of three years from its existing expiration date as described below under the section entitled "Termination".

Conditions to Completion of the Asset Sale

The obligations of us and Cardinal to complete the Asset Sale are subject to the satisfaction or waiver of certain customary conditions, including the following:

- absence of any order, statute, rule, regulation, executive order, stay, decree, judgment or injunction which prohibits or prevents the consummation of the transactions contemplated by this Agreement or the closing of the Asset Sale;
- if a filing is made under the Hart-Scott-Rodino Act, the waiting period (and any extension thereof) under the such act will have expired or will have been terminated;
- the requisite stockholders of the Company shall have approved the Asset Purchase Agreement and Asset Sale; and
- Cardinal shall have entered into a license agreement with UCSD to sell the Product in North America, and our existing license agreements with UCSD shall have been amended and restated.

In addition, the obligations of Cardinal to complete the Asset Sale are subject to the satisfaction by us or waiver by Cardinal of conditions, including the following:

- Our fundamental representations and warranties set forth in the Asset Purchase Agreement shall be true and correct in all material respects as of the date of execution of the Asset Purchase Agreement and as of the closing date, and all other representations and warranties set forth therein shall be true and correct (without regard to any qualifications therein as to materiality or material adverse effect) as of the date of execution of the Asset Purchase Agreement and as of the Closing Date as though such representations and warranties were made as of the Closing Date (or as of the specific date referred to for any representation or warranty which specifically refers to an earlier date), except in each case for breaches or inaccuracies of such representations or warranties that, individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect.
- we shall have performed and complied in all material respects with each of the covenants, agreements and obligations we are required to perform under the Asset Purchase Agreement;
- the absence of a Material Adverse Effect;
- Cardinal shall have received all permits necessary to operate the Business;

- We shall have delivered all transaction documents to be delivered in connection with the closing;

- individuals requested by Cardinal shall have entered into retention agreements with Cardinal on terms and conditions satisfactory to Cardinal;

- Product registrations shall have been transferred in accordance with applicable laws from us to Cardinal in the Territory;

- the waiting period (and any extension thereof) under the FTC Order will have expired or will have been terminated or otherwise determined to be inapplicable;

- all investigations relating to the Field Alert Report submitted by Navidea to the FDA on March 31, 2016 will have been completed and closed, and any flawed assay method that may be the root cause for the failure that led to the Field Alert Report will have been addressed, to the reasonable satisfaction of Buyer; and

- all supplier audits due in 2016 will have been completed to the satisfaction of Cardinal.

Our obligation to complete the Asset Sale is subject to the satisfaction by Cardinal or waiver by us of conditions, including the following:

- Cardinal's fundamental representations and warranties set forth in the Asset Purchase Agreement shall be true and correct in all material respects as of the date of execution of the Asset Purchase Agreement and as of the closing date, and all other representations and warranties set forth therein shall be true and correct (without regard to any qualifications therein as to materiality or material adverse effect) as of the date of execution of the Asset Purchase Agreement and as of the Closing Date as though such representations and warranties were made as of the Closing Date (or as of the specific date referred to for any representation or warranty which specifically refers to an earlier date), except in each case for breaches or inaccuracies of such representations or warranties that, individually or in the aggregate, have not had and would not reasonably be expected to have a material adverse effect on the ability of Cardinal to perform its obligations under the Asset Purchase Agreement or to consummate the transactions contemplated by such agreement;

- Cardinal shall have performed and complied in all material respects with each of the covenants, agreements and obligations Cardinal is required to perform under the Asset Purchase Agreement; and

- Cardinal shall have delivered all transaction documents to be delivered in connection with the closing.

Termination

We and Cardinal may by mutual written consent terminate the Asset Purchase Agreement at any time prior to the completion of the Asset Sale.

In addition, either we or Cardinal may, in writing, terminate the Asset Purchase Agreement at any time prior to the effective time of the Asset Sale:

- if the Asset Sale has not been completed on or before the 180th calendar day after execution of the Asset Purchase Agreement, unless extended by writing of the parties, provided, however, that the right to terminate in this instance will not be available to any party whose failure to fulfill or comply with any obligation or covenant under the Asset Purchase Agreement has been the cause of, or resulted in, the failure to close on or prior to such date;

- if (so long as such party is not then in material breach of any of its representations, warranties or covenants contained in the Asset Purchase Agreement) the other party shall have breached any material provision of the Asset Purchase Agreement as specifically set forth therein, and such breach is not curable, or shall not have cured such breach within 30 days of receiving notice, and such provision has not been waived by the party terminating the agreement;

- if any governmental authority will have issued an order or other legal requirement enjoining or otherwise prohibiting the transactions contemplated by the Asset Purchase Agreement and such order or legal requirement will have become final and nonappealable, except that the right to terminate and abandon the transactions contemplated by the Asset Purchase Agreement pursuant hereto will not be available to any party whose failure to fulfill or comply with any obligation or covenant under the Asset Purchase Agreement has been the cause of, or resulted in, the issuance of such nonappealable order or legal requirement; or

- at any time following the Special Meeting of the Stockholders (including any adjournment or postponement thereof in accordance with the terms of the Asset Purchase Agreement) if the Company does not receive stockholder approval for the Asset Sale at the meeting.

The Asset Purchase Agreement may also be terminated by us, at any time prior to obtaining stockholder approval, if our Board of Directors shall approve and we concurrently with such termination enter into another acquisition agreement providing for the implementation of transactions contemplated by a superior proposal, or by Cardinal if (i) our board adversely changes its favorable recommendation that our stockholders approve the Asset Sale, (ii) the Company fails to reconfirm its favorable recommendation of the Asset Sale in certain instances within five business days of Cardinal’s request, (iii) the Company or our Board of Directors makes certain public disclosure with respect to any Acquisition Proposal other than the Asset Sale, or (iv) we breach in any material respect any of our exclusivity obligations set forth in the Asset Purchase Agreement. In any of these instances, the Company will be required to pay a termination fee of $3,000,000 to Cardinal and reimburse Cardinal for its reasonable out-of-pocket expenses, actually documented and incurred or payable by or on behalf of Cardinal in connection with or in anticipation of the Asset Sale and the agreements related thereto, including all attorney’s fees, financial advisor’s fees, accountants’ fees and filing fees not to exceed $2,000,000 in the aggregate (“Termination Expenses”); provided, however, that if Cardinal elects to extend the Supply and Distribution Agreement pursuant to the terms of the Asset Purchase Agreement, the Termination Fee will not be paid and Cardinal will only be eligible to receive a reimbursement of expenses.

In the event that the Asset Purchase Agreement is terminated pursuant to the termination provisions of the Asset Purchase Agreement and within twelve months after such termination, the Company accepts a written offer for, or otherwise enters into an agreement or consummates one or more transactions that, directly or indirectly, result in a sale, license or other transfer of the Business, the Product or all or substantially all of the Company or its assets to a third party, then the Supply and Distribution Agreement shall, subject to the applicable requirements of the FTC Order, be extended under the existing terms for a period of three years from its then-existing expiration date; provided, however, that if the parties are unable to extend the Supply and Distribution Agreement under the FTC Order due to the action of any governmental authority or for any other reason, Cardinal will be eligible to be paid the termination fee described above.

If the Asset Purchase Agreement is terminated by (i) Cardinal (so long as Cardinal is not then in material breach of the Asset Purchase Agreement) if a breach of the Asset Purchase Agreement by the Company results in or would result in certain conditions of the Asset Purchase Agreement not being satisfied and such breach cannot be cured or, if curable, remains uncured for a period of 30 days after the Company has received written notice from Cardinal of the occurrence of such breach (of, if earlier, the date of termination), and such conditions have not been waived by Cardinal, or (ii) either party if the Asset Sale is not approved by the stockholders, then the Company will reimburse Cardinal for Termination Expenses. In addition, if prior to such termination there exists another proposal for the acquisition, merger, consolidation or other business combination involving the Product or the Company, and within twelve months after such termination the Company or its subsidiaries accepts a written offer for, or otherwise enters into an agreement to consummate or consummates, such other acquisition, merger, consolidation or other business combination involving the Product or the Company, then upon the signing of a definitive agreement related to any such transaction, or, if no such agreement is signed, then upon consummation of any such transaction, the Company will pay to Cardinal a $3,000,000 termination fee unless Cardinal elects to extend the Supply and Distribution Agreement in accordance with the Asset Purchase Agreement and such term is actually so extended.

Expenses

The Asset Purchase Agreement provides that, except as otherwise set forth in the Asset Purchase Agreement, each party shall pay all costs and expenses incurred on its behalf in connection with the negotiation, preparation and execution of this Agreement and the consummation of the transactions contemplated by the Asset Purchase Agreement, including, without limitation, the fees and expenses of their attorneys, accountants, advisors and other representatives.

Amendment

The Asset Purchase Agreement shall be amended, modified or supplemented only by a written agreement between Cardinal and the Company.

NAVIDEA biopharmaceuticals, inc. AND SUBSIDIARIES

Selected Consolidated Financial Data

Set forth below is our selected financial data as of the dates and for the periods indicated. The selected consolidated balance sheet data as of September 30, 2016 and the consolidated statement of operations data for the nine months ended September 30, 2016 and 2015 were derived from our unaudited consolidated financial statements included in our filings on Form 10-Q for the quarters ended September 30, 2016 and 2015. The consolidated balance sheet data as of December 31, 2015, 2014, 2013, 2012, and 2011 and the consolidated statements of operations data for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 were derived from the audited consolidated financial statements included in our filings on Form 10-K for each of the respective periods. The data should be read in conjunction with our financial statements and notes thereto, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our filings on Forms 10-Q and 10-K. Certain reclassifications have been made to the prior year's financial statements to conform to the 2016 presentation. Summary financial data for 2015 and 2011 reflect the disposition of our gamma detection device business in August 2011 and the reclassification of certain related items to discontinued operations. Data are in thousands, except per-share data.

	Pro Forma (a)	Historical					
	September 30,		December 31,				
	2016	2016	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:							
Total assets	$20,963	$11,190	$14,965	$11,830	$39,626	$11,677	$30,603
Long-term liabilities	651	11,200	62,616	32,573	32,703	7,107	6,122
Accumulated deficit	(316,433)	(390,973)	(380,547)	(352,984)	(317,257)	(274,558)	(245,357)

	Pro Forma(a)		Historical						
	Nine Months Ended September 30,	Year Ended December 31,	**Nine Months Ended September 30,**		Years Ended December 31,				
	2016	2015	2016	2015	2015	2014	2013	2012	2011
Consolidated Statement of Operations Data:									
Revenue	$3,940	$3,013	$18,614	$8,956	$13,249	$6,275	$1,131	$79	$598
Cost of goods sold	5	3	2,017	1,239	1,755	1,586	333	—	—
	5,013	10,563	6,461	10,181	12,788	16,780	23,710	16,890	15,154

Research and development expenses									
Selling, general and administrative expenses	5,833	10,888	9,926	13,486	17,257	15,542	15,526	11,178	9,548
(Loss) income from operations	(6,911)	(18,441)	210	(15,950)	(18,551)	(27,633)	(38,438)	(27,989)	(24,104)
Other expenses, net	(107)	(3,989)	(10,637)	(9,103)	(10,208)	(8,094)	(4,261)	(1,168)	(943)
Income tax benefit	—	436	—	—	436	—	—	—	7,880
Loss from continuing operations	$(7,018)	$(21,994)	(10,427)	(25,053)	(28,323)	(35,727)	(42,699)	(29,157)	(17,167)
Discontinued operations, net			—	—	759	—	—	—	22,780
Net (loss) income			(10,427)	(25,053)	(27,564)	(35,727)	(42,699)	(29,157)	5,613
Less loss attributable to noncontrolling interest			—	—	(1)	—	—	—	—
Deemed dividend			—	(46)	(46)	—	—	—	—
Preferred stock dividends			—	—	—	—	—	(43)	(100)
(Loss) income attributable to common stockholders			$(10,427)	$(25,099)	$(27,609)	$(35,727)	$(42,699)	$(29,200)	$5,513
(Loss) income per common Share (basic and diluted):									
Continuing operations	$(0.05)	$(0.15)	$(0.07)	$(0.17)	$(0.19)	$(0.24)	$(0.35)	$(0.29)	$(0.17)
Discontinued operations			$(0.00)	$(0.00)	$0.01	$(0.00)	$(0.00)	$(0.00)	$0.23
(Loss) income attributable to common stockholders			$(0.07)	$(0.17)	$(0.18)	$(0.24)	$(0.35)	$(0.29)	$0.06
Shares used in computing									

(loss) income per common share:									
Basic and diluted	155,391	151,180	155,391	150,031	151,180	148,748	121,809	99,060	90,509

(a) Pro forma financial data is intended to represent the financial position and results of operations as if the Business had been sold as of January 1, 2015, the start date of the first period that is presented pro forma in this table. For more information, refer to our unaudited pro forma consolidated financial statements and notes on pages 55 – 63.

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED FINANCIAL STATEMENTS

Navidea develops, manufactures and commercializes a product used for (1) lymphatic mapping, (2) lymph node biopsy, and (3) the diagnosis of metastatic spread to lymph nodes for the staging of cancer, the North American rights to which are being sold to Cardinal (the Business). Navidea has prepared the following unaudited financial statements to show the balance sheets, statements of operations and statements of cash flows of the Business on a stand-alone basis. The unaudited financial statements represent the results of operations and financial position of the Business, reflecting the assets to be acquired and liabilities to be assumed by Cardinal pursuant to the Asset Purchase Agreement.

The following unaudited financial statements of the Business are presented:

Interim Data

- Unaudited Balance Sheets – as of September 30, 2016 and December 31, 2015
- Unaudited Statements of Operations – nine months ended September 30, 2016 and 2015
- Unaudited Statements of Cash Flows – nine months ended September 30, 2016 and 2015
- Notes to the Unaudited Interim Financial Statements

Full-Year Data

- Unaudited Balance Sheets – as of December 31, 2015 and 2014
- Unaudited Statements of Operations – years ended December 31, 2015, 2014 and 2013
- Unaudited Statements of Cash Flows – years ended December 31, 2015, 2014 and 2013
- Notes to the Unaudited Financial Statements

The unaudited financial statements of the Business, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with, the historical audited consolidated financial statements and the notes thereto included in Navidea's Annual Report on Form 10-K for the years ended December 31, 2015 and 2014 and Quarterly Report on Form 10-Q for the nine months ended September 30, 2016, as filed with the SEC, which are incorporated herein by reference.

The unaudited financial statements of the Business do not purport to represent, and are not necessarily indicative of, what the actual financial results would have been had Navidea operated the Business as a separate entity.

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED BALANCE SHEETS

	September 30, 2016	**December 31, 2015**
ASSETS		
Current assets:		
Accounts receivable, net	$ 2,829,199	$ 2,498,087
Inventory, net	804,882	652,906
Prepaid expenses and other	243,031	172,585
Total current assets	3,877,112	3,323,578
Property and equipment	352,256	352,256
Less accumulated depreciation and amortization	248,664	200,844
	103,592	151,412
Patents and trademarks	55,509	55,509
Less accumulated amortization	21,209	16,036
	34,300	39,473
Total assets	$ 4,015,004	$ 3,514,463
LIABILITIES AND NET INVESTMENT		
Current liabilities:		
Accounts payable	$ 688,559	$ 242,220
Accrued liabilities and other	1,157,720	859,365
Total current liabilities	1,846,279	1,101,585
Other liabilities	—	1,000,000
Total liabilities	1,846,279	2,101,585
Navidea Biopharmaceuticals, Inc. net investment in the Business	2,168,725	1,412,878
Total liabilities and net investment in the Business	$ 4,015,004	$ 3,514,463

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

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED STATEMENTS OF OPERATIONS

	Nine Months Ended September 30,	
	2016	2015
Revenues:		
Lymphoseek sales revenue	$14,673,689	$6,737,917
Grant and other revenue	575	279
Total revenue	14,674,264	6,738,196
Cost of goods sold	2,012,301	1,237,061
Gross profit	12,661,963	5,501,135
Operating expenses:		
Research and development	1,447,611	1,650,531
Selling, general and administrative	4,092,951	4,821,565
Total operating expenses	5,540,562	6,472,096
Income (loss) from operations	7,121,401	(970,961)
Other income (expense):		
Interest expense	(12,286,094)	(3,419,105)
Change in fair value of financial instruments	1,755,989	(1,702,902)
Total other expense, net	(10,530,105)	(5,122,007)
Loss before income tax	(3,408,704)	(6,092,968)
Income tax benefit	1,363,482	2,437,187
Net loss	$(2,045,222)	$(3,655,781)

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

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(2,045,222)	$(3,655,781)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of equipment	47,820	49,222
Amortization of patents and trademarks	5,172	5,153
Loss on disposal and abandonment of assets	—	8,618
Change in reserve for uncollectable accounts	—	16,000
Change in inventory reserve	43,354	138,914
Amortization of debt discount and issuance costs	77,964	97,077
Debt discount and issuance costs written off	1,955,541	—
Prepayment premium and debt collection fees related to long term debt	2,923,271	—
Compounded interest on notes payable	1,367,260	1,231,125
Stock compensation expense	118,358	513,348
Change in fair value of financial instruments	(1,755,989)	1,702,902
Issuance of common stock to 401(k) plan	51,312	41,633
Changes in operating assets and liabilities:		
Accounts receivable	(331,112)	(1,075,190)
Inventory	(195,330)	(221,845)
Prepaid expenses and other assets	(70,446)	346,848
Accounts payable	446,339	(524,803)
Accrued liabilities and other liabilities	4,963,961	193,264
Net cash provided by (used in) operating activities	7,602,252	(1,133,514)
Cash flows from investing activities:		
Purchases of equipment	—	(25,492)
Patent and trademark costs	—	(1,407)
Net cash used in investing activities	—	(26,899)
Cash flows from financing activities:		
Proceeds from notes payable	—	54,500,000
Payment of debt-related costs	(3,923,271)	(1,200,025)
Principal payments on notes payable	(189,163)	—
Payment to parent company	(3,489,818)	52,139,562
Net cash (used in) provided by financing activities	(7,602,252)	1,160,413

Net change in cash	—	—
Cash, beginning of period	—	—
Cash, end of period	$—	$—

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

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Basis of Presentation: Navidea Biopharmaceuticals, Inc. (Navidea, the Company, or we) is a biopharmaceutical company focused on the development and commercialization of precision immunodiagnostic agents and immunotherapeutics.

In November 2016, Navidea entered into an agreement (the Asset Purchase Agreement) to sell the Company's radioactive diagnostic agent marketed under the Lymphoseek® trademark (the Product) for current approved indications by the FDA and similar indications approved by the FDA in the future (the Business) in Canada, Mexico and the United States (the Territory) to Cardinal Health 414, LLC (Cardinal) for $80 million to be reduced to the extent the amount of transferred Product inventory is less than $6 million), plus annual earn-out and milestone payments based upon the volume of Product sales. For the first three years, the earn-out payments shall be no less than $6.7 million per year. In no event will the entire purchase price, including all earn-out payments, exceed $310 million.

Assets and liabilities being sold to Cardinal include:

- Working capital related to the Business, including inventories, prepaid expenses and other assets, accounts payable and other accruals;
- Equipment of the Business used in the manufacture of the Product; and
- Patents and trademarks related to the Business.

Assets and liabilities excluded from the sale to Cardinal include:

- Cash and cash equivalents;
- Assets and liabilities related to Navidea in general, such as office computers, furniture and equipment;
- Assets and liabilities related to Macrophage Therapeutics, Inc., our majority-owned subsidiary that was formed specifically to further explore immunotherapeutic applications for the Manocept platform;
- Assets and liabilities related to advancing our technology for diagnosis and disease monitoring of rheumatoid arthritis or "RA," cardiovascular disease, and other potential immunodiagnostic applications of our Manocept platform;
-

Assets and liabilities related to the development, manufacture, and commercialization of the Product outside the Territory; and

· Other assets and liabilities as specified in the Asset Purchase Agreement.

To the extent practicable, revenue and expenses of the Business have been specifically identified and included in the Statements of Operations of the Business. Certain headcount and other supporting expenses have been allocated to the Business based on the amount of time devoted to the Business by the relevant departments. Interest expense related to the CRG and Platinum debt obligations, which will be paid off with the initial net proceeds of the Asset Sale, have also been allocated to the Business in accordance with current accounting guidance.

Navidea has prepared these unaudited financial statements to present the assets and liabilities of the Business as of September 30, 2016 and December 31, 2015, as well as the operating results and cash flows of the Business for the nine-month periods ended September 30, 2016 and 2015. The information presented is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) that the management of Navidea believes to be necessary for the fair presentation of results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The balances as of September 30, 2016 and the results for the interim periods are not necessarily indicative of results to be expected for the year. These financial statements should be read in conjunction with Navidea’s audited consolidated financial statements for the year ended December 31, 2015 which were included as part of our Annual Report on Form 10-K, with the unaudited consolidated interim financial statements for the nine months ended September 30, 2016 which were included as part of our Quarterly Report on Form 10-Q, and with the unaudited annual financial statements of the Business for the years ended December 31, 2015, 2014 and 2013 included herein.

b. **Financial Instruments and Fair Value:** The carrying amounts of accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

c. **Revenue Recognition:** We generate revenue primarily from sales of the Product. Our standard shipping terms are free on board (FOB) shipping point, and title and risk of loss passes to the customer upon delivery to a carrier for shipment. We generally recognize sales revenue related to sales of our products when the products are shipped. Our customers have no right to return products purchased in the ordinary course of business, however, we may allow returns in certain circumstances based on specific agreements. We earn additional revenues based on a percentage of the actual net revenues achieved by Cardinal on sales to end customers made during each fiscal year. The amount we charge Cardinal related to end customer sales of Lymphoseek are subject to a retroactive annual adjustment. To the extent that we can reasonably estimate the end-customer prices received by Cardinal, we record sales based upon these estimates at the time of sale. If we are unable to reasonably estimate end customer sales prices related to products sold, we record revenue related to these product sales at the minimum (i.e., floor) price provided for under our distribution agreement with Cardinal.

2. Stock-Based Compensation

Stock options granted under Navidea's stock incentive plans generally vest on an annual basis over one to four years. Outstanding stock options under the plans, if not exercised, generally expire ten years from their date of grant or up to 90 days from the date of an optionee's separation from employment with the Company. We issue new shares of our common stock upon exercise of stock options.

Stock-based payments to employees and directors, including grants of stock options, are recognized in the statement of operations based on their estimated fair values. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on the Company's historical volatility, which management believes represents the most accurate basis for estimating expected future volatility under the current circumstances. Navidea uses historical data to estimate forfeiture rates. The expected term of stock options granted is based on the vesting period and the contractual life of the options. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant.

Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period. Restricted shares generally vest upon occurrence of a specific event or achievement of goals as defined in the grant agreements. As a result, we record compensation expense related to grants of restricted stock based on management's estimates of the probable dates of the vesting events.

For the nine-month periods ended September 30, 2016 and 2015, our total stock-based compensation expense related to employees allocated to the Business was approximately $118,000 and $513,000, respectively. The costs associated with these plans have been allocated and included in the corresponding statements of operations of the Business and as a component of Navidea's net investment in the Business. Upon closing of the sale to Cardinal, these costs will no longer be incurred by Navidea and any related assets or liabilities associated with the stock compensation plans will remain with Navidea.

3. Inventory, net

All components of inventory are valued at the lower of cost (first-in, first-out) or market. We adjust inventory to market value when the net realizable value is lower than the carrying cost of the inventory. Market value is determined based on estimated sales activity and margins. We estimate a reserve for obsolete inventory based on management's judgment of probable future commercial use, which is based on an analysis of current inventory levels, estimated future sales and production rates, and estimated shelf lives.

The components of inventory as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016 (unaudited)	December 31, 2015
Materials	$ 517,650	$ 330,000
Work-in-process	51,175	378,022
Finished goods	442,881	275,168
Reserves	(206,824)	(330,284)
Total	$ 804,882	$ 652,906

4. Property and Equipment

Property and equipment of the Business totaled approximately $352,000 as of September 30, 2016 and December 31, 2015. Depreciation of property and equipment related to the Business is generally computed using the straight-line method over an estimated useful life of 5 years, or in certain cases over an estimated total number of uses.

During the nine-month periods ended September 30, 2016 and 2015, we recorded $70,000 and $81,000, respectively, of depreciation related to property and equipment of the Business. During the nine-month period ended September 30, 2015, we recorded losses of $9,000 on the disposal of property and equipment of the Business.

5. Income Taxes

For purposes of the stand-alone Business financial statements, income tax was calculated at statutory rates.

6. Supplemental Disclosure for Statements of Cash Flows

During the nine-month periods ended September 30, 2016 and 2015, we issued approximately 28,000 and 23,000 shares of our common stock, respectively, as matching contributions to our 401(k) Plan which were valued at $51,000 and $42,000, respectively, related to employees allocated to the Business.

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED BALANCE SHEETS

	December 31, 2015	**December 31, 2014**
ASSETS		
Current assets:		
Accounts receivable	$2,498,087	$807,744
Inventory, net	652,906	794,253
Prepaid expenses and other	172,585	582,794
Total current assets	3,323,578	2,184,791
Property and equipment	352,256	371,335
Less accumulated depreciation and amortization	200,844	168,617
	151,412	202,718
Patents and trademarks	55,509	54,102
Less accumulated amortization	16,036	9,146
	39,473	44,956
Total assets	$3,514,463	$2,432,465
LIABILITIES AND NET INVESTMENT		
Current liabilities:		
Accounts payable	$242,220	$575,450
Accrued liabilities and other	859,365	556,591
Total current liabilities	1,101,585	1,132,041
Other liabilities	1,000,000	—
Total liabilities	2,101,585	1,132,041
Navidea Biopharmaceuticals, Inc. net investment in the Business	1,412,878	1,300,424
Total liabilities and net investment in the Business	$3,514,463	$2,432,465

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

46

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2015	2014	2013
Revenues:			
Lymphoseek sales revenue	$10,235,277	$4,220,753	$607,823
Grant and other revenue	669	—	—
Total revenue	10,235,946	4,220,753	607,823
Cost of goods sold	1,751,537	1,583,519	331,397
Gross profit	8,484,409	2,637,234	276,426
Operating expenses:			
Research and development	2,225,004	1,662,611	6,050,984
Selling, general and administrative	6,369,183	6,016,087	4,948,406
Total operating expenses	8,594,187	7,678,698	10,999,390
Loss from operations	(109,778)	(5,041,464)	(10,722,964)
Other (expense) income:			
Interest expense	(5,603,820)	(326,337)	(468,230)
Change in fair value of financial instruments	(614,782)	(1,347,703)	(106,032)
Loss on extinguishment of debt	—	—	(943,363)
Total other (expense) income, net	(6,218,602)	(1,674,040)	(1,517,625)
Loss before income tax	(6,328,380)	(6,715,504)	(12,240,589)
Income tax benefit	2,531,352	2,686,202	4,896,236
Net loss	$(3,797,028)	$(4,029,302)	$(7,344,353)

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

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

UNAUDITED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net loss	$(3,797,028)	$(4,029,302)	$(7,344,353)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation of equipment	69,278	32,850	28,771
Amortization of intangible assets	6,890	(11,885)	1,203
Loss on disposal and abandonment of assets	8,618	—	—
Change in inventory reserve	143,493	539,027	—
Amortization of debt discount and issuance costs	166,519	—	—
Compounded interest on notes payable	2,048,960	—	—
Stock compensation expense	660,715	384,356	484,199
Change in fair value of financial instruments	614,782	1,347,703	106,032
Loss on extinguishment of debt	—	—	943,363
Issuance of common stock to 401(k) plan	41,633	30,597	12,452
Changes in operating assets and liabilities:			
Accounts receivable	(1,690,343)	(564,916)	(242,828)
Inventory	(2,146)	899,157	(1,934,936)
Prepaid expenses and other assets	410,209	(372,237)	330,669
Accounts payable	(333,230)	(129,301)	420,653
Accrued liabilities and other liabilities	302,774	128,447	205,932
Net cash used in operating activities	(1,348,876)	(1,745,504)	(6,988,843)
Cash flows from investing activities:			
Purchases of equipment	(26,590)	(9,141)	(39,810)
Patent and trademark costs	(1,407)	(14,838)	(12,037)
Net cash used in investing activities	(27,997)	(23,979)	(51,847)
Cash flows from financing activities:			
Proceeds from notes payable	54,500,000	—	4,000,000
Payment of debt-related costs	(1,200,025)	—	—
Principal payments on notes payable	—	—	(4,781,333)
Payment (to) from parent company	(51,923,102)	1,769,483	7,822,023
Net cash provided by financing activities	1,376,873	1,769,483	7,040,690
Net change in cash	—	—	—
Cash, beginning of year	—	—	—
Cash, end of year	$—	$—	$—

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

THE LYMPHOSEEK NORTH AMERICA BUSINESS OF

NAVIDEA BIOPHARMACEUTICALS, INC.

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

a. Organization and Nature of Operations: Navidea Biopharmaceuticals, Inc. (Navidea, the Company, or we) is a biopharmaceutical company focused on the development and commercialization of precision immunodiagnostic agents and immunotherapeutics.

In November 2016, Navidea entered into an agreement (the Asset Purchase Agreement) to sell the Company's radioactive diagnostic agent marketed under the Lymphoseek® trademark (the Product) for current approved indications by the FDA and similar indications approved by the FDA in the future (the Business) in Canada, Mexico and the United States (the Territory) to Cardinal Health 414, LLC (Cardinal) for $80 million to be reduced to the extent the amount of transferred Product inventory is less than $6 million), plus annual earn-out and milestone payments based upon the volume of Product sales. For the first three years, the earn-out payments shall be no less than $6.7 million per year. In no event will the entire purchase price, including all earn-out payments, exceed $310 million.

Assets and liabilities being sold to Cardinal include:

- Working capital related to the Business, including inventories, prepaid expenses and other assets, accounts payable and other accruals;
- Equipment of the Business used in the manufacture of the Product; and
- Patents and trademarks related to the Business.

Assets and liabilities excluded from the sale to Cardinal include:

- Cash and cash equivalents;
- Assets and liabilities related to Navidea in general, such as office computers, furniture and equipment;
- Assets and liabilities related to Macrophage Therapeutics, Inc., our majority-owned subsidiary that was formed specifically to further explore immunotherapeutic applications for the Manocept platform;
- Assets and liabilities related to advancing our technology for diagnosis and disease monitoring of rheumatoid arthritis or "RA," cardiovascular disease, and other potential immunodiagnostic applications of our Manocept platform;
-

Assets and liabilities related to the development, manufacture, and commercialization of the Product outside the Territory; and

- Other assets and liabilities as specified in the Asset Purchase Agreement.

To the extent practicable, revenue and expenses of the Business have been specifically identified and included in the Statements of Operations of the Business. Certain headcount and other supporting expenses have been allocated to the Business based on the amount of time devoted to the Business by the relevant departments. Interest expense related to the CRG and Platinum debt obligations, which will be paid off with the initial net proceeds of the Asset Sale, have also been allocated to the Business in accordance with current accounting guidance.

Navidea has prepared these unaudited financial statements to present the assets and liabilities of the Business as of December 31, 2015 and 2014, as well as the operating results and cash flows of the Business for the years ended December 31, 2015, 2014 and 2013. The information presented is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) that the management of Navidea believes to be necessary for the fair presentation of results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. These consolidated financial statements should be read in conjunction with Navidea’s audited consolidated financial statements for the year ended December 31, 2015, which were included as part of our Annual Report on Form 10-K.

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

c. **Financial Instruments and Fair Value:** The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

d. **Stock-Based Compensation:** Stock options granted under the 2002 Plan and the 2014 Plan generally vest on an annual basis over one to four years. Outstanding stock options under the plans, if not exercised, generally expire ten years from their date of grant or up to 90 days following the date of an optionee's separation from employment with the Company. We issue new shares of our common stock upon exercise of stock options.

Stock-based payments to employees and directors, including grants of stock options, are recognized in the statement of operations based on their estimated fair values. The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing model. Expected volatilities are based on the Company's historical volatility, which management believes represents the most accurate basis for estimating expected future volatility under the current circumstances. Navidea uses historical data to estimate forfeiture rates. The expected term of stock options granted is based on the vesting period and the contractual life of the options. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant. The assumptions used to calculate the fair value of stock option awards granted during the years ended December 31, 2015, 2014 and 2013 are noted in the following table:

	2015	2014	2013
Expected volatility	61%-64%	61%-67%	60%-71%
Weighted-average volatility	62%	65%	65%
Expected dividends	—	—	—
Expected term (in years)	5.1-6.3	5.3-7.4	5.0-6.2
Risk-free rate	1.5%-1.9%	1.6%-2.0%	1.0%-1.9%

The portion of the fair value of stock-based awards that is ultimately expected to vest is recognized as compensation expense over either (1) the requisite service period or (2) the estimated performance period. Restricted stock awards are valued based on the closing stock price on the date of grant and amortized ratably over the estimated life of the award. Restricted stock may vest based on the passage of time, or upon occurrence of a specific event or achievement of goals as defined in the grant agreements. In such cases, we record compensation expense related to grants of restricted stock based on management's estimates of the probable dates of the vesting events. Stock-based awards that do not vest because the requisite service period is not met prior to termination result in reversal of previously recognized compensation cost.

e. **Accounts and Other Receivables:** Accounts and other receivables are recorded net of an allowance for doubtful accounts. We estimate an allowance for doubtful accounts based on a review and assessment of specific accounts and other receivables and write off accounts when deemed uncollectible.

f. **Inventory:** All components of inventory are valued at the lower of cost (first-in, first-out) or market. We adjust inventory to market value when the net realizable value is lower than the carrying cost of the inventory. Market value is determined based on estimated sales activity and margins. We estimate a reserve for obsolete inventory based on management's judgment of probable future commercial use, which is based on an analysis of current inventory levels, estimated future sales and production rates, and estimated shelf lives.

50

g. **Property and Equipment:** Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized.

h. **Intangible Assets:** Intangible assets consist primarily of patents and trademarks. Intangible assets are stated at cost, less accumulated amortization. Patent costs are amortized using the straight-line method over the estimated useful lives of the patents of approximately 5 to 15 years. Patent application costs are deferred pending the outcome of patent applications. Costs associated with unsuccessful patent applications and abandoned intellectual property are expensed when determined to have no recoverable value. We evaluate the potential alternative uses of all intangible assets, as well as the recoverability of the carrying values of intangible assets, on a recurring basis.

i. **Impairment or Disposal of Long-Lived Assets:** Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment was recognized during the years ended December 31, 2015, 2014 or 2013. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

j. **Revenue Recognition:** We generate revenue primarily from sales of the Product. Our standard shipping terms are free on board (FOB) shipping point, and title and risk of loss passes to the customer upon delivery to a carrier for shipment. We generally recognize sales revenue related to sales of our products when the products are shipped. Our customers have no right to return products purchased in the ordinary course of business, however, we may allow returns in certain circumstances based on specific agreements.

We earn additional revenues based on a percentage of the actual net revenues achieved by Cardinal on sales to end customers made during each fiscal year. The amount we charge Cardinal related to end customer sales of Lymphoseek are subject to a retroactive annual adjustment. To the extent that we can reasonably estimate the end-customer prices received by Cardinal, we record sales based upon these estimates at the time of sale. If we are unable to reasonably estimate end customer sales prices related to products sold, we record revenue related to these product sales at the minimum (i.e., floor) price provided for under our distribution agreement with Cardinal.

k. **Research and Development Costs:** Research and development (R&D) expenses include both internal R&D activities and external contracted services. Internal R&D activity expenses include salaries, benefits, and stock-based compensation, as well as travel, supplies, and other costs to support our R&D staff. External contracted services include manufacturing and control-related activities and regulatory costs. R&D expenses are charged to operations as incurred. We review and accrue R&D expenses based on services performed and rely upon estimates of those costs applicable to the stage of completion of each project.

l. **Income Taxes:** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Due to the uncertainty surrounding the realization of the deferred tax assets in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance at December 31, 2015 and 2014.

Current accounting standards include guidance on the accounting for uncertainty in income taxes recognized in the financial statements. Such standards also prescribe a recognition threshold and measurement model for the financial statement recognition of a tax position taken, or expected to be taken, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company believes that the ultimate deductibility of all tax positions is highly certain, although there is uncertainty about the timing of such deductibility. As a result, no liability for uncertain tax positions was recorded as of December 31, 2015 or 2014 and we do not expect any significant changes in the next twelve months. Should we need to accrue interest or penalties on uncertain tax positions, we would recognize the interest as interest expense and the penalties as a selling, general and administrative expense. As of December 31, 2015, tax years 2012-2015 remained subject to examination by federal and state tax authorities.

51

For purposes of the stand-alone Business financial statements, income tax was calculated at statutory rates as if it was a separate taxpayer. All related balance sheet amounts are included as components of Navidea Biopharmaceuticals, Inc. Net Investment in the Business.

m. **Recent Accounting Standards:** In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 applies to all inventory that is measured using methods other than last-in, first-out or the retail inventory method, including inventory that is measured using first-in, first-out or average cost. ASU 2015-11 requires entities to measure inventory at the lower of cost and net realizable value, defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for public entities for fiscal years beginning after December 15, 2016, and interim periods with fiscal years beginning after December 15, 2017. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We do not expect the adoption of ASU 2015-11 to have a material effect on our consolidated financial statements upon adoption.

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers*. ASU 2015-14 defers the effective date of ASU No. 2014-09 for all entities by one year. Public business entities should adopt the new revenue recognition standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. We are currently evaluating the potential impact that the adoption of ASU 2014-09 may have on our consolidated financial statements.

2. Stock-Based Compensation

For years ended December 31, 2015, 2014 and 2013, our total stock-based compensation expense related to employees allocated to the Business was approximately $661,000, $384,000 and $484,000, respectively. The costs associated with these plans have been allocated and included in the corresponding statements of operations of the Business and as a component of Navidea's net investment in the Business. Upon closing of the sale to Cardinal, these costs will no longer be incurred by Navidea and any related assets or liabilities associated with the stock compensation plans will remain with Navidea.

3. Accounts Receivable

At December 31, 2015 and 2014, over 99% of accounts receivable related to the Business were due from Cardinal Health. As of December 31, 2015 and 2014, there was no allowance for doubtful accounts. We do not believe we are exposed to significant credit risk related to Cardinal Health based on the overall financial strength and credit worthiness of the entity. We believe that we have adequately addressed other credit risks in estimating the allowance for doubtful accounts.

52

4. Inventory, net

The components of inventory as of December 31, 2015 and 2014 are as follows:

	2015	2014
Materials	$330,000	$—
Work-in-process	378,022	896,344
Finished goods	275,168	436,936
Reserves	(330,284)	(539,027)
Total	$652,906	$794,253

During 2015, we wrote off $120,000 of materials related to production issues. During 2015 and 2014, we recorded obsolescence reserves of $52,000 and $539,000 of Lymphoseek inventory related to specific lots that expired or were nearing product expiry and therefore were no longer expected to be sold.

5. Property and Equipment

Property and equipment of the Business totaled approximately $352,000 and $371,000 as of December 31, 2015 and 2014, respectively. Depreciation of property and equipment related to the Business is generally computed using the straight-line method over an estimated useful life of 5 years, or in certain cases over an estimated total number of uses.

During 2015, 2014 and 2013, we recorded $111,000, $77,000 and $54,000, respectively, of depreciation related to property and equipment of the Business. During 2015, we recorded losses of $9,000 on the disposal of property and equipment of the Business.

6. Accrued Liabilities and Other

Accrued liabilities and other at December 31, 2015 and 2014 consist of the following:

	2015	2014
Contracted services	$237,675	$171,158
Compensation	432,847	182,431
Royalties	175,404	72,450

$845,926	$426,039

7. Income Taxes

For purposes of the stand-alone Business financial statements, income tax was calculated at statutory rates.

8. Agreements

a. **Supply Agreements:** In November 2009, we entered into a manufacture and supply agreement with Reliable Biopharmaceutical Corporation (Reliable) for the manufacture and supply of the Lymphoseek drug substance. The initial ten-year term of the agreement expires in November 2019, with options to extend the agreement for successive three-year terms. Either party has the right to terminate the agreement upon mutual written agreement, or upon material breach by the other party which is not cured within 60 days from the date of written notice of the breach. Total purchases under the manufacture and supply agreement were $225,000, $300,000, and $666,000 for the years ended December 31, 2015, 2014 and 2013. As of December 31, 2015, we have issued purchase orders under the manufacture and supply agreement with Reliable for $1.1 million of Lymphoseek drug substance for delivery through March 2016.

In September 2013, we entered into a manufacturing services agreement with OSO BioPharmaceuticals Manufacturing, LLC (OsoBio) for contract pharmaceutical development, manufacturing, packaging and analytical services for Lymphoseek. The initial term of the agreement expires in December 2016, and automatically renews for additional two-year periods unless written notice is provided at least 12 months prior to the expiration of the initial term. Either party has the right to terminate the agreement upon mutual written agreement, or upon material breach by the other party which is not cured within 60 days from the date of written notice of the breach. During the term of agreement, OsoBio will be the primary supplier of the manufacturing services for Lymphoseek. In consideration for these services, the Company will pay a unit pricing fee. In addition, the Company will also pay OsoBio a fee for regulatory and other support services. Total purchases under the manufacturing services agreement were $472,000, $96,000 and $1.2 million for the years ended December 31, 2015, 2014 and 2013. As of December 31, 2015, we have issued purchase orders under the agreement with OsoBio for $680,000 of our products for delivery through March 2016.

b. **Research and Development Agreements:** In January 2002, we completed a license agreement with the University of California, San Diego (UCSD) for the exclusive world-wide rights to Lymphoseek. The license agreement was effective until the later of the expiration date of the longest-lived underlying patent. In July 2014, we amended the license agreement to extend the agreement until the third anniversary of the expiration date of the longest-lived underlying patent. Under the terms of the license agreement, UCSD has granted us the exclusive rights to make, use, sell, offer for sale and import licensed products as defined in the agreement and to practice the defined licensed methods during the term of the agreement. We may also sublicense the patent rights, subject to certain sublicense terms as defined in the agreement. In consideration for the license rights, we agreed to pay UCSD a license issue fee of $25,000 and license maintenance fees of $25,000 per year. We also agreed to make payments to UCSD upon successfully reaching certain clinical, regulatory and cumulative sales milestones, and a royalty on net sales of licensed products subject to a $25,000 minimum annual royalty. In addition, we agreed to reimburse UCSD for all patent-related costs and to meet certain diligence targets. Total costs related to the UCSD license agreement for Lymphoseek were $777,000, $353,000 and $273,000 in 2015, 2014 and 2013, respectively. Royalties on net sales of Lymphoseek were recorded in cost of goods sold, license maintenance fees and patent-related costs were recorded in research and development expenses, and sublicense fees were recorded in selling, general and administrative expenses.

c. **Employment Agreements:** As of December 31, 2015, we have employment agreements with three senior officers who are directly related to the Business. The employment agreements contain termination and/or change in control provisions that would entitle each of the officers to 1.5 times their annual salaries, vest outstanding restricted stock and options to purchase common stock, and continue certain benefits if there is a termination without cause or change in control of the Company (as defined) and their employment terminates. As of December 31, 2015, our maximum contingent liability under these agreements in such an event is approximately $1.3 million. The employment agreements also provide for severance, disability and death benefits.

9. Employee Benefit Plan

We maintain an employee benefit plan under Section 401(k) of the Internal Revenue Code. The plan allows employees to make contributions and we may, but are not obligated to, match a portion of the employee's contribution with our common stock, up to a defined maximum. We also pay certain expenses related to maintaining the plan. We recorded expenses of $51,000, $42,000 and $31,000 during 2015, 2014 and 2013, respectively, related to employees allocated to the Business.

10. Supplemental Disclosure for Statements of Cash Flows

During 2015, 2014, and 2013, we issued approximately 23,000, 11,000 and 4,000 shares of our common stock, respectively, as matching contributions to our 401(k) Plan which were valued at $42,000, $31,000 and $12,000, respectively, related to employees allocated to the Business.

11. Contingencies

We are subject to legal proceedings and claims that arise in the ordinary course of business. In accordance with ASC Topic 450 - Contingencies, we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Although the outcome of any litigation is uncertain, in our opinion, the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position.

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated financial statements

The following unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of operations are derived from the historical consolidated financial statements of Navidea and give effect to the sale of the Business to Cardinal, the receipt of the net proceeds from the Asset Sale and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma consolidated financial statements.

Pro forma financial information is intended to provide investors with information about the continuing impact of a transaction by showing how a specific transaction might have affected historical financial statements, illustrating the scope of the change in the historical financial position and results of operations. The adjustments made to historical information give effect to events that are directly attributable to the Asset Sale, factually supportable, and expected to have a continuing impact.

The unaudited pro forma consolidated financial statements consist of:

- Unaudited Pro Forma Consolidated Balance Sheet – as of September 30, 2016
- Unaudited Pro Forma Consolidated Statements of Operations – nine months ended September 30, 2016 and 2015
- Unaudited Pro Forma Consolidated Statements of Operations – years ended December 31, 2015, 2014 and 2013

The unaudited pro forma consolidated financial statements have been prepared giving effect to the Asset Sale as if it had occurred as of September 30, 2016 for the unaudited pro forma consolidated balance sheet and as of January 1, 2013, the start date of the first period that is presented pro forma herein, for the unaudited pro forma consolidated statements of operations.

These unaudited pro forma consolidated financial statements should be read in conjunction with the historical audited consolidated financial statements and the notes thereto included in Navidea's Annual Report on Form 10-K for the year ended December 31, 2015 and Quarterly Report on Form 10-Q for the nine months ended September 30, 2016, as filed with the SEC, which are incorporated herein by reference, and with the unaudited annual financial statements of the Business for the years ended December 31, 2015, 2014 and 2013 included herein.

The unaudited pro forma consolidated financial statements are prepared in accordance with Article 11 of Regulation S-X. The pro forma adjustments are described in the accompanying notes and are based upon information and assumptions available at the time of the filing of this proxy statement.

We did not account for the Business as, and it was not operated as, a separate, stand-alone entity, subsidiary or division of Navidea for the periods presented. The unaudited pro forma consolidated financial statements do not purport to represent, and are not necessarily indicative of, what our actual financial position and results of operations would have been had the Asset Sale occurred on the dates indicated. In addition, the unaudited pro forma consolidated financial statements should not be considered to be fully indicative of our future financial performance.

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated BALANCE SHEET

	September 30, 2016 Actual Navidea	Pro Forma Adjustments Business	Asset Sale		September 30, 2016 Pro Forma
ASSETS					
Current assets:					
Cash	$810,425	$—	$13,788,672	a-d	$14,599,097
Restricted cash	3,501,247	—	—		3,501,247
Accounts and other receivables, net	3,474,329	2,829,199	—		645,130
Inventory, net	804,882	804,882	—		—
Prepaid expenses and other	839,978	243,031	—		596,947
Total current assets	9,430,861	3,877,112			19,342,421
Property and equipment	3,584,628	352,256	—		3,232,372
Less accumulated depreciation and amortization	2,210,554	248,664	—		1,961,890
	1,374,074	103,592			1,270,482
Patents and trademarks	222,590	55,509	—		167,081
Less accumulated amortization	41,604	21,209	—		20,395
	180,986	34,300			146,686
Other assets	203,679	—	—		203,679
Total assets	$11,189,600	$4,015,004			$20,963,268
LIABILITIES AND STOCKHOLDERS' DEFICIT					
Current liabilities:					
Accounts payable	$4,894,800	$688,559	$—		$4,206,241
Accrued liabilities and other	7,201,793	1,157,720	(4,665,605)	b	1,378,468
Deferred revenue, current	15,037	—	—		15,037
Notes payable, current	51,652,209	—	(51,652,209)	c	—
Total current liabilities	63,763,839	1,846,279			5,599,746
Deferred revenue	26,061	—	—		26,061
Notes payable	10,549,405	—	(10,549,405)	d-e	—
Other liabilities	624,896	—	—		624,896
Total liabilities	74,964,201	1,846,279			6,250,703
Stockholders' deficit:					
Preferred stock	—		—		—
Common stock	155,751		—		155,751

Additional paid-in capital	326,573,833	3,947,356	f	330,521,189
Accumulated deficit	(390,973,227)	74,539,810	e-g	(316,433,417)
Navidea stockholders' deficit	(64,243,643)			14,243,523
Noncontrolling interest	469,042	—		469,042
Total stockholders' deficit	(63,774,601)			14,712,565
Total liabilities and stockholders' deficit	$ 11,189,600			$ 20,963,268

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

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated STATEMENT OF OPERATIONS

	Nine Months Ended September 30, 2016 Actual	Pro Forma Adjustments		Nine Months Ended September 30, 2016
	Navidea	**Business**	**Asset Sale**	**Pro Forma**
Revenues:				
Lymphoseek sales revenue	$14,704,489	$14,673,689	$—	$30,800
Lymphoseek license revenue	1,795,625	—	—	1,795,625
Grant and other revenue	2,113,995	575	—	2,113,420
Total revenue	18,614,109	14,674,264	—	3,939,845
Cost of goods sold	2,017,486	2,012,301	—	5,185
Gross profit	16,596,623	12,661,963	—	3,934,660
Operating expenses:				
Research and development	6,461,154	1,447,611	—	5,013,543
Selling, general and administrative	9,925,574	4,092,951	—	5,832,623
Total operating expenses	16,386,728	5,540,562	—	10,846,166
Income (loss) from operations	209,895	7,121,401	—	(6,911,506)
Other expense, net	(10,636,987)	(10,530,105)	—	(106,882)
(Loss) income from continuing operations before income tax	(10,427,092)	(3,408,704)	—	(7,018,388)
Income tax benefit	—	1,363,482	1,363,482 h	—
Net (loss) income from continuing operations	(10,427,092)	(2,045,222)	1,363,482	(7,018,388)
Less loss attributable to noncontrolling interest	(516)	—	—	(516)
Net (loss) income attributable to common stockholders	$(10,426,576)	$(2,045,222)	$1,363,482	$(7,017,872)
Loss per share from continuing operations:				
Basic and diluted	$(0.07)			$(0.05)
Weighted average shares outstanding:				

Basic and diluted	155,390,911	155,390,911

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

navidea biopharmaceuticals, inc. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated STATEMENT OF OPERATIONS

	Nine Months Ended September 30, 2015 Actual	Pro Forma Adjustments		Nine Months Ended September 30, 2015
	Navidea	Business	Asset Sale	Pro Forma
Revenues:				
Lymphoseek sales revenue	$6,751,492	$6,737,917	$—	$13,575
Lymphoseek license revenue	883,333	—	—	883,333
Grant and other revenue	1,320,816	279	—	1,320,537
Total revenue	8,955,641	6,738,196	—	2,217,445
Cost of goods sold	1,239,377	1,237,061	—	2,316
Gross profit	7,716,264	5,501,135	—	2,215,129
Operating expenses:				
Research and development	10,180,517	1,650,531	—	8,529,986
Selling, general and administrative	13,485,576	4,821,565	—	8,664,011
Total operating expenses	23,666,093	6,472,096	—	17,193,997
Loss from operations	(15,949,829)	(970,961)	—	(14,978,868)
Other expense, net	(9,103,419)	(5,122,007)	—	(3,981,412)
Loss from continuing operations before income tax	(25,053,248)	(6,092,968)	—	(18,960,280)
Income tax benefit	—	2,437,187	2,437,187 h	—
Net (loss) income from continuing operations	(25,053,248)	(3,655,781)	2,437,187	(18,960,280)
Less loss attributable to noncontrolling interest	(681)	—	—	(681)
Deemed dividend on beneficial conversion feature	(46,000)	—	—	(46,000)
Net (loss) income attributable to common stockholders	$(25,098,567)	$(3,655,781)	$2,437,187	$(19,005,599)
Loss per share from continuing operations:				
Basic and diluted	$(0.17)			$(0.13)
Weighted average shares outstanding:				
Basic and diluted	150,030,638			150,030,638

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

58

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated STATEMENT OF OPERATIONS

	Year Ended December 31, 2015 Actual	Pro Forma Adjustments		Year Ended December 31, 2015
	Navidea	**Business**	**Asset Sale**	**Pro Forma**
Revenues:				
Lymphoseek sales revenue	$10,254,352	$10,235,277	$—	$19,075
Lymphoseek license revenue	1,133,333	—	—	1,133,333
Grant and other revenue	1,861,622	669	—	1,860,953
Total revenue	13,249,307	10,235,946	—	3,013,361
Cost of goods sold	1,754,763	1,751,537	—	3,226
Gross profit	11,494,544	8,484,409	—	3,010,135
Operating expenses:				
Research and development	12,787,733	2,225,004	—	10,562,729
Selling, general and administrative	17,257,329	6,369,183	—	10,888,146
Total operating expenses	30,045,062	8,594,187	—	21,450,875
Loss from operations	(18,550,518)	(109,778)	—	(18,440,740)
Other expense, net	(10,207,677)	(6,218,602)	—	(3,989,075)
Loss from continuing operations before income tax	(28,758,195)	(6,328,380)	—	(22,429,815)
Income tax benefit	436,051	2,531,352	2,531,352 h	436,051
Loss from continuing operations	(28,322,144)	(3,797,028)	—	(21,993,764)
Income from discontinued operations, net of tax	758,609	—	—	758,609
Net loss operations	(27,563,535)	(3,797,028)	2,531,352	(21,235,155)
Less loss attributable to noncontrolling interest	(855)	—	—	(855)
Deemed dividend on beneficial conversion feature	(46,000)	—	—	(46,000)
Net (loss) income attributable to common stockholders	$(27,608,680)	$(3,797,028)	$2,531,352	$(21,280,300)
Loss per share from continuing operations:				
Basic and diluted	$(0.19)			$(0.15)

Weighted average shares outstanding:		
Basic and diluted	151,180,222	151,180,222

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

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated STATEMENT OF OPERATIONS

	Year Ended December 31, 2014 Actual	Pro Forma Adjustments		Year Ended December 31, 2014
	Navidea	**Business**	**Asset Sale**	**Pro Forma**
Revenues:				
Lymphoseek sales revenue	$4,233,953	$4,220,753	$—	$13,200
Lymphoseek license revenue	300,000	—	—	300,000
Grant and other revenue	1,740,896	—	—	1,740,896
Total revenue	6,274,849	4,220,753	—	2,054,096
Cost of goods sold	1,586,145	1,583,519	—	2,626
Gross profit	4,688,704	2,637,234	—	2,051,470
Operating expenses:				
Research and development	16,779,589	1,662,611	—	15,116,978
Selling, general and administrative	15,542,071	6,016,087	—	9,525,984
Total operating expenses	32,321,660	7,678,698	—	24,642,962
Loss from operations	(27,632,956)	(5,041,464)	—	(22,591,492)
Other expense, net	(8,093,713)	(1,674,040)	—	(6,419,673)
Loss from continuing operations before income tax	(35,726,669)	(6,715,504)	—	(29,011,165)
Income tax benefit	—	2,686,202	2,686,202 h	—
Net (loss) income attributable to common stockholders	$(35,726,669)	$(4,029,302)	$2,686,202	$(29,011,165)
Loss per share from continuing operations:				
Basic and diluted	$(0.24)			$(0.20)
Weighted average shares outstanding:				
Basic and diluted	148,748,396			148,748,396

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

60

NAVIDEA BIOPHARMACEUTICALS, INC. AND SUBSIDIARIES

Unaudited Pro Forma Consolidated STATEMENT OF OPERATIONS

	Year Ended December 31, 2013 Actual	Pro Forma Adjustments		Year Ended December 31, 2013
	Navidea	**Business**	**Asset Sale**	**Pro Forma**
Revenues:				
Lymphoseek sales revenue	$614,423	$607,823	$—	$6,600
Grant and other revenue	516,207	—	—	516,207
Total revenue	1,130,630	607,823	—	522,807
Cost of goods sold	332,815	331,397	—	1,418
Gross profit	797,815	276,426	—	521,389
Operating expenses:				
Research and development	23,710,183	6,050,984	—	17,659,199
Selling, general and administrative	15,525,946	4,948,406	—	10,577,540
Total operating expenses	39,236,129	10,999,390	—	28,236,739
Loss from operations	(38,438,314)	(10,722,964)	—	(27,715,350)
Other (expense) income, net	(4,261,144)	(1,517,625)	—	(2,743,519)
Loss from continuing operations before income tax	(42,699,458)	(12,240,589)	—	(30,458,869)
Income tax benefit	—	4,896,236	4,896,236 h	—
Net (loss) income attributable to common stockholders	$(42,699,458)	$(7,344,353)	$4,896,236	$(30,458,869)
Loss per share from continuing operations:				
Basic and diluted	$(0.35)			$(0.25)
Weighted average shares outstanding:				
Basic and diluted	121,808,986			121,808,986

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

NAVIDEA BIOPHARMACEUTICALS, INC. and subsidiaries

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

1. Basis of Presentation

Pro forma information is intended to reflect the impact of the Asset Sale on Navidea's historical financial position and results of operations through adjustments that are directly attributable to the Asset Sale, that are factually supportable and that are expected to have continuing impact. In order to accomplish this, we have eliminated the unaudited financial statements of the Business of Navidea as presented earlier in this proxy statement from the Navidea historical financial statements. We did not account for the Business as, and it was not operated as, a separate, stand-alone entity, subsidiary or division of Navidea for the periods presented. The unaudited pro forma consolidated financial statements do not purport to represent, and are not necessarily indicative of, what our actual financial position and results of operations would have been had the Asset Sale occurred on the dates indicated. In addition, the unaudited pro forma consolidated financial statements should not be considered to be fully indicative of our future financial performance.

These unaudited pro forma consolidated financial statements reflect all adjustments that, in the opinion of management, are necessary to present fairly the pro forma financial position and results of operations.

In the preparation of the pro forma consolidated balance sheet, the assumption was made that the assets were sold and liabilities were assumed by Cardinal pursuant to the Asset Purchase Agreement on September 30, 2016. In the preparation of the pro forma consolidated statements of operations, the assumption was made that the Asset Sale took place on January 1, 2013.

2. Pro Forma Adjustments

The pro forma adjustments to the balance sheet and statements of operations include:

(a) This amount reflects estimated net cash proceeds to be received related to the sale of the Business to Cardinal Health. The sale price is $80.0 million, and we expect to incur approximately $600,000 in costs and expenses related to the transaction.

Cash	$79,400,000

Accumulated deficit		$79,400,000

Of the $600,000 in costs and expenses, $510,000 is payable for legal and professional services and $90,000 is payable for proxy and other special stockholder meeting costs. The cash proceeds amount does not include any of the $230.0 million in potential future earn-out payments, nor does it include any adjustment for net working capital at closing. Pursuant to the Asset Purchase Agreement, if the inventory balance at the time of closing is less than $6.0 million, then the purchase price will be adjusted downward in an amount equal to the deficiency.

(b) This amount represents the interest accrued on the CRG debt of $4.7 million as of September 30, 2016. Pursuant to the Asset Purchase Agreement, interest due to CRG will be paid from the proceeds of the Asset Sale.

Accrued liabilities and other	$4,665,605	
Cash		$4,665,605

(c) This amount represents the principal balance on the CRG debt of $51.7 million as of September 30, 2016. Pursuant to the Asset Purchase Agreement, principal due to CRG will be paid from the proceeds of the Asset Sale.

Notes payable, current	$51,652,209	
Cash		$51,652,209

(d) This amount represents the principal balance on the Platinum debt of $9.3 million as of September 30, 2016. Pursuant to the Asset Purchase Agreement, principal due to Platinum will be paid from the proceeds of the Asset Sale.

Notes payable	$9,293,514	
Cash		$9,293,514

(e) This amount represents the value of the conversion option on the Platinum debt of $1.3 million as of September 30, 2016. Pursuant to the Asset Purchase Agreement, principal due to Platinum will be paid from the proceeds of the Asset Sale. Thus, the related conversion option will be extinguished and will no longer have value.

Notes payable	$1,255,891	
Accumulated deficit		$1,255,891

(f) This amount represents the estimated value of the warrants of $3.9 million as of November 23, 2016 (the date of the Asset Purchase Agreement), to be issued to Cardinal and UCSD upon closing of the Asset Sale.

Accumulated deficit	$3,947,356	

Additional paid-in capital	$3,947,356

(g) This amount represents the excess of the net cash proceeds of the sale over the net book value of the assets and liabilities of the Business of $77.2 million. The Asset Sale is expected to be subject to some amount of Federal, state and local income tax. However, this pro forma adjustment assumes that no income taxes are payable on the Asset Sale as the majority of the gain is expected to be offset by net operating loss carryforwards.

(h) This amount represents the offset of the estimated Business stand-alone tax provision which would have been payable if the Business were a stand-alone company.

The pro forma adjustments to the statements of operations do not include the following revenues and expenses:

- Earn-out payments that Navidea would be entitled to receive upon the achievement of Business revenues through June 30, 2026 as outlined in the Asset Purchase Agreement.

- Expenses related to (a) the termination of employees of the Business, including the payout of accrued but unused paid time off and the vesting of unvested stock options and restricted stock upon the closing of the Asset Sale, and (b) the Asset Sale of $600,000, as such expenses would not be recurring.

PROPOSAL NO. 1 – THE ASSET SALE AND THE ASSET PURCHASE AGREEMENT

As discussed in this proxy statement, the Company and its Board of Directors are asking our stockholders to approve the Asset Sale pursuant to the terms of the Asset Purchase Agreement. You should read carefully this proxy statement in its entirety for more detailed information concerning the Asset Purchase Agreement, which is attached as *Appendix A* to this proxy statement. Please see the section entitled "The Asset Sale" and the "Asset Purchase Agreement" for additional information and a summary of the material terms of the Asset Purchase Agreement. You are urged to read carefully the entire Asset Purchase Agreement included as *Appendix A* before voting on this proposal. Approval of this proposal is a condition to the completion of the Asset Sale.

The Board of Directors recommends unanimously that stockholders vote "FOR" the proposal to approve the Asset Sale pursuant to the terms of the Asset Purchase Agreement.

PROPOSAL NO. 2 – APPROVAL OF THE 2016 STOCK INCENTIVE PLAN

Introduction

The Company's Board of Directors, following a recommendation by the Compensation, Nominating and Governance Committee of the Board of Directors (the "CNG Committee"), approved and adopted the Navidea Biopharmaceuticals, Inc. 2016 Stock Incentive Plan (the "2016 Plan"), subject to the approval of the 2016 Plan by the Company's stockholders. A copy of the 2016 Plan is attached as *Appendix B* to this Proxy Statement, and this discussion is qualified in its entirety by reference to the full text of the 2016 Plan.

The Board of Directors and the CNG Committee believe that the adoption of the 2016 Plan is in the best interests of the Company. The purpose of the 2016 Plan is to promote the achievement of both short-term and long-term objectives of the Company by (a) aligning compensation of participants with the interests of Company stockholders, (b) enhancing the interest of participants in the growth and success of the Company, and (c) attracting and retaining participants of outstanding competence.

The 2016 Plan provides that the number of shares of common stock of the Company available for awards under the 2016 Plan will be 10,000,000. Total potential dilution (as a percentage of basic shares of the Company's common stock outstanding as of November 15, 2016) associated with the 10,000,000 shares of the Company's common stock authorized for grant under the 2016 Plan is approximately 6.4%.

The Board has approved, and is asking the Company's stockholders to approve, the issuance of up to 10,000,000 shares of stock under the 2016 Plan. Adoption of the 2016 Plan would give the CNG Committee the flexibility to grant awards for approximately 4 years at a rate consistent with the Company's average usage rate under its prior 2014 Stock Incentive Plan of approximately 1.3 million shares per year over the past two years, after giving effect to the 5,000,000 stock options exercisable at $1.00 per share that the Board granted on September 22, 2016 to the Company's President and CEO, Dr. Michael Goldberg, in accordance with his Employment Agreement, subject to stockholder approval of the 2016 Plan. If stockholder approval of the 2016 Plan is not obtained at the Special Meeting, for a period of five years from the date of the Special Meeting, if certain specified conditions are met, Dr. Goldberg shall be entitled to a cash bonus upon his written notice to the Company calculated as the per share closing price of our common stock on the date of such notice minus $1.00 multiplied by 5,000,000.

The 2016 Plan has been designed to meet the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code Section 162(m)"), regarding deductibility of executive compensation, discussed below. The basic features of the 2016 Plan are as follows.

Administration

The 2016 Plan will be administered by the CNG Committee, or such other committee as the Board shall appoint from time to time, which shall consist of two or more directors, all of whom are intended to satisfy the requirements for an "outside director" under Code Section 162(m), a "non-employee director" within the meaning of SEC Rule 16b-3, and an "independent director" under the rules of the NYSE MKT. The CNG Committee has the discretion to interpret the 2016 Plan and any award or other agreement employed by the Company in the administration of the 2016 Plan. Subject to the provisions of the 2016 Plan, the CNG Committee has the power to:

- determine when and to whom awards will be granted;
- make awards under the 2016 Plan;
- determine the fair market value of shares or other property, where applicable;
- determine the terms, conditions, and restrictions applicable to each award and any shares acquired pursuant to such awards;
- determine how an award will be settled;
- approve one or more forms of award agreements;
- amend, modify, extend, cancel, or renew any award or waive any restrictions or conditions applicable to any award or any shares acquired upon the exercise of an award;
- accelerate, continue, extend, or defer the exercisability of any award or the vesting of any shares acquired upon the exercise of an award;
- prescribe, amend, or rescind any rules and regulations relating to the administration of the 2016 Plan; and
- make all other determinations necessary or advisable for the administration of the 2016 Plan.

Notwithstanding the foregoing, the Board of Directors shall perform the functions of the CNG Committee for purposes of granting awards to non-employee directors.

Eligibility

The 2016 Plan gives the CNG Committee full discretion to designate any non-employee director of the Company, employee of the Company or an affiliate, or consultant of the Company or a subsidiary as a participant in the 2016 Plan. The Company currently has four non-employee directors, and the Company and its affiliates currently have approximately 40 employees eligible to participate in the 2016 Plan.

Number of Shares and Limitations

If approved by stockholders, the total number of shares of common stock of the Company available for distribution under the 2016 Plan after the date of approval is 10,000,000 (subject to adjustment for future stock splits, stock dividends, and similar changes in the capitalization of the Company).

The following shares related to awards will be available for issuance again under the 2016 Plan:

- shares related to awards paid in cash;
- shares related to awards that expire, are forfeited, are cancelled, or terminate for any other reason without the delivery of the shares;
- shares equal in number to the shares withheld, surrendered or tendered in payment of the exercise price of an award; and
- shares tendered or withheld in order to satisfy tax withholding obligations.

Performance Targets and Code Section 162(m)

Awards under the 2016 Plan may be conditioned upon the attainment of performance targets. Awards may be based on any number and type of performance targets that the CNG Committee determines are desirable. The performance measured may be that of the Company, its affiliates, or business units within the Company or affiliates. In setting performance targets, the CNG Committee may assign payout percentages to various levels of performance that will be applied to reduce or increase the payout connected to the award when performance over a performance period either falls short of or exceeds the performance target.

With respect to awards intended to qualify as “performance-based compensation” under Code Section 162(m), such performance targets will be based on one or any combination of two or more performance measures listed in Section 13.1(b) of the 2016 Plan. The CNG Committee may provide in any such award that any evaluation of performance may include or exclude any extraordinary events described in Section 13.1(c) of the 2016 Plan. To the extent such inclusions or exclusions affect awards to “covered employees” under Code Section 162(m), they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility except as otherwise determined by the Committee in its sole discretion. Awards that are intended to qualify as “performance-based compensation” under Code Section 162(m) may not be adjusted upward. The CNG Committee shall retain the discretion to adjust such awards downward, either on a formula or discretionary basis or a combination of the two, as the Committee determines.

Awards that are not intended to qualify as “performance-based compensation” under Code Section 162(m) may be based on these or other performance measures, as determined by the CNG Committee.

Types of Awards

The types of awards that may be granted under the 2016 Plan include incentive and nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, cash-based awards, and other stock-based awards.

Subject to certain restrictions applicable to incentive stock options, awards granted under the 2016 Plan will be exercisable by the participants at such times as are determined by the CNG Committee, but in no event may the term of an award be longer than ten years after the date of grant. In addition to the general characteristics of all of the awards described above, the basic characteristics of awards that may be granted under the 2016 Plan are as follows:

Incentive and Nonqualified Stock Options ("ISOs" and "NSOs"). Both incentive and nonqualified stock options may be granted to participants at such exercise prices as the CNG Committee may determine, but the exercise price for any option may not be less than 100% of the fair market value (as defined in the 2016 Plan) of a share of common stock of the Company as of the date the option is granted. Stock options may be granted and exercised at such times as the CNG Committee may determine, except that (a) ISOs may be granted only to employees, (b) no ISOs may be granted more than ten years after the effective date of the 2016 Plan, (c) an option shall not be exercisable more than ten years after the date of grant, and (d) the aggregate grant date fair market value of the shares of common stock of the Company with respect to which ISOs granted under the 2016 Plan and any other plan of the Company first become exercisable in any calendar year for any employee may not exceed $100,000. Additional restrictions apply to an ISO granted to an individual who beneficially owns more than 10% of the combined voting power of all classes of stock of the Company.

The purchase price payable upon exercise of options generally may be paid in any of the following methods:

- in cash;
- by authorizing a third party with which the optionee has a brokerage or similar account to sell the shares (or a sufficient portion of such shares) acquired upon the exercise of the option and remit to the Company a portion of the sale proceeds sufficient to pay the entire option exercise price;
- by delivering shares that have an aggregate fair market value on the date of exercise equal to the option exercise price;
- by authorizing the Company to withhold from the total number of shares as to which the option is being exercised the number of shares having a fair market value on the date of exercise equal to the aggregate option exercise price for the total number of shares as to which the option is being exercised;
- by such other means by which the CNG Committee determines to be consistent with the purpose of the 2016 Plan and applicable law; or
- by any combination of items listed above.

Stock Appreciation Rights ("SARs"). The value of a SAR granted to a participant is determined by the appreciation in the number of shares of common stock of the Company subject to the SAR during its term, subject to any limitations upon the amount or percentage of total appreciation that the CNG Committee may determine at the time the right is granted. The participant receives all or a portion of the amount by which the fair market value of a specified number of shares, as of the date the SAR is exercised, exceeds a price specified by the CNG Committee at the time the right is granted. The price specified by the CNG Committee must be at least 100% of the fair market value of the specified number of shares of common stock of the Company to which the right relates, determined as of the date the SAR is granted. A SAR may be granted in connection with a previously or contemporaneously granted option, or independent of any option. A SAR may be paid in cash, shares of common stock of the Company or a combination of cash and shares as determined by the CNG Committee. No SAR may be exercised more than ten years after its date of grant.

Restricted Stock and Restricted Stock Units ("RSUs"). The CNG Committee may grant participants awards of restricted stock and RSUs. Restricted stock involves the granting of shares to participants subject to restrictions on transferability and any other restrictions the Committee may impose. The restrictions lapse if either the holder continues to perform services to the Company or its affiliates for a specified period of time established by the CNG Committee under the applicable award agreement or satisfies other restrictions, including performance-based restrictions, during the period of time established by the CNG Committee. RSUs are similar to restricted stock except that no shares actually are awarded to the participant on the date of grant, and the holder typically does not enjoy any stockholder rights with respect to the units. Restricted stock awards are settled in shares. RSU awards may be settled in cash, shares, or a combination of cash and shares, as determined by the CNG Committee and provided in the applicable award agreement.

Performance Shares. The CNG Committee may grant participants awards of performance shares. The period of time over which performance targets are measured will be of such duration as the CNG Committee shall determine in an award agreement. Upon satisfaction of the applicable performance targets during the performance period, the participant will be entitled to receive shares of common stock of the Company.

Performance Units. The CNG Committee may grant participants awards of performance units. The period of time over which the performance goals are measured will be no less than two years, unless otherwise determined by the CNG Committee in an award agreement. Upon satisfaction of the applicable performance targets during the performance period, the participant will be entitled to receive either shares, cash, or a combination of shares and cash as determined by the CNG Committee in an award agreement.

Cash-Based Awards. Cash-based awards entitle the participants to payments of amounts of cash determined by the CNG Committee based upon the achievement of specified performance targets during a specified performance period, which typically will be one year unless otherwise determined by the CNG Committee. Each cash-based award will have its value determined by the CNG Committee.

Other Stock-Based Awards. The CNG Committee may also grant other awards that are valued in whole or in part by reference to, or are otherwise based on and/or payable in, shares of common stock of the Company. Other stock-based awards are a catch-all category to provide for awards of stock-based compensation that do not fit within the scope of the other specifically described types of awards. Payments with respect to other stock-based awards may be made in cash, shares, or a combination of cash and shares as determined by the CNG Committee. The CNG Committee has the discretion to determine the terms and conditions of these other stock-based awards.

Transferability

In general, awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code or Title 1 of the Employee Retirement Income Security Act or the rules thereunder. Except as otherwise provided in the 2016 Plan, all rights with respect to an award granted to a participant shall be available during his or her lifetime only to such participant. Notwithstanding the foregoing, a participant, at any time prior to his death, may assign all or any portion of an NSO or SAR to:

- the participant’s spouse or lineal descendant;
- the trustee of a trust for the primary benefit of the participant’s spouse or lineal descendant; or
- a tax-exempt organization as described in Internal Revenue Code Section 501(c)(3).

Notwithstanding the foregoing, non-employee directors may assign all or any portion of any award granted to them to assignees described above. In the event of an assignment, the spouse, lineal descendant, trustee or tax-exempt organization shall be entitled to all of the rights of the participant with respect to the assigned portion of such award, and such portion of the award shall continue to be subject to all of the terms, conditions and restrictions applicable to the award as set forth in the 2016 Plan and in the related award agreement, immediately prior to the effective date of the assignment. Any such assignment shall be permitted only if (i) the participant does not receive any consideration therefore, and (ii) the assignment is expressly approved by the Committee or its delegate. Further notwithstanding the foregoing, no incentive stock option may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or the laws of descent or distribution.

Duration, Adjustments, Modifications, Terminations

The 2016 Plan will remain in effect until all shares of the Company subject to the 2016 Plan are distributed, or the 2016 Plan is terminated as described below.

In the event of a recapitalization, stock split, reverse stock split, spin-off, spin-out or other distribution of assets to stockholders, stock distributions or combinations of shares, payment of stock dividends, other increase or decrease in the number of such shares outstanding effected without receipt of consideration by the Company, or any other occurrence for which the CNG Committee determines an adjustment is appropriate, the CNG Committee shall equitably adjust the number and type of shares available for awards or the number and type of shares and amount of cash subject to outstanding awards, the option exercise price of outstanding options, and provisions regarding payment with respect to outstanding awards. The CNG Committee has the discretion to make similar adjustments in connection with other changes in the Company's capitalization, including due to a merger, reorganization, or consolidation.

The 2016 Plan also gives the Board and the CNG Committee the right to terminate, suspend or amend the 2016 Plan without the authorization of stockholders to the extent allowed by law, including without limitation any rules issued by the Securities and Exchange Commission under Section 16 of the Securities Exchange Act of 1934, insofar as stockholder approval thereof is required in order for the 2016 Plan to continue to satisfy the requirements of SEC Rule 16b-3, or the rules of any applicable stock exchange. No termination, suspension or amendment of the 2016 Plan shall adversely affect any right acquired by any participant under an award granted before the date of such termination, suspension or amendment, unless such participant shall consent; but it shall be conclusively presumed that any adjustment for changes in capitalization as provided for herein does not adversely affect any such right.

Upon a change in control, all outstanding awards shall become fully exercisable and all restrictions thereon shall terminate; provided, however, that notwithstanding the above, with respect to performance shares, performance units, cash-based awards, and other stock-based awards, the Committee shall determine and provide through an award agreement or other means the extent of vesting and the treatment of partially completed performance periods for any such performance shares, performance units, cash-based awards, and other stock-based awards outstanding upon a change in control. Further, the CNG Committee, as constituted before such change in control, is authorized, and has sole discretion, as to any award, either at the time such award is granted or any time thereafter, to take any one or more of the following actions:

- provide for the cancellation of any such award for an amount of cash equal to the difference between the exercise price and the then fair market value of the shares covered thereby had such award been currently exercisable;
- make such adjustment to any such award then outstanding as the CNG Committee deems appropriate to reflect such change in control; or
- cause any such award then outstanding to be assumed, by the acquiring or surviving corporation, after such change in control.

Federal Tax Considerations

The Company has been advised by its counsel that awards made under the 2016 Plan generally will result in the following tax events for United States citizens under current United States federal income tax laws.

<u>Nonqualified Stock Options</u>. A participant will have no taxable income, and the Company will not be entitled to any related deduction, at the time a NSO is granted under the 2016 Plan. At the time of exercise of NSOs, the participant will realize ordinary income, and the Company will be entitled to a deduction equal to the excess of the fair market value of the stock on the date of exercise over the option exercise price. Upon disposition of the shares, any additional gain or loss realized by the participant will be taxed as a capital gain or loss.

Incentive Stock Options. A participant will have no taxable income, and the Company will not be entitled to any related deduction, at the time an ISO is granted under the 2016 Plan. If a participant disposes of shares acquired from the exercise of an ISO no earlier than (a) two years after the grant of the option and (b) one year after the exercise of the option (both (a) and (b) collectively referred to as the “Holding Periods”), then no taxable income will result upon the exercise of such ISO, and the Company will not be entitled to any deduction in connection with such exercise. Upon disposition of the shares after expiration of the Holding Periods, any gain or loss realized by a participant will be a capital gain or loss. The Company will not be entitled to a deduction with respect to a disposition of the shares by a participant after the expiration of the Holding Periods.

Except in the event of death, if the participant disposes of the shares before the end of the Holding Periods (a “Disqualifying Disposition”), such participant will recognize a gain (taxable at ordinary income tax rates) which equals the lesser of (a) the difference between the fair market value on the exercise date and the option exercise price, or (b) the difference between the sale price of the shares and the option exercise price on the date of sale. The balance, if any, will be taxed as short-term or long-term capital gain, depending upon how long the participant held the shares. The Company will be entitled to a deduction at the same time and in the same amount as the participant is deemed to have realized ordinary income. If the participant pays the option exercise price with shares that were originally acquired pursuant to the exercise of an ISO and the Holding Periods for such shares have not been met, the participant will be treated as having made a Disqualifying Disposition of such shares, and the tax consequence of such Disqualifying Disposition will be as described above.

For alternative minimum tax purposes, an ISO will be treated as if it were a nonqualified stock option, the tax consequences of which are discussed previously.

Stock Appreciation Rights. There will be no federal income tax consequences to either the participant or the Company upon the grant of an SAR. The participant, however, generally must recognize ordinary taxable income upon the exercise or surrender of an SAR in an amount equal to the fair market value (on the date of exercise) of the shares exercised, less the exercise price. Gain or loss recognized upon any later sale or other disposition of the acquired shares generally will be a capital gain or loss.

Restricted Stock. Unless the participant files an election to be taxed under Code Section 83(b), the participant will not realize income upon the grant of restricted stock. Instead, the participant will realize ordinary income, and the Company will be entitled to a corresponding deduction, when the restrictions lapse. The amount of such ordinary income and deduction will be the fair market value of the restricted stock on the date the restrictions lapse. If the participant files an election to be taxed under Code Section 83(b), the tax consequences to the participant and the Company will be determined as of the date of the grant of the restricted stock rather than as of the date of the lapse of the restrictions.

When the participant disposes of restricted stock, the difference between the amount received upon such disposition and the fair market value of such shares on the date the participant realizes ordinary income will be treated as a capital gain or loss.

Restricted Stock Units. A recipient of RSUs will not recognize taxable income upon the award of RSUs, and the Company will not be entitled to a deduction at such time. Upon payment or settlement of a RSU award, the participant will recognize ordinary income equal to the value of the shares or cash received and the Company will be entitled to a corresponding deduction. Upon disposition of shares received by a participant in payment of an award, the participant will recognize capital gain or loss equal to the difference between the amount received upon such disposition and the fair market value of the shares on the date they were originally received by the participant.

Performance Shares, Performance Units, and Cash-Based Awards. Generally, the participant will not realize taxable income on the date of grant of a performance share, performance unit, or cash-based award. Instead, the participant will realize ordinary income, and the Company will be entitled to a corresponding deduction, in the year cash, shares, or a combination of cash and shares are delivered to the participant in payment of the award. The amount of such ordinary income and deduction will be the amount of cash received plus the fair market value of the shares received, if any, on the date of issuance. Upon disposition of shares received by a participant in payment of an award, the participant will recognize capital gain or loss equal to the difference between the amount received upon such disposition and the fair market value of the shares on the date they were originally received by the participant.

Code Section 162(m). Compensation of the Company's Chief Executive Officer and its three most highly compensated executive officers (not including the Chief Executive Officer and Chief Financial Officer) is subject to the tax deduction limits of Code Section 162(m). Awards that qualify as "performance-based compensation," however, will be exempt from Code Section 162(m), thus allowing the Company the full tax deduction otherwise permitted for such awards. The CNG Committee intends to structure awards under the 2016 Plan to be deductible under Code Section 162(m) unless the CNG Committee determines that compliance with Code Section 162(m)'s performance-based rules is not in the best interest of the Company. If approved by the Company's stockholders, the 2016 Plan will enable the CNG Committee to grant awards that will be exempt from the deduction limits of Section 162(m) of the Code.

Code Section 409A. Code Section 409A provides that covered amounts deferred under a nonqualified deferred compensation plan are includable in the participant's gross income to the extent not subject to a substantial risk of forfeiture and not previously included in income, unless certain requirements are met, including limitations on the timing of deferral elections and events that may trigger the distribution of deferred amounts. The 2016 Plan has been designed so that awards should be exempt from coverage under Code Section 409A. Certain terms have been defined in a manner so that if awards are subject to Code Section 409A, they should comply with Code Section 409A.

Forfeiture and Over/Under Payments

The CNG Committee may specify in an award agreement that the participant's rights, payments, and benefits with respect to an award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of specified events, in addition to any otherwise applicable vesting or performance conditions of an award. Such events may include, but shall not be limited to, termination of service for cause or any act by a participant, whether before or after termination of service, that would constitute cause for termination of service.

If any participant or beneficiary receives an underpayment of shares or cash payable under the terms of any award, payment of any such shortfall shall be made as soon as administratively practicable. If any participant or beneficiary receives an overpayment of shares or cash payable under the terms of any award for any reason, the CNG Committee or its delegate shall have the right, in its sole discretion, to take whatever action it deems appropriate, including but not limited to the right to require repayment of such amount or to reduce future payments under the 2016 Plan, to recover any such overpayment. Notwithstanding the foregoing, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, and if the participant knowingly or through gross negligence engaged in the misconduct, or knowingly or through gross negligence failed to prevent the misconduct, or if the participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002, the participant shall reimburse the Company the amount of any payment in settlement of an award earned or accrued during the twelve-month period following the first public issuance or filing with the SEC of the financial document embodying such financial reporting requirement.

Withholding

The 2016 Plan permits the Company to withhold from awards an amount sufficient to cover any required withholding taxes. The 2016 Plan also permits the Company to require a participant to remit to the Company an amount sufficient to satisfy any required withholding taxes. In lieu of cash, the CNG Committee may permit a participant to cover withholding obligations through a reduction in the number of shares to be delivered to such participant or by delivery of shares already owned by the participant.

New Plan Benefits

Awards under the 2016 Plan are made at the discretion of our Board or CNG Committee. Other than the stock option for 5,000,000 shares exercisable at $1.00 per share that the Board granted on September 22, 2016 to Dr. Goldberg, our President and Chief Executive Officer, pursuant to his Employment Agreement and subject to stockholder approval of the 2016 Plan, it is not possible to determine the benefits or amounts that will be received by eligible participants under the 2016 Plan after the date of this proxy statement because no decisions have been made on the amount and type of awards to be granted under the 2016 Plan to eligible participants in the future.

Equity Compensation Plan Information

The following table sets forth additional information as of November 15, 2016 concerning shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not approved by stockholders. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

	(1) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	**(2) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**(3) Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (1))**
Equity compensation plans approved by security holders [(a)]	3,696,731	$ 1.97	3,188,817
Equity compensation plans not approved by security holders	—	—	—
Total	3,696,731	$ 1.97	3,188,817

(a) Our stockholders ratified the 2014 Stock Incentive Plan (the 2014 Plan) at the 2014 Annual Meeting of Stockholders held on July 17, 2014. The total number of shares available for awards under the 2014 Plan shall not exceed 5,000,000 shares, plus any shares subject to outstanding awards granted under prior plans and that expire or terminate for any reason. Although instruments are still outstanding under the Fourth Amended and Restated 2002 Stock Incentive Plan (the 2002 Plan), the plan has expired and no new grants may be made from it. The total number of securities to be issued upon exercise of outstanding options includes 1,390,325 issued under the 2014 Plan and 3,046,739 issued under the 2002 Plan.

Required Vote

Approval of the 2016 Plan requires the affirmative vote of a majority of the shares represented and voting, in person or by proxy, at the Special Meeting.

The Board of Directors recommends that our stockholders vote "FOR" the proposal to approve the Company's 2016 Stock Incentive Plan.

PROPOSAL NO. 3 – ADJOURNMENT

If there are insufficient votes at the time of the Special Meeting to approve and adopt the Asset Sale pursuant to the terms of the Asset Purchase Agreement, we may adjourn our Special Meeting for the purpose of soliciting additional proxies in favor of such proposal. We do not intend to propose adjournment at our Special Meeting if there are sufficient votes to approve and adopt the Asset Sale pursuant to the terms of the Asset Purchase Agreement.

Vote Required

If approval of the proposal to adjourn our Special Meeting for the purpose of soliciting additional proxies is submitted to our stockholders for approval, such approval requires the affirmative vote of a majority of the shares of our Common Stock represented, in person or by proxy, and entitled to vote at the Special Meeting.

The Board of Directors recommends that our stockholders vote "FOR" approval of the adjournment of the Special Meeting, if necessary, to solicit additional proxies.

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 15, 2016, certain information with respect to the beneficial ownership of shares of our common stock by: (i) each person known to us to be the beneficial owner of more than 5% of our outstanding shares of common stock, (ii) each director or nominee for director of our Company, (iii) each of the Named Executive Officers (see "Executive Compensation – Summary Compensation Table"), and (iv) our directors and executive officers as a group.

Beneficial Owner	**Number of Shares Beneficially Owned (*)**		**Percent of Class (**)**	
Frederick O. Cope, Ph.D.	751,975	(a)	—	(m)
Anthony S. Fiorino, M.D., Ph.D.	—	(b)	—	(m)
Michael M. Goldberg, M.D.	5,787,002	(c)	3.6	%
Ricardo J. Gonzalez	—	(d)	—	(m)
Mark I. Greene, M.D., Ph.D., FRCP	12,838	(e)	—	(m)
Thomas J. Klima	107,648	(f)	—	(m)
Brent L. Larson	1,019,619	(g)	—	(m)
Y. Michael Rice	—	(h)	—	(m)
Eric K. Rowinsky, M.D.	270,210	(i)	—	(m)
Michael B. Tomblyn, M.D.	—	(j)	—	(m)
All directors and executive officers as a group (9 persons)	7,373,885	(k)(n)	4.5	%
Platinum-Montaur Life Sciences, LLC	15,545,712	(l)	9.9	%

(*) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those securities. Unless otherwise indicated, voting and investment power are exercised solely by the person named above or shared with members of such person's household.

(**) Percent of class is calculated on the basis of the number of shares outstanding on November 15, 2016, plus the number of shares the person has the right to acquire within 60 days of November 15, 2016.

(a) This amount includes 659,760 shares issuable upon exercise of options which are exercisable within 60 days and 16,401 shares in Dr. Cope's account in the 401(k) Plan, but it does not include 50,000 shares of unvested restricted stock and 210,750 shares issuable upon exercise of options which are not exercisable within 60 days.

(b) This amount does not include 28,000 shares of unvested restricted stock.

(c) This amount does not include 28,000 shares of unvested restricted stock, but it does include Series LL warrants to purchase 5,411,850 shares of common stock that Dr. Goldberg acquired from Platinum pursuant to an agreement effective March 28, 2014, and amended effective June 11, 2015 (the Separation Agreement). In addition, the Separation Agreement provides for the transfer to Dr. Goldberg of a 15% interest in the Platinum Loan Agreement, including any common stock issued upon exercise of the conversion rights therein.

(d) Mr. Gonzalez separated from the Company effective May 13, 2016. All of Mr. Gonzalez's stock options were forfeited as of the date of separation.

(e) This amount does not include 28,000 shares of unvested restricted stock.

(f) This amount includes 106,598 shares issuable upon exercise of options which are exercisable within 60 days, but it does not include 50,000 shares of unvested restricted stock and 50,000 shares issuable upon exercise of options which are not exercisable within 60 days.

(g) Mr. Larson separated from the Company effective October 9, 2016. This amount is based on Mr. Larson's most recent SEC ownership filings as well as the Company's best knowledge and belief. This amount includes 696,335 shares issuable upon exercise of options which are exercisable within 60 days and 101,047 shares in Mr. Larson's account in the 401(k) Plan, but it does not include 198,166 shares issuable upon exercise of options which are not exercisable within 60 days.

(h) This amount does not include 28,000 shares of unvested restricted stock.

(i) This amount includes 73,764 shares issuable upon exercise of options which are exercisable within 60 days, but it does not include 45,000 shares of unvested restricted stock.

(j) Dr. Tomblyn separated from the Company effective February 19, 2016. All of Dr. Tomblyn's stock options and restricted stock were forfeited as of the date of separation.

(k) This amount includes 1,246,527 shares issuable upon exercise of options which are exercisable within 60 days, and 25,258 shares held in the 401(k) Plan on behalf of certain officers, but it does not include 257,000 shares of unvested restricted stock and 450,750 shares issuable upon the exercise of options which are not exercisable within 60 days. The Company itself is the trustee of the Navidea Biopharmaceuticals, Inc. 401(k) Plan and may, as such, share investment power over common stock held in such plan. The trustee disclaims any beneficial ownership of shares held by the 401(k) Plan. The 401(k) Plan holds an aggregate total of 246,625 shares of common stock.

(l) Based on information as of June 14, 2016 filed on Schedule 13D/A with the Securities and Exchange Commission on June 28, 2016. Platinum, 250 West 55th Street, 14th Floor, New York, NY 10019, holds 4,365,280 Series LL warrants, each warrant convertible into one share of our common stock at an exercise price of $0.01 per share. The Series LL Warrants provide that the holder may not exercise any portion of the warrants to the extent that such exercise would result in the holder and its affiliates together beneficially owning more than 9.99% of the outstanding shares of common stock, except on 61 days' prior written notice to Navidea that the holder waives such limitation (the blocker). The number of shares beneficially owned by Platinum includes 336,449 shares of common stock issuable upon exercise of Series LL warrants, but does not include 4,028,831 additional shares of common stock issuable upon exercise of Series LL warrants that are subject to the blocker.

(m) Less than one percent.

(n) The address of all directors and executive officers is c/o Navidea Biopharmaceuticals, Inc., 5600 Blazer Parkway, Suite 200, Dublin, OH 43017.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program. The CNG Committee of the Board of Directors is responsible for establishing and implementing our compensation policies applicable to senior executives and monitoring our compensation practices. The CNG Committee seeks to ensure that our compensation plans are fair, reasonable and competitive. The CNG Committee is responsible for reviewing and approving all senior executive compensation, all awards under our cash bonus plan, and awards under our equity-based compensation plans.

Philosophy and Goals of Executive Compensation Plans. The CNG Committee's philosophy for executive compensation is to:

- Pay for performance: The CNG Committee believes that our executives should be compensated based upon their ability to achieve specific operational and strategic results. Therefore, our compensation plans are designed to provide rewards for the individual's contribution to our performance.

- Pay commensurate with other companies categorized as value creators: The CNG Committee has set a goal that the Company should move towards compensation levels for senior executives that are at or above the 40th to 50th percentile for similar executives in the workforce while taking into account current market conditions and Company performance. This allows us to attract, hire, reward and retain senior executives who formulate and execute our strategic plans and drive exceptional results.

To ensure our programs are competitive, the CNG Committee periodically reviews compensation information of peer companies, national data and trends in executive compensation to help determine the appropriateness of our plans and compensation levels. These reviews, and the CNG Committee's commitment to pay for performance, become the basis for the CNG Committee's decisions on compensation plans and individual executive compensation payments.

The CNG Committee has approved a variety of programs that work together to provide a combination of basic compensation and strong incentives. While it is important for us to provide certain base level salaries and benefits to remain competitive, the CNG Committee's objective is to provide compensation plans with incentive opportunities that motivate and reward executives for consistently achieving superior results. The CNG Committee designs our compensation plans to:

- Reward executives based upon overall company performance, their individual contributions and creation of stockholder value;
- Encourage top performers to make a long-term commitment to our Company; and
- Align executive incentive plans with the long-term interests of stockholders.

The CNG Committee reviews competitive information and individual compensation levels at least annually. During the review process, the CNG Committee addresses the following questions:

- Do any existing compensation plans need to be adjusted to reflect changes in competitive practices, different market circumstances or changes to our strategic initiatives?
- Should any existing compensation plans be eliminated or new plans be added to the executive compensation programs?
- What are the compensation-related objectives for our compensation plans for the upcoming fiscal year?
- Based upon individual performance, what compensation modifications should be made to provide incentives for senior executives to perform at superior levels?

In addressing these questions, the CNG Committee considers input from management, outside compensation experts and published surveys of compensation levels and practices.

The CNG Committee does not believe that our compensation policies and practices for our employees give rise to risks that are reasonably likely to have a material adverse effect on the Company. As noted below, our incentive-based compensation is generally tied to Company financial performance (i.e., revenue or gross margin) or product development goals (i.e., clinical trial progress or regulatory milestones). The CNG Committee believes that the existence of these financial performance incentives creates a strong motivation for Company employees to contribute towards the achievement of strong, sustainable financial and development performance, and believes that the Company has a strong set of internal controls that minimize the risk that financial performance can be misstated in order to achieve incentive compensation payouts.

In addition to the aforementioned considerations, the CNG Committee also takes into account the outcome of stockholder advisory ("say-on-pay") votes, taken every three years, on the compensation of our Chief Executive Officer, Chief Financial Officer, and our other three highest-paid executive officers (the Named Executive Officers). At the Annual Meeting of Stockholders held on July 17, 2014, approximately 74% of our stockholders voted in favor of the resolution relating to the compensation of our Named Executive Officers. The CNG Committee believes this affirmed stockholders' support of the Company's executive compensation program, and as such did not change its approach in 2015. The CNG Committee will continue to consider the results of future say-on-pay votes when making future compensation decisions for the executive officers.

Scope of Authority of the CNG Committee. The Board of Directors has authorized the CNG Committee to establish the compensation programs for all executive officers and to provide oversight for compliance with our compensation philosophy. The CNG Committee delegates the day-to-day administration of the compensation plans to management (except with respect to our executive officers), but retains responsibility for ensuring that the plan administration is consistent with the Company's policies. Annually, the CNG Committee sets the compensation for our executive officers, including objectives and awards under incentive plans. The Company's Chief Executive Officer provides input for the CNG Committee regarding the performance and appropriate compensation of the other officers. The CNG Committee gives considerable weight to the CEO's evaluation of the other officers because of his direct knowledge of each officer's performance and contributions. The CNG Committee also makes recommendations to the Board of Directors on appropriate compensation for the non-employee directors. In addition to overseeing the compensation of executive officers, the CNG Committee approves awards under short-term cash incentive and long-term equity-based compensation plans for all other employees. For more information on the CNG Committee's role, see the CNG Committee's charter, which can be found on our website at www.navidea.com.

Independent Compensation Expertise. The CNG Committee is authorized to retain independent experts to assist in evaluating executive compensation plans and in setting executive compensation levels. These experts provide information on trends and best practices so the CNG Committee can formulate ongoing plans for executive compensation. The CNG Committee retained Pearl Meyer & Partners (Pearl Meyer) as its independent expert to assist in the determination of the reasonableness and competitiveness of the executive compensation plans and senior executives' individual compensation levels for fiscal 2015. No conflict of interest exists that would prevent Pearl Meyer from serving as independent consultant to the CNG Committee.

For fiscal 2015, Pearl Meyer performed a benchmark compensation review of our key executive positions, including our Named Executive Officers. Pearl Meyer utilized both published survey and proxy reported data from compensation peers, with market data aged to March 1, 2016 by an annualized rate of 3.0%, the expected pay increase in 2016 for executives in the life sciences industry.

In evaluating appropriate executive compensation, it is common practice to set targets at a point within the competitive marketplace. The CNG Committee sets its competitive compensation levels based upon its compensation philosophy. Following completion of the Pearl Meyer study for 2015, the CNG Committee noted that our overall executive compensation was, in aggregate, below the 25th percentile for an established peer group of companies.

Peer Group Companies. In addition to independent survey analysis, in 2015 the CNG Committee also reviewed the compensation levels at specific competitive benchmark companies. With input from management, the CNG Committee chose the peer companies because they operate within the biotechnology industry, have market capitalization between $100 million and $500 million, have similar business models to our Company or have comparable key executive positions. While the specific plans for these companies may or may not be used, it is helpful to review their compensation data to provide benchmarks for the overall compensation levels that will be used to attract, hire, retain and motivate our executives.

As competitors and similarly situated companies that compete for the same executive talent, the CNG Committee determined that the following peer group companies most closely matched the responsibilities and requirements of our executives:

Sangamo Biosciences, Inc.	ArQule, Inc.
Inovio Pharmaceuticals, Inc.	Galena Biopharma, Inc.
Geron Corporation	Keryx Biopharmaceuticals, Inc.
Rigel Pharmaceuticals, Inc.	BioTime, Inc.
OncoMed Pharmaceuticals, Inc.	Omeros Corporation
CTI BioPharma Corp.	Immunomedics, Inc.
Unilife Corporation	Nymox Pharmaceutical Corporation

Pearl Meyer and the CNG Committee used the publicly available compensation information for these companies to analyze our competitive position in the industry. Base salaries and short-term and long term incentive plans of the executives of these companies were reviewed to provide background and perspective in analyzing the compensation levels for our executives.

Specific Elements of Executive Compensation

Base Salary. Using information gathered by Pearl Meyer, peer company data, national surveys, general compensation trend information and recommendations from management, the CNG Committee approved the fiscal 2015 base salaries for our senior executives. Base salaries for senior executives are set using the CNG Committee's philosophy that compensation should be competitive and based upon performance. Executives should expect that their base salaries, coupled with a cash bonus award, would provide them the opportunity to be compensated at or above the competitive market at the 40th to 50th percentile.

Based on competitive reviews of similar positions, industry salary trends, overall company results and individual performance, salary increases may be approved from time to time. The CNG Committee reviews and approves base salaries of all executive officers. In setting specific base salaries for fiscal 2015, the CNG Committee considered published proxy data for similar positions at peer group companies.

The following table shows the changes in base salaries for the Named Executive Officers that were approved for fiscal 2015 compared to the approved salaries for fiscal 2014:

Named Executive Officer	**Fiscal 2015 Base Salary[(a)]**	**Fiscal 2014 Base Salary**	**Change[(b)]**	
Ricardo J. Gonzalez [(c)]	$ 375,000	$ 375,000	0.0	%
Frederick O. Cope, Ph.D.	279,130	279,130	0.0	%
Thomas J. Klima	270,000	—	N/A	
Brent L. Larson [(d)]	260,000	260,000	0.0	%
Michael B. Tomblyn, M.D.[(e)]	300,000	—	N/A	

(a) The amount shown for fiscal 2015 is the approved annual salary of the Named Executive Officer in effect at the end of 2015. The actual amount paid to the Named Executive Officer during fiscal 2015 is shown under “Salary” in the Summary Compensation table below.

(b) Based on the performance of the Company's stock during 2014, Mr. Gonzalez, Dr. Cope and Mr. Larson did not receive salary increases in 2015.

(c) Mr. Gonzalez separated from the Company effective May 13, 2016.

(d) Effective May 9, 2016, Mr. Larson was approved for short term disability by the Company’s insurance carrier and is accordingly no longer acting as Chief Financial Officer.

(e) Dr. Tomblyn separated from the Company effective February 19, 2016.

The CNG Committee has not approved any changes to base salaries of executive officers for fiscal 2016.

Short-Term Incentive Compensation. Our executive officers, along with all of our employees, are eligible to participate in our annual cash bonus program, which has four primary objectives:

- Attract, retain and motivate top-quality executives who can add significant value to the Company;
- Create an incentive compensation opportunity that is an integral part of the employee's total compensation program;
- Reward participants' contributions to the achievement of our business results; and
- Provide an incentive for individuals to achieve corporate objectives that are tied to our strategic goals.

The cash bonus compensation plan provides each participant with an opportunity to receive an annual cash bonus based on our Company's performance during the fiscal year. Cash bonus targets for senior executives are determined as a percentage of base salary, based in part on published proxy data for similar positions at peer group companies. The following are the key provisions of the cash bonus compensation plan:

- The plan is administered by the CNG Committee, which has the power and authority to establish, adjust, pay or decline to pay the cash bonus for each participant, including the power and authority to increase or decrease the cash bonus otherwise payable to a participant. However, the CNG Committee does not have the power to increase, or make adjustments that would have the effect of increasing, the cash bonus otherwise payable to any executive officer. The CNG Committee has the right to delegate to the Chief Executive Officer its authority and responsibilities with respect to the cash bonuses payable to employees other than executive officers.
- All Company employees are eligible to participate.
- The CNG Committee is responsible for specifying the terms and conditions for earning cash bonuses, including establishing specific performance objectives. Cash bonuses payable to executive officers are intended to constitute "qualified performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code. Consequently, each cash bonus awarded to an executive officer must be conditioned on one or more specified "Performance Measures," calculated on a consolidated basis. Possible Performance Measures include revenues; gross margin; operating income; net income; clinical trial progress; regulatory milestones; or any other performance objective approved by the CNG Committee.
- As soon as reasonably practicable after the end of each fiscal year, the CNG Committee determines whether and to what extent each specified business performance objective has been achieved and the amount of the cash bonus to be paid to each participant.

In March 2015, the CNG Committee established the fiscal 2015 targets and performance measures for all Company employees. For fiscal 2015, the cash bonus for each executive officer was a function of the designated target bonus amount and certain business performance objectives, weighted as a percentage of the total target amount. The business performance objectives established for fiscal 2015 were as follows:

- Achievement of a specified revenue amount from Lymphoseek sales during fiscal 2015, subject to a maximum 65% reduction of bonus if not achieved.

- Adherence to corporate, departmental and project budgets to within a variance of +/- 5%, subject to a maximum 15% reduction of bonus if not achieved.

- Initiation of enrollment in a clinical trial in support of Lymphoseek life cycle management in one of the three specified indications, subject to a maximum 5% reduction of bonus if not achieved.

- Achievement of the following goals related to Macrophage Therapeutics, subject to a maximum 5% reduction of bonus if not achieved:

  - Form and engage the scientific advisory board to inform disease target selection; and

  - Establish a development plan based on disease targets.

- Discretionary bonus, equal to 10% of the total bonus objective.

For the Named Executive Officers, the following cash bonus targets were established for fiscal 2015:

Named Executive Officer	Target Cash Bonus (% of Salary)		Target Cash Bonus ($ Amount)
Ricardo J. Gonzalez [(a)]	50.0	%	187,500
Frederick O. Cope, Ph.D.	35.0	%	97,696
Thomas J. Klima	35.0	%	94,500
Brent L. Larson [(b)]	35.0	%	91,000
Michael B. Tomblyn, M.D.[(c)]	35.0	%	105,000

(a) Mr. Gonzalez separated from the Company effective May 13, 2016, therefore no bonus will be awarded to Mr. Gonzalez for fiscal 2015.

(b) Effective May 9, 2016, Mr. Larson was approved for short term disability by the Company's insurance carrier and is accordingly no longer acting as Chief Financial Officer.

(c) Dr. Tomblyn separated from the Company effective February 19, 2016, therefore no bonus will be awarded to Dr. Tomblyn for fiscal 2015.

In February 2016, the CNG Committee determined the extent to which the Company's executive officers achieved the goals during 2015. With respect to the first objective, (i) the Company generated only a portion of the specified target revenue amount from Lymphoseek sales during fiscal 2015, resulting in a reduction in the target bonus amount; (ii) adherence to corporate, departmental project budgets to within a variance of +/- 5% was achieved; (iii) initiation of enrollment in a clinical trial in support of Lymphoseek life cycle management in one of three specified indications was not achieved to the degree expected, resulting in a reduction in the target bonus amount; and (iv) the scientific advisory board for Macrophage Therapeutics was formed and engaged, and a development plan was established based on disease targets. With regard to the first objective, the specified revenue amount from Lymphoseek sales was not achieved as originally intended; however, the CNG Committee concluded that based on meeting the lower end of guidance for fiscal 2015, this component would be subject to a 39% reduction of the total bonus payout for executives and a 26% reduction of the total bonus payout for non-executives. With respect to the second objective, adherence to corporate, departmental and project budget goals evidenced successful achievement of that goal. With regard to the third objective, the CNG Committee concluded that this component would be subject to a further 2.5% reduction of the total bonus payout. With respect to the fourth objective, formation and engagement of the Macrophage Therapeutics scientific advisory board and establishment of a development plan based on disease targets evidenced successful achievement of that goal. With respect to the discretionary portion of the total bonus opportunity, the CNG Committee concluded that this component would be subject to a further 2.5% reduction of the total bonus payout for executives and a further 2% reduction of the total bonus payout for non-executives. After reviewing the business performance objectives and the related proposed payouts, the Board of Directors approved the total cash bonus payouts for non-executive employees of the Company.

Long-Term Incentive Compensation. All Company employees are eligible to receive equity awards in the form of stock options or restricted stock. Equity instruments awarded under the Company's equity-based compensation plan are based on the following criteria:

· Analysis of competitive information for comparable positions;

· Evaluation of the value added to the Company by hiring or retaining specific employees; and

· Each employee's long-term potential contributions to our Company.

Although equity awards may be made at any time as determined by the CNG Committee, they are generally made to all full-time employees once per year or on the recipient's hire date in the case of new-hire grants.

The CNG Committee's philosophy on equity awards is that equity-based compensation is an effective method to align the interests of stockholders and management and focus management's attention on long-term results. When awarding equity-based compensation the CNG Committee considers the impact the participant can have on our overall performance, strategic direction, financial results and stockholder value. Therefore, equity awards are primarily based upon the participant's position in the organization, competitive necessity and individual performance. Equity awards for senior executives are determined as a percentage of base salary, based on published proxy data for similar positions at peer group companies. Stock option awards have vesting schedules over several years to promote long-term performance and retention of the recipient, and restricted stock awards may include specific performance criteria for vesting or vest over a specified period of time.

Other Benefits and Perquisites. The Named Executive Officers participate in other benefit plans on the same terms as other employees. These plans include medical, dental, vision, disability and life insurance benefits, and our 401(k) retirement savings plan (the 401(k) Plan).

Our vacation policy allows employees to carry up to 40 hours of unused vacation time forward to the next fiscal year. Any unused vacation time in excess of the amount eligible for rollover is generally forfeited.

Our Named Executive Officers are considered “key employees” for purposes of IRC Section 125 Plan non-discrimination testing. Based on such non-discrimination testing, we determined that our Section 125 Plan was “top-heavy.” As such, our key employees are ineligible to participate in the Section 125 Plan and are unable to pay their portion of medical, dental, and vision premiums on a pre-tax basis. As a result, the Company reimburses its key employees an amount equal to the lost tax benefit.

We pay group life insurance premiums on behalf of all employees, including the Named Executive Officers. The benefit provides life insurance coverage at two times the employee’s annual salary plus $10,000, up to a maximum of $630,000.

We also pay group long-term disability insurance premiums on behalf of all employees, including the Named Executive Officers. The benefit provides long-term disability insurance coverage at 60% of the employee’s annual salary, up to a maximum of $10,000 per month, beginning 180 days after the date of disability and continuing through age 65.

401(k) Retirement Plan. All employees are given an opportunity to participate in our 401(k) Plan, following a new-hire waiting period. The 401(k) Plan allows participants to have pre-tax amounts withheld from their pay and provides for a discretionary employer matching contribution (currently, a 40% match up to 5% of salary in the form of our common stock). Participants may invest their contributions in various fund options, but are prohibited from investing their contributions in our common stock. Participants are immediately vested in both their contributions and Company matching contributions. The 401(k) Plan qualifies under section 401 of the Internal Revenue Code, which provides that employee and company contributions and income earned on contributions are not taxable to the employee until withdrawn from the Plan, and that we may deduct our contributions when made.

Employment Agreements

Our senior executive officers are employed under employment agreements which specify the terms of their employment such as base salary, benefits, paid time off, and post-employment benefits as shown in the tables below. Our employment agreements also specify that if a change in control occurs with respect to our Company and the employment of a senior executive officer is concurrently or subsequently terminated:

- by the Company without cause (cause is defined to include any willful breach of a material duty by the senior executive officer in the course of his or her employment or willful and continued neglect of his or her duty as an employee);
- by the expiration of the term of the employment agreement; or
- by the resignation of the senior executive officer because his or her title, authority, responsibilities, salary, bonus opportunities or benefits have materially diminished, a material adverse change in his or her working conditions has occurred, his or her services are no longer required in light of the Company's business plan, or we breach the agreement;

then, the senior executive officer would be paid a severance payment as disclosed in the tables below. For purposes of such employment agreements, a change in control includes:

- the acquisition, directly or indirectly, by a person (other than our Company, an employee benefit plan established by the Board of Directors, or a participant in a transaction approved by the Board of Directors for the principal purpose of raising additional capital) of beneficial ownership of 30% or more of our securities with voting power in the next meeting of holders of voting securities to elect the Directors;
- a majority of the Directors elected at any meeting of the holders of our voting securities are persons who were not nominated by our then current Board of Directors or an authorized committee thereof;

- our stockholders approve a merger or consolidation of our Company with another person, other than a merger or consolidation in which the holders of our voting securities outstanding immediately before such merger or consolidation continue to hold voting securities in the surviving or resulting corporation (in the same relative proportions to each other as existed before such event) comprising 80% or more of the voting power for all purposes of the surviving or resulting corporation; or

- our stockholders approve a transfer of substantially all of our assets to another person other than a transfer to a transferee, 80% or more of the voting power of which is owned or controlled by us or by the holders of our voting securities outstanding immediately before such transfer in the same relative proportions to each other as existed before such event.

Michael M. Goldberg, M.D. Dr. Goldberg is employed under a 12-month employment agreement effective through September 21, 2017. The employment agreement provides for an annual base salary of $400,000, of which (i) $300,000 shall be payable in semi-monthly installments of $12,500, and (ii) $100,000 shall be payable at such time as the Board determines in its sole discretion that the Company has adequate cash flow, subject to annual review and increase by the CNG Committee. For the calendar year ending December 31, 2016, the CNG Committee determined that the maximum bonus payment to Dr. Goldberg would be $300,000, to be pro-rated based on time served during 2016.

Ricardo J. Gonzalez. Prior to his separation effective May 13, 2016, Mr. Gonzalez was employed under a 36-month employment agreement effective through October 13, 2017. The employment agreement provided for an annual base salary of $375,000. For the calendar year ending December 31, 2015, the CNG Committee determined that the maximum bonus payment to Mr. Gonzalez would be $187,500.

Frederick O. Cope, Ph.D. Dr. Cope was employed under a 24-month employment agreement effective through December 31, 2014. The employment agreement provided for an annual base salary of $271,000. Effective May 1, 2013, Dr. Cope’s annual base salary was increased to $279,130. For the calendar year ending December 31, 2015, the CNG Committee determined that the maximum bonus payment to Dr. Cope would be $97,696. Although Dr. Cope's employment agreement expired on December 31, 2014, the terms of the agreement provide for continuation of certain terms of the employment agreement as long as Dr. Cope continues to be an employee of the Company following expiration of the agreement.

Thomas J. Klima. Mr. Klima is employed under a 24-month employment agreement effective through January 1, 2017. The employment agreement provides for an annual base salary of $270,000. For the calendar year ending December 31, 2015, the CNG Committee determined that the maximum bonus payment to Mr. Klima would be $94,500.

Brent L. Larson. Mr. Larson was employed under a 24-month employment agreement effective through December 31, 2014. The employment agreement provided for an annual base salary of $265,000. Effective May 1, 2013, Mr. Larson’s annual base salary was increased to $279,575. Effective January 1, 2014, Mr. Larson agreed to a reduction in his annual base salary to $260,000. For the calendar year ending December 31, 2015, the Compensation Committee determined that the maximum bonus payment to Mr. Larson would be $91,000. Although Mr. Larson's employment agreement expired on December 31, 2014, the terms of the agreement provided for continuation of certain terms of the employment agreement as long as Mr. Larson continued to be an employee of the Company following expiration of the agreement. Effective October 6, 2016, Mr. Larson was approved for long term disability by the Company’s insurance carrier and is accordingly no longer Chief Financial Officer of the Company.

Jed A. Latkin. Mr. Latkin is employed under an at-will employment agreement effective April 21, 2016. The employment agreement provides for a monthly base salary of $15,000 during the first and second months of employment, $17,500 during the third and fourth months of employment and $20,000 per month thereafter.

Michael B. Tomblyn, M.D. Prior to his separation on February 19, 2016, Dr. Tomblyn was employed under a 24-month employment agreement effective through January 1, 2017. The employment agreement provided for an annual base salary of $300,000. For the calendar year ending December 31, 2015, the CNG Committee determined that the maximum bonus payment to Dr. Tomblyn would be $105,000.

Post-Employment Compensation

The following tables set forth the expected benefit to be received by each of our Named Executive Officers in the event of his termination resulting from various scenarios, assuming a termination date of December 31, 2015 and a stock price of $1.33, our closing stock price on December 31, 2015.

Ricardo J. Gonzalez [g]

	For Cause	Resignation	Death	Disability	End of Term	Without Cause	Change in Control
Cash payments:							
Severance [a]	$ —	$ —	$—	$—	$375,000	$375,000	$750,000
Disability supplement [b]	—	—	—	185,100	—	—	—
Paid time off [c]	7,212	7,212	7,212	7,212	7,212	7,212	7,212
2015 401(k) match [d]	5,300	5,300	5,300	5,300	5,300	5,300	5,300
Continuation of benefits [e]	—	—	50,635	50,635	—	50,635	50,635
Stock option vesting acceleration [f]	—	—	—	—	49,000	49,000	49,000
Total	$ 12,512	$ 12,512	$63,147	$248,247	$436,512	$487,147	$862,147

(a) Severance amounts are pursuant to Mr. Gonzalez's employment agreement.

(b) During the first 6 months of disability, the Company will supplement disability insurance payments to Mr. Gonzalez to achieve 100% salary replacement. The Company's short-term disability insurance policy currently pays $100 per week for a maximum of 24 weeks.

(c) Amount represents the value of 40 hours of accrued but unused vacation time as of December 31, 2015.

(d) Amount represents the value of 3,161 shares of Company stock which was accrued during 2015 as the Company's 401(k) matching contribution but was unissued as of December 31, 2015.

(e) Amount represents 22 months of medical, dental and vision insurance premiums at rates in effect at December 31, 2015.

(f) Pursuant to Mr. Gonzalez's stock option agreement, all unvested stock options outstanding will vest upon termination at the end of the term of his employment agreement, termination without cause, or a change in control. Amount represents the value of the stock at $1.33, the closing price of the Company's stock on December 31, 2015, less the exercise price of the options. Amount does not include stock options with an exercise price higher than $1.33, the closing price of the Company's stock on December 31, 2015.

(g) Mr. Gonzalez separated from the Company effective May 13, 2016.

Frederick O. Cope, Ph.D.

	For Cause	Resignation	Death	Disability	End of Term	Without Cause	Change in Control
Cash payments:							
Severance [a]	$ —	$ —	$—	$—	$245,000	$245,000	$367,500
Disability supplement [b]	—	—	—	137,165	—	—	—
Paid time off [c]	5,368	5,368	5,368	5,368	5,368	5,368	5,368
2015 401(k) match [d]	5,300	5,300	5,300	5,300	5,300	5,300	5,300
Continuation of benefits (e)	—	—	19,238	19,238	—	19,238	19,238
Stock option vesting acceleration [f]	—	—	—	—	—	—	—

Restricted stock vesting acceleration (g)	—	—	—	—	—	—	66,450
Total	$ 10,668	$ 10,668	$29,906	$167,071	$255,668	$274,906	$463,856

(a) Severance amounts are pursuant to Dr. Cope's employment agreement.

(b) During the first 6 months of disability, the Company will supplement disability insurance payments to Dr. Cope to achieve 100% salary replacement. The Company's short-term disability insurance policy currently pays $100 per week for a maximum of 24 weeks.

(c) Amount represents the value of 40 hours of accrued but unused vacation time as of December 31, 2015.

(d) Amount represents the value of 3,026 shares of Company stock which was accrued during 2015 as the Company's 401(k) matching contribution but was unissued as of December 31, 2015.

(e) Amount represents 12 months of medical, dental and vision insurance premiums at rates in effect at December 31, 2015.

(f) Pursuant to Dr. Cope's stock option agreements, all unvested stock options outstanding will vest upon termination at the end of the term of his employment agreement, termination without cause, or a change in control. Amount represents the value of the stock at $1.33, the closing price of the Company's stock on December 31, 2015, less the exercise price of the options. Amount does not include stock options with an exercise price higher than $1.33, the closing price of the Company's stock on December 31, 2015.

(g) Pursuant to Dr. Cope's restricted stock agreements, certain unvested restricted stock outstanding will vest upon a change in control.

Thomas J. Klima

	For Cause	Resignation	Death	Disability	End of Term	Without Cause	Change in Control
Cash payments:							
Severance [(a)]	$ —	$ —	$—	$—	$270,000	$270,000	$405,000
Disability supplement [(b)]	—	—	—	132,600	—	—	—
Paid time off [(c)]	5,192	5,192	5,192	5,192	5,192	5,192	5,192
2015 401(k) match [(d)]	1,804	1,804	1,804	1,804	1,804	1,804	1,804
Continuation of benefits [(e)]	—	—	27,619	27,619	—	41,429	27,619
Stock option vesting acceleration [(f)]	—	—	—	—	—	—	—
Restricted stock vesting acceleration [(g)]	—	—	—	—	—	—	—
Total	$ 6,996	$ 6,996	$34,615	$167,215	$276,996	$318,425	$439,615

(a) Severance amounts are pursuant to Mr. Klima’s employment agreement.

(b) During the first 6 months of disability, the Company will supplement disability insurance payments to Mr. Klima to achieve 100% salary replacement. The Company’s short-term disability insurance policy currently pays $100 per week for a maximum of 24 weeks.

(c) Amount represents the value of 40 hours of accrued but unused vacation time as of December 31, 2015.

(d) Amount represents the value of 1,050 shares of Company stock which was accrued during 2015 as the Company’s 401(k) matching contribution but was unissued as of December 31, 2015.

(e) Amount represents 12 months of medical, dental and vision insurance premiums at rates in effect at December 31, 2015, except in the case of termination without cause, for which Mr. Klima’s employment agreement provides for continuation of benefits for 18 months.

(f) Pursuant to Mr. Klima’s stock option agreements, all unvested stock options outstanding will vest upon termination at the end of the term of his employment agreement, termination without cause, or a change in control. Amount represents the value of the stock at $1.33, the closing price of the Company’s stock on December 31, 2015, less the exercise price of the options. Amount does not include stock options with an exercise price higher than $1.33, the closing price of the Company’s stock on December 31, 2015.

(g) Mr. Klima’s restricted stock agreements do not include provisions for accelerated vesting.

Brent L. Larson [(g)]

	For Cause	Resignation	Death	Disability	End of Term	Without Cause	Change in Control
Cash payments:							
Severance [(a)]	$ —	$ —	$—	$—	$207,000	$207,000	$310,500
Disability supplement [(b)]	—	—	—	127,600	—	—	—
Paid time off [(c)]	5,000	5,000	5,000	5,000	5,000	5,000	5,000
2015 401(k) match [(d)]	5,300	5,300	5,300	5,300	5,300	5,300	5,300

Continuation of benefits [e]	—	—	27,619	27,619	—	27,619	27,619
Stock option vesting acceleration [f]	—	—	—	—	—	—	—
Total	$ 10,300	$ 10,300	$37,919	$165,519	$217,300	$244,919	$348,419

(a) Severance amounts are pursuant to Mr. Larson's employment agreement.

(b) During the first 6 months of disability, the Company will supplement disability insurance payments to Mr. Larson to achieve 100% salary replacement. The Company's short-term disability insurance policy currently pays $100 per week for a maximum of 24 weeks.

(c) Amount represents the value of 40 hours of accrued but unused vacation time as of December 31, 2015.

(d) Amount represents the value of 2,966 shares of Company stock which was accrued during 2015 as the Company's 401(k) matching contribution but was unissued as of December 31, 2015.

(e) Amount represents 12 months of medical, dental and vision insurance premiums at rates in effect at December 31, 2015.

(f) Pursuant to Mr. Larson's stock option agreements, all unvested stock options outstanding will vest upon termination at the end of the term of his employment agreement, termination without cause, or a change in control. Amount represents the value of the stock at $1.33, the closing price of the Company's stock on December 31, 2015, less the exercise price of the options. Amount does not include stock options with an exercise price higher than $1.33, the closing price of the Company's stock on December 31, 2015.

(g) Effective May 9, 2016, Mr. Larson was approved for short term disability by the Company's insurance carrier and is accordingly no longer acting as Chief Financial Officer.

Michael B. Tomblyn, M.D.[h]

	For Cause	Resignation	Death	Disability	End of Term	Without Cause	Change in Control
Cash payments:							
Severance [a]	$ —	$ —	$—	$—	$300,000	$300,000	$450,000
Disability supplement [b]	—	—	—	147,600	—	—	—
Paid time off [c]	5,769	5,769	5,769	5,769	5,769	5,769	5,769
2015 401(k) match [d]	4,543	4,543	4,543	4,543	4,543	4,543	4,543
Continuation of benefits [e]	—	—	27,619	27,619	—	41,429	27,619
Stock option vesting acceleration [f]	—	—	—	—	—	—	—
Restricted stock vesting acceleration [g]	—	—	—	—	—	—	—
Total	$ 10,312	$ 10,312	$37,931	$185,531	$310,312	$351,741	$487,931

(a) Severance amounts are pursuant to Dr. Tomblyn's employment agreement.

(b) During the first 6 months of disability, the Company will supplement disability insurance payments to Dr. Tomblyn to achieve 100% salary replacement. The Company's short-term disability insurance policy currently pays $100 per week for a maximum of 24 weeks.

(c) Amount represents the value of 40 hours of accrued but unused vacation time as of December 31, 2015.

(d) Amount represents the value of 2,558 shares of Company stock which was accrued during 2015 as the Company's 401(k) matching contribution but was unissued as of December 31, 2015.

(e) Amount represents 12 months of medical, dental and vision insurance premiums at rates in effect at December 31, 2015, except in the case of termination without cause, for which Dr. Tomblyn's employment agreement provides for continuation of benefits for 18 months.

(f) Pursuant to Dr. Tomblyn's stock option agreements, all unvested stock options outstanding will vest upon termination at the end of the term of his employment agreement, termination without cause, or a change in control. Amount represents the value of the stock at $1.33, the closing price of the Company's stock on December 31, 2015, less the exercise price of the options. Amount does not include stock options with an exercise price higher than $1.33, the closing price of the Company's stock on December 31, 2015.

(g) Dr. Tomblyn's restricted stock agreements do not include provisions for accelerated vesting.

(h) Dr. Tomblyn separated from the Company effective February 19, 2016.

Report of Compensation, Nominating and Governance Committee

The CNG Committee is responsible for establishing, reviewing and approving the Company's compensation philosophy and policies, reviewing and making recommendations to the Board regarding forms of compensation provided to the Company's directors and officers, reviewing and determining cash and equity awards for the Company's officers and other employees, and administering the Company's equity incentive plans.

In this context, the CNG Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement for the Annual Meeting. In reliance on the review and discussions referred to above, the CNG Committee recommended to the Board, and the Board has approved, that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

The Compensation, Nominating
and Governance Committee

Eric K. Rowinsky, M.D. (Chairman)
Mark I. Greene, M.D., Ph.D., FRCP
Y. Michael Rice

Compensation, Nominating and Governance Committee Interlocks and Insider Participation

The current members of our CNG Committee are: Eric K. Rowinsky, M.D. (Chairman), Mark I. Greene, M.D., Ph.D., FRCP, and Y. Michael Rice. During the fiscal year ended December 31, 2015, the members of our CNG Committee were: Anton Gueth (Chairman), Brendan A. Ford, Eric K. Rowinsky, M.D. and Gordon A. Troup. None of these individuals were at any time during the fiscal year ended December 31, 2015, or at any other time, an officer or employee of the Company.

No director who served on the CNG Committee during 2015 had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related-party transactions. None of the Company's executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity, the executive officers of which served as a director of the Company or member of the CNG Committee during 2015.

Summary Compensation Table

The following table sets forth certain information concerning the annual and long-term compensation of our Named Executive Officers for the last three fiscal years.

Summary Compensation Table for Fiscal 2015

Named Executive Officer	Year	Salary	**(a) Stock Awards**	**(b) Option Awards**	**(c) Non-Equity Incentive Plan Compensation**	**(d) All Other Compensation**	Total Compensation
Ricardo J. Gonzalez [e]	2015	$375,000	$—	$—	$ 105,001	$ 7,692	$ 487,693
President and	2014	82,452	—	768,247	—	—	850,699
Chief Executive Officer	2013	—	—	—	—	—	—
Frederick O. Cope, Ph.D.	2015	$279,130	$—	$155,026	$ 54,709	$ 6,657	$ 495,522
Senior Vice President and	2014	279,130	—	144,067	—	6,173	429,370
Chief Scientific Officer	2013	276,420	—	265,888	50,813	6,179	599,300
Thomas J. Klima [f]	2015	$270,000	$192,900	$112,163	$ 52,921	$ 3,114	$ 631,098
Senior Vice President and	2014	—	—	—	—	—	—
Chief Commercial Officer	2013	—	—	—	—	—	—
Brent L. Larson [g]	2015	$260,000	$—	$144,499	$ 50,960	$ 7,692	$ 463,151
Executive Vice President and	2014	260,000	—	134,318	—	6,727	401,045
Chief Financial Officer	2013	274,717	—	260,387	51,013	6,847	592,964
Michael B. Tomblyn, M.D. [h]	2015	$300,000	$163,900	$112,163	$ —	$ 6,246	$ 582,309
Senior Vice President and	2014	—	—	—	—	—	—
Chief Medical Officer	2013	—	—	—	—	—	—

(a) Amount represents the aggregate grant date fair value in accordance with FASB ASC Topic 718. Assumptions made in the valuation of stock awards are disclosed in Note 1(e) of the Notes to the Consolidated Financial Statements in our 2015 Annual Report on Form 10-K.

(b) Amount represents the aggregate grant date fair value in accordance with FASB ASC Topic 718. Assumptions made in the valuation of option awards are disclosed in Note 1(e) of the Notes to the Consolidated Financial

Statements in our 2015 Annual Report on Form 10-K.

(c) Amount represents the total incentive plan amounts which have been approved by the Board of Directors as of the date this filing, and are disclosed for the year in which they were earned (i.e., the year to which the service relates). The Board of Directors also determined that fifty percent of the 2015 amount payable to certain executive officers would be paid in stock options in lieu of cash, calculated based on the Black-Scholes value of the options on the date of grant. As such, Dr. Cope, Mr. Klima and Mr. Larson were awarded, respectively, options to purchase 58,510, 56,598 and 54,501 shares of common stock of the Company at an exercise price of $0.98 per share, vesting immediately upon the date of grant and expiring after ten years. Since these options represent incentive compensation earned in 2015, they are reported in this column, and not included in the column "Option Awards."

(d) Amount represents additional compensation as disclosed in the All Other Compensation table below.

(e) Mr. Gonzalez commenced employment with the Company effective October 13, 2014 and separated from the Company effective May 13, 2016.

(f) Mr. Klima commenced employment with the Company effective January 1, 2015.

(g) Effective May 9, 2016, Mr. Larson was approved for short term disability by the Company's insurance carrier and is accordingly no longer acting as Chief Financial Officer.

(h) Dr. Tomblyn commenced employment with the Company effective January 1, 2015 and separated from the Company effective February 19, 2016.

All Other Compensation

The following table describes each component of the amounts shown in the "All Other Compensation" column in the Summary Compensation table above.

All Other Compensation Table for Fiscal 2015

Named Executive Officer	Year	**(a) Reimbursement of Additional Tax Liability Related to Health Insurance Premiums**	**(b) 401(k) Plan Employer Matching Contribution**	**Total All Other Compensation**
Ricardo J. Gonzalez	2015	$ 2,392	$ 5,300	$ 7,692
	2014	—	—	—
	2013	—	—	—
Frederick O. Cope, Ph.D.	2015	$ 1,357	$ 5,300	$ 6,657
	2014	973	5,200	6,173
	2013	1,179	5,000	6,179
Thomas J. Klima	2015	$ 1,310	$ 1,804	$ 3,114
	2014	—	—	—
	2013	—	—	—
Brent L. Larson	2015	$ 2,392	$ 5,300	$ 7,692
	2014	1,527	5,200	6,727
	2013	1,847	5,000	6,847
Michael B. Tomblyn, M.D.	2015	$ 1,703	$ 4,543	$ 6,246
	2014	—	—	—
	2013	—	—	—

(a) Amount represents reimbursement of the lost tax benefit due to the ineligibility of our Named Executive Officers to pay their portion of medical, dental, and vision premiums on a pre-tax basis under our IRC Section 125 Plan.

(b) Amount represents the value of the common stock contributed to the Named Executive Officer's account in our 401(k) Plan as calculated on a quarterly basis.

Grants of Plan-Based Awards

The following table sets forth certain information about plan-based awards that we made to the Named Executive Officers during fiscal 2015. For information about the plans under which these awards were granted, see the discussion under “Short-Term Incentive Compensation” and “Long-Term Incentive Compensation” in the “Compensation Discussion and Analysis” section above.

Grants of Plan-Based Awards Table for Fiscal 2015

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards (a)		**Estimated Future Payouts Under Equity Incentive Plan Awards**		**All Other Stock Awards: Number of Shares**	**All Other Option Awards: Number of Securities Underlying**	**Exercise Price of Option**	**Grant Date Fair Value of Stock and Option**	
Named Executive Officer	Grant Date	Threshold	Maximum	Threshold	Maximum	of Stock	Options	Awards	Awards	
Ricardo J. Gonzalez	N/A	$ —	$ 187,500	—	—	—	—	$ —	$ —	(a)
Frederick O. Cope, Ph.D.	N/A	$ —	$ 97,696	—	—	—	—	$ —	$ —	(a)
	3/26/2015	$ —	$ —	—	—	—	162,000	$ 1.65	$ 155,026	(b)
Thomas J. Klima	N/A	$ —	$ 94,500	—	—	—	—	—	$ —	(a)
	1/1/2015	$ —	$ —	—	—	—	100,000	$ 1.89	$ 112,163	(c)
	1/1/2015	$ —	$ —	—	—	100,000	—	N/A	$ 192,900	(d)
Brent L. Larson	N/A	$ —	$ 91,000	—	—	—	—	$ —	$ —	(a)
	3/26/2015	$ —	$ —	—	—	—	151,000	$ 1.65	$ 144,499	(b)
Michael B. Tomblyn, M.D.	N/A	$ —	$ 105,000	—	—	—	—	$ —	$ —	(a)
	1/1/2015	$ —	$ —	—	—		100,000	$ 1.89	$ 112,163	(c)
	3/3/2015	$ —	$ —	—	—	100,000	—	N/A	$ 163,900	(e)

(a)

The threshold amount reflects the fact that no cash bonus awards would have been payable if none of the specified business performance objectives were achieved. The maximum amount reflects the target cash bonus awards payable if all of the specified business performance objectives are achieved. For actual cash bonus award amounts, see the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation table above.

(b) These stock options vest as to one-third on each of the first three anniversaries of the date of grant, and expire on the tenth anniversary of the date of grant. If the employment of the Named Executive Officer with the Company is terminated due to a change in control or without cause before all of the stock options have vested, then pursuant to the terms of the Stock Option Award Agreements all stock options that have not vested at the effective date of the Named Executive Officer's termination shall immediately vest and become exercisable.

(c) These stock options vest as to one-fourth on each of the first four anniversaries of the date of grant, and expire on the tenth anniversary of the date of grant. If the employment of the Named Executive Officer with the Company is terminated due to a change in control or without cause before all of the stock options have vested, then pursuant to the terms of the Stock Option Award Agreements all stock options that have not vested at the effective date of the Named Executive Officer's termination shall immediately vest and become exercisable.

(d) These restricted stock awards vest upon achievement of certain goals as defined in the Restricted Stock Award Agreements. If the employment of the Named Executive Officer with the Company is terminated for any reason before all of the restricted stock awards have vested, then pursuant to the terms of the Restricted Stock Award Agreements all awards that have not vested at the effective date of the Named Executive Officer's termination shall immediately be forfeited.

(e) These restricted stock vest as to one-fourth on each of the first four anniversaries of the date of grant. If the employment of the Named Executive Officer with the Company is terminated for any reason before all of the restricted stock awards have vested, then pursuant to the terms of the Restricted Stock Award Agreement all awards that have not vested at the effective date of the Named Executive Officer's termination shall immediately be forfeited. Dr. Tomblyn separated from the Company effective February 19, 2016. All of Dr. Tomblyn's unvested restricted stock awards were forfeited as of the date of separation.

Outstanding Equity Awards

The following table presents certain information concerning outstanding equity awards held by the Named Executive Officers as of December 31, 2015.

Outstanding Equity Awards Table at Fiscal 2015 Year-End

	Option Awards					Stock Awards				
	Number of Securities Underlying Unexercised Options (#)							**Equity Incentive Plan Awards**		
Named Executive Officer	Exercisable	Unexercisable	**Option Exercise Price**	**Option Expiration Date**	Note	**Number of Shares of Stock that Have Not Vested**	Market Value of Shares of **Stock that Have Not Vested**	**Number of Unearned Shares**	**Market Value of Unearned Shares (r)**	Note
Ricardo J. Gonzalez	300,000	700,000	$ 1.26	10/13/2024	(j)					(q)
Frederick O. Cope, Ph.D.	50,000	—	$ 0.65	2/16/2019	(d)			50,000	$ 66,500	(m)
	75,000	—	$ 1.10	10/30/2019	(e)					
	120,000	—	$ 1.90	12/21/2020	(f)					
	95,250	31,750	$ 3.28	2/17/2022	(g)					
	72,500	72,500	$ 3.08	2/15/2023	(h)					
	33,250	99,750	$ 1.77	1/28/2024	(i)					
	—	162,000	$ 1.65	3/26/2025	(l)					
Thomas J. Klima	—	100,000	$ 1.89	1/1/2025	(k)			50,000	$ 66,500	(n)
Brent L. Larson	50,000	—	$ 0.27	12/15/2016	(a)					
	50,000	—	$ 0.362	1/3/2018	(b)					
	25,000	—	$ 0.59	1/5/2019	(c)					

	75,000	—	$ 1.10	10/30/2019	(e)			
	95,000	—	$ 1.90	12/21/2020	(f)			
	66,000	22,000	$ 3.28	2/17/2022	(g)			
	71,000	71,000	$ 3.08	2/15/2023	(h)			
	31,000	93,000	$ 1.77	1/28/2024	(i)			
	—	151,000	$ 1.65	3/26/2025	(l)			
Michael B. Tomblyn, M.D.	—	100,000	$ 1.89	1/1/2025	(k)(p)	100,000	$ 133,000	(o)(p)

(a) Options were granted 12/15/2006 and vested as to one-third on each of the first three anniversaries of the date of grant.

(b) Options were granted 1/3/2008 and vested as to one-third on each of the first three anniversaries of the date of grant.

(c) Options were granted 1/5/2009 and vested as to one-third on each of the first three anniversaries of the date of grant.

(d) Options were granted 2/16/2009 and vested as to one-third on each of the first three anniversaries of the date of grant.

(e) Options were granted 10/30/2009 and vested as to one-third on each of the first three anniversaries of the date of grant.

(f) Options were granted 12/21/2010 and vested as to one-fourth on each of the first four anniversaries of the date of grant.

(g) Options were granted 2/17/2012 and vest as to one-fourth on each of the first four anniversaries of the date of grant.

(h) Options were granted 2/15/2013 and vest as to one-fourth on each of the first four anniversaries of the date of grant.

(i) Options were granted 1/28/2014 and vest as to one-fourth on each of the first four anniversaries of the date of grant.

(j) Options were granted 10/13/2014 and shall vest and become exercisable in three tranches, provided that Mr. Gonzalez has been an employee of the Company continuously from the date of grant through the date when such portion of the option vests. The first tranche of 300,000 options vested and became exercisable on the first anniversary of the date of grant. The second tranche of 300,000 options will vest and become exercisable on or after the second anniversary of the date of grant, provided that the options will not be exercisable with respect to such shares unless and until the average closing price per share of the Company's common stock for the ten trading days prior to exercise equals or exceeds $2.50 per share. The third tranche of 400,000 options will vest and become exercisable on or after the third anniversary of the date of grant, provided that the options will not be exercisable with respect to such shares unless and until the average closing price per share of the Company's common stock for the ten trading days prior to exercise equals or exceeds $3.50 per share.

(k) Options were granted 1/1/2015 and vest as to one-fourth on each of the first four anniversaries of the date of grant.
(l) Options were granted 3/26/2015 and vest as to one-third on each of the first three anniversaries of the date of grant.

(m) Restricted shares granted February 16, 2009. Pursuant to the terms of the restricted stock agreement between the Company and Dr. Cope, the restricted shares will vest upon the commencement of patient enrollment in a Phase 3 clinical trial in humans of NAV1800. All of the restricted shares vest upon the occurrence of a change in control as defined in Dr. Cope's employment agreement. If the employment of Dr. Cope with the Company is terminated for reasons other than a change in control before all of the restricted shares have vested, then pursuant to the terms of the restricted stock agreement all restricted shares that have not vested at the effective date of Dr. Cope's termination shall immediately be forfeited by Dr. Cope.

(n) Restricted shares granted January 1, 2015. Pursuant to the terms of the restricted stock agreement between the Company and Mr. Klima, 25,000 of the restricted shares will vest upon achievement of $30 million in sales of Lymphoseek during 2016, and 25,000 of the restricted shares will vest upon achievement of $35 million in sales of Lymphoseek during 2016. Mr. Klima's restricted stock agreements do not include provisions for accelerated vesting. If the employment of Mr. Klima with the Company is terminated before all of the restricted shares have vested, then pursuant to the terms of the restricted stock agreement all restricted shares that have not vested at the effective date of Mr. Klima's termination shall immediately be forfeited by Mr. Klima.

(o) Restricted shares granted March 3, 2015. Pursuant to the terms of the restricted stock agreement between the Company and Dr. Tomblyn, the restricted shares were to vest as to one-fourth on each of the first four anniversaries of the date of grant. Dr. Tomblyn's restricted stock agreements do not include provisions for accelerated vesting. If the employment of Dr. Tomblyn with the Company is terminated before all of the restricted shares have vested, then pursuant to the terms of the restricted stock agreement all restricted shares that have not vested at the effective date of Dr. Tomblyn's termination shall immediately be forfeited by Dr. Tomblyn.

(p) Dr. Tomblyn separated from the Company effective February 19, 2016. All of Dr. Tomblyn's stock options and restricted stock were forfeited as of the date of separation.

(q) Mr. Gonzalez separated from the Company effective May 13, 2016. All of Mr. Gonzalez's stock options were forfeited as of the date of separation.

(r) Estimated by reference to the closing market price of the Company's common stock on December 31, 2015, pursuant to Instruction 3 to Item 402(p)(2) of Regulation S-K. The closing price of the Company's common stock on December 31, 2015, was $1.33.

Options Exercised and Stock Vested

The following table presents, with respect to the Named Executive Officers, certain information about option exercises and restricted stock vested during fiscal 2015.

Options Exercised and Stock Vested Table for Fiscal 2015

	Option Awards	Stock Awards

Named Executive Officer	**Number of**			
		$ 49,006	16.14%	
State and political subdivisions	84,926	98,848	(13,922)	(14.08%)
Mortgage-backed securities	139,185	230,945	(91,760)	(39.73%)
Asset-backed securities	12,779	0	12,779	100.00%
Marketable equity securities	6,076	3,959	2,117	53.47%
Trust preferred collateralized debt obligations	37,368	42,369	(5,001)	(11.80%)
Single issue trust preferred securities	11,928	11,760	168	1.43%
Corporate securities	5,330	5,090	240	4.72%
Total available for sale securities, at fair value	$ 650,145	$ 696,518	$ (46,373)	(6.66%)

The following table summarizes the changes in the held to maturity securities since year-end 2011:

(Dollars in thousands)	**September 30 2012**	**December 31 2011**	**$ Change**	**% Change**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 10,954	$ 11,062	$ (108)	(0.98%)
State and political subdivisions	14,689	12,794	1,895	14.81%
Mortgage-backed securities	65	77	(12)	(15.58%)
Single issue trust preferred securities	26,996	32,116	(5,120)	(15.94%)
Other corporate securities	225	3,240	(3,015)	(93.06%)
Total held to maturity securities, at amortized cost	$ 52,929	$ 59,289	$ (6,360)	(10.73%)

At September 30, 2012, gross unrealized losses on available for sale securities were $65.39 million. Securities in an unrealized loss position at September 30, 2012 consisted primarily of pooled trust preferred collateralized debt obligations (TRUP CDOs), single issue trust preferred securities and non-agency residential mortgage-backed securities. The TRUP CDOs and the single issue trust preferred securities relate mainly to securities of financial institutions.

As of September 30, 2012, United s mortgage-backed securities had an amortized cost of $135.51 million, with an estimated fair value of $139.26 million. The portfolio consisted primarily of $108.05 million in agency residential mortgage-backed securities with a fair value of $113.70 million and $27.46 million in non-agency residential mortgage-backed securities with an estimated fair value of $25.56 million.

Table of Contents

As of September 30, 2012, United s corporate securities had an amortized cost of $143.59 million, with an estimated fair value of $77.81 million. The portfolio consisted primarily of $96.07 million in pooled trust preferred securities with a fair value of $37.37 million and $42.27 million in single issue trust preferred securities with an estimated fair value of $34.89 million. In addition to the trust preferred securities, the Company held positions in various other corporate securities with an amortized cost of $5.22 million and a fair value of $5.56 million, only one of which was individually significant.

The pooled trust preferred securities consisted of positions in 23 different securities. The underlying issuers in the pools were primarily financial institutions and to a lesser extent, insurance companies. The Company has no exposure to Real Estate Investment Trusts (REITs) in its investment portfolio. The Company owns both senior and mezzanine tranches in pooled trust preferred securities and does not own any income notes. The senior and mezzanine tranches of trust preferred collateralized debt obligations generally have some protection from defaults in the form of over-collateralization and excess spread revenues, along with waterfall structures that redirect cash flows in the event certain coverage test requirements are failed. Generally, senior tranches have the greatest protection, with mezzanine tranches subordinated to the senior tranches, and income notes subordinated to the mezzanine tranches. Senior tranches represent $17.69 million of the Company s pooled securities, while mezzanine tranches represent $78.41 million. Of the $78.41 million in mezzanine tranches, $11.84 million are now in the senior position as the senior notes have been paid to a zero balance. As of September 30, 2012, $9.21 million of the pooled trust preferred securities were investment grade, $5.00 million were split-rated, and the remaining $81.89 million were below investment grade. In terms of capital adequacy, the Company allocates additional risk-based capital to the below investment grade securities.

As of September 30, 2012, United s single issue trust preferred securities had an amortized cost of $42.27 million. Of the $42.27 million, $10.89 million or 25.77% were investment grade; $7.90 million or 18.68% were split-rated; $15.60 million or 36.90% were below investment grade; and $7.88 million or 18.65% were unrated. The three largest exposures accounted for 58.02% of the $42.27 million. These included Wells Fargo at $9.89 million, SunTrust Bank at $7.38 million and Peoples Bancorp, Inc. at $7.25 million. All single-issue trust preferred securities, with the exception of two securities totaling $633 thousand, are currently receiving full scheduled principal and interest payments.

During the first nine months of 2012, United recognized net other-than-temporary impairment charges totaling $4.75 million and $622 thousand, respectively, on certain TRUP CDOs and non-agency residential mortgage-backed securities, which are not expected to be sold. Other than these securities, management does not believe that any other individual security with an unrealized loss as of September 30, 2012 is other-than-temporarily impaired. United believes the decline in value resulted from changes in market interest rates, credit spreads and liquidity, not an adverse change in the expected contractual cash flows. Based on a review of each of the securities in the investment portfolio, management concluded that it was not probable that it would be unable to realize the cost basis investment and appropriate interest payments on such securities. United has the intent and the ability to hold these securities until such time as the value recovers or the securities mature. However, United acknowledges that any impaired securities may be sold in future periods in response to significant, unanticipated changes in asset/liability management decisions, unanticipated future market movements or business plan changes.

Further information regarding the amortized cost and estimated fair value of investment securities, including remaining maturities as well as a more detailed discussion of management s other-than-temporary impairment analysis, is presented in Note 3 to the unaudited Notes to Consolidated Financial Statements.

Table of Contents

Loans

Loans held for sale increased $9.00 million or 230.73% as loan originations exceeded loan sales in the secondary market during the first nine months of 2012. Portfolio loans, net of unearned income, increased $191.84 million or 3.08% from year-end 2011 mainly due to a $222.77 million or 6.35% increase in the total commercial, financial and agricultural loans category, and a $7.41 million or 1.35% increase in construction and land development loans. Within the commercial, financial and agricultural loans category, commercial real estate loans increased $160.82 million or 7.00% while commercial loans (not secured by real estate) increased $61.95 million or 5.11%. Partially offsetting these increases in portfolio loans was a decrease of $37.39 million or 1.98% in residential real estate loans.

The following table summarizes the changes in the loan categories since year-end 2011:

(Dollars in thousands)	September 30 2012	December 31 2011	$ Change	% Change
Loans held for sale	$ 12,905	$ 3,902	$ 9,003	230.73%
Commercial, financial, and agricultural:				
Owner-occupied commercial real estate	$ 723,969	$ 743,502	$ (19,533)	(2.63%)
Nonowner-occupied commercial real estate	1,733,615	1,553,259	180,356	11.61%
Other commercial loans	1,274,150	1,212,205	61,945	5.11%
Total commercial, financial, and agricultural	$ 3,731,734	$ 3,508,966	$ 222,768	6.35%
Residential real estate	1,854,332	1,891,725	(37,393)	(1.98%)
Construction & land development	557,284	549,877	7,407	1.35%
Consumer:				
Bankcard	10,670	11,519	(849)	(7.37%)
Other consumer	274,310	272,193	2,117	0.78%
Less: Unearned income	(5,717)	(3,503)	(2,214)	63.20%
Total Loans, net of unearned income	$ 6,422,613	$ 6,230,777	$ 191,836	3.08%

For a further discussion of loans see Note 4 to the unaudited Notes to Consolidated Financial Statements.

Other Assets

Other assets decreased $12.26 million or 3.48% from year-end 2011 due mainly to decreases in income tax receivable of $5.76 million, deferred tax assets of $4.06 million, OREO of $1.72 million, prepaid regulatory assessments of $4.13 million and core deposit intangibles of $2.17 million due to amortization. Partially offsetting these decreases from year-end 2011 was an increase of $4.58 million in cash surrender values of bank-owned life insurance policies and an increase of $1.22 million in accounts receivable.

Deposits

Deposits represent United s primary source of funding. Total deposits at September 30, 2012 remained flat, decreasing $65.09 million or less than 1% from year-end 2011. In terms of composition, noninterest-bearing deposits increased $188.04 million or 11.61% while interest-bearing deposits decreased $253.12 million or 4.87% from December 31, 2011.

The increase in noninterest-bearing deposits was due mainly to increases in commercial noninterest-bearing deposits of $151.35 million or 13.47%, public noninterest-bearing deposits of $62.90 million or 68.91% and personal noninterest-bearing deposits of $7.76 million or 2.03%.

The decrease in interest-bearing deposits was due mainly to a $187.06 million or 8.70% decrease in interest-bearing MMDAs, a $119.75 million or 9.86% decrease in time deposits under $100,000, and a $84.59 million or 7.85% decrease in time deposits over $100,000 due in large part to historically low interest rates. The $187.06 million

Table of Contents

decrease in interest-bearing MMDAs is mainly due to a $209.70 million or 15.21% decrease in personal MMDAs and a $79.48 million or 11.23% decrease in commercial MMDAs which were partially offset by a $102.12 million or 159.16% increase in public funds MMDAs. The $119.75 million decrease in time deposits under $100,000 is the result of fixed rate certificate of deposits (CDs) declining $123.51 million. The $84.59 million decrease in time deposits over $100,000 is due to a $40.22 million decrease in Deposit Account Registry Service (CDARS) balances over $100,000 and a $47.83 million decrease in fixed rate CDs over $100,000. Partially offsetting these decreases in interest-bearing deposits was a $101.11 million or 35.52% increase in interest-bearing checking deposits mainly due to increases in state and municipal interest-bearing checking accounts of $54.28 million, personal interest-bearing checking accounts of $23.69 million and commercial interest-bearing checking accounts of $23.13 million. In addition, regular savings accounts increased $37.17 million or 7.84% mainly due to an increase of $35.88 million in personal savings accounts. With low market interest rates, depositors moved their funds into short-term interest MMDAs and savings accounts where they can wait for rates to increase before extending maturities.

The following table summarizes the changes in the deposit categories since year-end 2011:

(Dollars In thousands)	September 30 2012	December 31 2011	$ Change	% Change
Demand deposits	$ 948,008	$ 878,838	$ 69,170	7.87%
Interest-bearing checking	385,775	284,670	101,105	35.52%
Regular savings	510,986	473,819	37,167	7.84%
Money market accounts	2,822,254	2,890,445	(68,191)	(2.36%)
Time deposits under $100,000	1,094,215	1,213,964	(119,749)	(9.86%)
Time deposits over $100,000	992,686	1,077,274	(84,588)	(7.85%)
Total deposits	$ 6,753,924	$ 6,819,010	$ (65,086)	(0.95%)

Borrowings

Total borrowings at September 30, 2012 decreased $26.65 million or 4.44% during the first nine months of 2012. Since year-end 2011, short-term borrowings increased $33.72 million or 13.24% due to a $8.32 million increase in federal funds purchased and a $25.40 million increase in securities sold under agreements to repurchase. Long-term borrowings decreased $60.37 million or 17.48% since year-end 2011 due mainly to a net repayment of $55.30 million in long-term FHLB advances.

The table below summarizes the change in the borrowing categories since year-end 2011:

(Dollars in thousands)	September 30 2012	December 31 2011	$ Change	% Change
Federal funds purchased	$ 15,441	$ 7,120	$ 8,321	116.87%
Securities sold under agreements to repurchase	273,041	247,646	25,395	10.25%
Long-term FHLB advances	86,513	141,809	(55,296)	(38.99%)
Issuances of trust preferred capital securities	198,487	203,557	(5,070)	(2.49%)
Total borrowings	$ 573,482	$ 600,132	$ (26,650)	(4.44%)

For a further discussion of borrowings see Notes 8 and 9 to the unaudited Notes to Consolidated Financial Statements.

Table of Contents

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities at September 30, 2012 increased $2.12 million or 3.45% from year-end 2011. In particular, income taxes payable increased $2.91 million due to a timing difference in payments while other accrued expenses increased $2.20 million due mainly to an accrual of $3.30 million with respect to a litigation settlement related to overdraft claims against United. Partially offsetting these increases in accrued expenses and other liabilities was a $1.03 million decrease in interest payable, a $1.40 million decrease in incentives payable and a $988 thousand decrease in other taxes payable.

Shareholders Equity

Shareholders equity at September 30, 2012 increased $19.59 million or 2.02% from December 31, 2011 as United continued to balance capital adequacy and the return to shareholders. The increase in shareholders equity was due mainly to earnings net of dividends declared which equaled $14.63 million for the first nine months of 2012.

Accumulated other comprehensive income increased $3.37 million or 5.05% due mainly to the after-tax accretion of pension costs of $1.86 million, a $1.27 million increase, net of deferred income taxes, in the fair value of United s available for sale investment portfolio and the after tax non-credit portion of OTTI losses of $249 thousand for the first nine months of 2012.

RESULTS OF OPERATIONS

Overview

Net income for the first nine months of 2012 was $61.39 million or $1.22 per diluted share compared to $55.35 million or $1.21 per share for the first nine months of 2011. Net income for the third quarter of 2012 was $19.33 million or $0.38 per diluted share, as compared to $20.02 million or $0.40 per diluted share for the prior year third quarter. United s annualized return on average assets for the first nine months of 2012 was 0.97% and return on average shareholders equity was 8.32% as compared to 0.98% and 8.62% for the first nine months of 2011. For the third quarter of 2012, United s annualized return on average assets was 0.92% and return on average shareholders equity was 7.76% as compared to 0.95% and 8.26% for the third quarter of 2011.

As previously stated, United completed its acquisition of Centra during the third quarter of 2011. As a result, comparisons for the first nine months of 2012 to the same time period in 2011 are impacted by increased levels of average balances, income, and expense due to the acquisition. The results for the third quarter and first nine months of 2012 included an accrual of $3.3 million with respect to a settlement of claims asserted in class actions against United Bank, Inc. of West Virginia. In addition, the results for the first nine months and third quarter of 2012 included noncash, before-tax, other-than-temporary impairment charges of $5.37 million and $2.26 million, respectively, on certain investment securities. The results for the first nine months and third quarter of 2011 included before-tax, other-than-temporary impairment charges of $14.13 million and $7.92 million, respectively, on certain investment securities.

Net interest income for the first nine months of 2012 was $208.04 million, an increase of $19.30 million or 10.23% from the prior year s first nine months. Net interest income for the third quarter of 2012 was $70.01 million, a decrease of $738 thousand or 1.04% from prior year s third quarter. The provision for credit losses was $11.92 million and $4.35 million for the first nine months and third quarter of 2012, respectively, as compared to $12.87 million and $3.64 million for the first nine months and third quarter of 2011, respectively.

Noninterest income for the first nine months of 2012 was $49.55 million which was an increase of $10.58 million or 27.16% from the first nine months of 2011. For the third quarter of 2012, noninterest income was $16.63 million, an increase of $5.66 million or 51.52% from the third quarter of 2011. Included in noninterest income were the previously mentioned other-than-temporary impairment charges on investment securities. For the first nine months of 2012, noninterest expense increased $21.36 million or 15.94% from the first nine months of 2011. For the third quarter of 2012, noninterest expense increased $5.00 million or 10.22% from the third quarter of 2011. As previously mentioned, included in noninterest expense for the third quarter and first nine months of 2012 was the accrual for the settlement of claims asserted in class actions against United.

Table of Contents

For the first nine months of 2012 and 2011, income tax expense was $28.89 million and $25.45 million, respectively. The effective tax rate for the first nine months of 2012 and 2011 was 32.00% and 31.50%, respectively. Income taxes for the third quarter of 2012 were $9.10 million as compared to $9.20 million for the third quarter of 2011. For the quarters ended September 30, 2012 and 2011, United s effective tax rates were 32.00% and 31.50%, respectively.

The following discussion explains in more detail the results of operations by major category.

Net Interest Income

Net interest income represents the primary component of United s earnings. It is the difference between interest income from earning assets and interest expense incurred to fund these assets. Net interest income is impacted by changes in the volume and mix of interest-earning assets and interest-bearing liabilities, as well as changes in market interest rates. Such changes, and their impact on net interest income in 2012 and 2011, are presented below.

Net interest income for the first nine months of 2012 was $208.04 million, which was an increase of $19.30 million or 10.23% from the first nine months of 2011. The $19.30 million increase in net interest income occurred because total interest income increased $13.24 million while total interest expense declined $6.06 million from the first nine months of 2011. Net interest income for the third quarter of 2012 was $70.01 million, which was a decrease of $738 thousand or 1.04% from the third quarter of 2011. The $738 thousand decrease in net interest income occurred because total interest income decreased $3.37 million while total interest expense declined $2.63 million from the third quarter of 2011. On a linked-quarter basis, net interest income for the third quarter of 2012 increased $959 thousand or 1.39% from the second quarter of 2012. The $959 thousand increase in net interest income occurred because total interest income increased $231 thousand while total interest expense declined $728 thousand from the second quarter of 2012. For the purpose of this remaining discussion, net interest income is presented on a tax-equivalent basis to provide a comparison among all types of interest earning assets. The tax-equivalent basis adjusts for the tax-favored status of income from certain loans and investments. Although this is a non-GAAP measure, United s management believes this measure is more widely used within the financial services industry and provides better comparability of net interest income arising from taxable and tax-exempt sources. United uses this measure to monitor net interest income performance and to manage its balance sheet composition.

Tax-equivalent net interest income for the first nine months of 2012 was $212.82 million, an increase of $19.23 million or 9.93% from the first nine months of 2011. This increase in tax-equivalent net interest income was primarily attributable to an increase in average earning assets from the Centra acquisition. Average earning assets increased $787.55 million or 11.79% from the first nine months of 2011. Average net loans increased $731.71 million or 13.38% for the first nine months of 2012. In addition, the average cost of funds declined 23 basis points from the first nine months of 2011. Partially offsetting the increases to tax-equivalent net interest income for the first nine months of 2012 was a decline of 27 basis points in the average yield on earning assets as compared to the first nine months of 2011. The net interest margin for the first nine months of 2012 was 3.80%, which was a decrease of 7 basis points from a net interest margin of 3.87% for the first nine months of 2011.

Tax-equivalent net interest income for the third quarter of 2012 was $71.57 million, a decrease of $951 thousand or 1.31% from the third quarter of 2011 due mainly to a decrease in the average yield on earning assets. The third quarter of 2012 average yield on earning assets decreased 13 basis points from the third quarter of 2011. In addition, average earning assets decreased $90.48 million or 1.21% from the third quarter of 2011 as average short-term investments and average investment securities declined $199.54 million and $87.94 million, respectively. Average net loans did increase $197.00 million or 3.23% for the third quarter of 2012 from the third quarter of 2011 partially offsetting the decreases in average short-term investments and investment securities. Partially offsetting the decreases to tax-equivalent net interest income for the third quarter of 2012 was a decline of 14 basis points in the average cost of funds as compared to the third quarter of 2011. The net interest margin for the third quarter of 2012 was 3.87%, which equaled the net interest margin for the third quarter of 2011.

On a linked-quarter basis, United s tax-equivalent net interest income for the third quarter of 2012 increased $951 thousand or 1.35% from the second quarter of 2012 due mainly to increases in average net loans and the average yield on earning assets. Average net loans increased $137.23 million or 2.23%. The third quarter of 2012 average yield on earning assets increased 7 basis points while the average cost of funds decreased 3 basis points from the second quarter of 2012. Overall, average earning assets decreased $165.52 million or 2.20% during the quarter as average short-term investments and average investment securities decreased $292.15 million and $10.59 million, respectively. The net interest margin of 3.87% for the third quarter of 2012 was an increase of 11 basis points from the net interest margin of 3.76% for the second quarter of 2012.

The following tables reconcile the difference between net interest income and tax-equivalent net interest income for the three months ended September 30, 2012, September 30, 2011 and June 30, 2012 and the nine months ended September 30, 2012 and September 30, 2011.

	Three Months Ended		
(Dollars in thousands)	**September 30 2012**	**September 30 2011**	**June 30 2012**
Net interest income, GAAP basis	$ 70,014	$ 70,752	$ 69,055
Tax-equivalent adjustment (1)	1,552	1,765	1,560
Tax-equivalent net interest income	$ 71,566	$ 72,517	$ 70,615

	Nine Months Ended	
(Dollars in thousands)	**September 30 2012**	**September 30 2011**
Net interest income, GAAP basis	$ 208,035	$ 188,736
Tax-equivalent adjustment (1)	4,781	4,855
Tax-equivalent net interest income	$ 212,816	$ 193,591

(1) The tax-equivalent adjustment combines amounts of interest income on federally nontaxable loans and investment securities using the statutory federal income tax rate of 35%. All interest income on loans and investment securities was subject to state income taxes.

Table of Contents

The following tables show the unaudited consolidated daily average balance of major categories of assets and liabilities for the three-month and nine-month periods ended September 30, 2012 and 2011, respectively, with the interest and rate earned or paid on such amount. The interest income and yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%. Interest income on all loans and investment securities was subject to state income taxes.

	Three Months Ended September 30, 2012			Three Months Ended September 30, 2011		
(Dollars in thousands)	Average Balance	Interest (1)	Avg. Rate (1)	Average Balance	Interest (1)	Avg. Rate (1)
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	$ 329,177	$ 145	0.18%	$ 528,718	$ 366	0.27%
Investment Securities:						
Taxable	649,466	4,843	2.98%	725,005	5,686	3.14%
Tax-exempt	96,788	1,268	5.24%	109,188	1,565	5.73%
Total Securities	746,254	6,111	3.28%	834,193	7,251	3.48%
Loans, net of unearned income (2)	6,367,867	76,632	4.79%	6,170,974	78,849	5.08%
Allowance for loan losses	(73,398)			(73,504)		
Net loans	6,294,469		4.85%	6,097,470		5.14%
Total earning assets	7,369,900	$ 82,888	4.48%	7,460,381	$ 86,466	4.61%
Other assets	946,199			922,191		
TOTAL ASSETS	$ 8,316,099			$ 8,382,572		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 4,959,606	$ 7,844	0.63%	$ 5,217,555	$ 9,667	0.74%
Short-term borrowings	280,319	59	0.08%	248,829	53	0.08%
Long-term borrowings	287,661	3,419	4.73%	354,482	4,229	4.73%
Total Interest-Bearing Funds	5,527,586	11,322	0.81%	5,820,866	13,949	0.95%
Noninterest-bearing deposits	1,754,351			1,557,654		
Accrued expenses and other liabilities	42,513			42,340		
TOTAL LIABILITIES	7,324,450			7,420,860		
SHAREHOLDERS EQUITY	991,649			961,712		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 8,316,099			$ 8,382,572		
NET INTEREST INCOME		$ 71,566			$ 72,517	
INTEREST SPREAD			3.67%			3.66%
NET INTEREST MARGIN			3.87%			3.87%

(1)

The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) Nonaccruing loans are included in the daily average loan amounts outstanding.

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30, 2012 Average Balance	Interest (1)	Avg. Rate (1)	Nine Months Ended September 30, 2011 Average Balance	Interest (1)	Avg. Rate (1)
ASSETS						
Earning Assets:						
Federal funds sold and securities repurchased under agreements to resell and other short-term investments	$ 494,828	$ 903	0.24%	$ 407,700	$ 942	0.31%
Investment Securities:						
Taxable	670,920	13,841	2.75%	706,212	18,206	3.44%
Tax-exempt	101,914	4,050	5.30%	97,908	4,667	6.36%
Total Securities	772,834	17,891	3.09%	804,120	22,873	3.79%
Loans, net of unearned income (2)	6,273,433	230,216	4.90%	5,541,356	212,033	5.11%
Allowance for loan losses	(73,490)			(73,120)		
Net loans	6,199,943		4.96%	5,468,236		5.18%
Total earning assets	7,467,605	$ 249,010	4.45%	6,680,056	$ 235,848	4.72%
Other assets	945,296			854,463		
TOTAL ASSETS	$ 8,412,901			$ 7,534,519		
LIABILITIES						
Interest-Bearing Funds:						
Interest-bearing deposits	$ 5,096,255	$ 24,776	0.65%	$ 4,619,519	$ 29,918	0.87%
Short-term borrowings	276,566	184	0.09%	246,748	106	0.06%
Long-term borrowings	313,876	11,234	4.78%	342,758	12,233	4.77%
Total Interest-Bearing Funds	5,686,697	36,194	0.85%	5,209,025	42,257	1.08%
Non-interest bearing deposits	1,694,676			1,418,784		
Accrued expenses and other liabilities	45,289			48,326		
TOTAL LIABILITIES	7,426,662			6,676,135		
SHAREHOLDERS EQUITY	986,239			858,384		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 8,412,901			$ 7,534,519		
NET INTEREST INCOME		$ 212,816			$ 193,591	
INTEREST SPREAD			3.60%			3.64%
NET INTEREST MARGIN			3.80%			3.87%

(1) The interest income and the yields on federally nontaxable loans and investment securities are presented on a tax-equivalent basis using the statutory federal income tax rate of 35%.

(2) Nonaccruing loans are included in the daily average loan amounts outstanding.

Provision for Loan Losses

The provision for loan losses for the first nine months of 2012 and 2011 was $11.92 million and $12.87 million, respectively. For the quarters ended September 30, 2012 and 2011, the provision for loan losses was $4.35 million and $3.64 million, respectively. Net charge-offs for the first nine months of 2012 were $12.04 million as compared to $12.40 million for the first nine months of 2011. Net charge-offs were $4.01 million for the third quarter of 2012 as compared to net charge-offs of $3.26 million for the same quarter in 2011. Annualized net charge-offs as a percentage of average loans were 0.26% and 0.25% for the first nine months and third quarter of 2012. This ratio compares favorably to United s most recently reported Federal Reserve peer group s net charge-offs to average loans percentage of 0.65% for the second quarter of 2012. On a linked-quarter basis, United s provision for loan losses increased $910 thousand while net charge-offs were flat from the second quarter of 2012.

At September 30, 2012, nonperforming loans were $98.43 million or 1.53% of loans, net of unearned income compared to nonperforming loans of $79.66 million or 1.28% of loans, net of unearned income at December 31, 2011. The components of nonperforming loans include: 1) nonaccrual loans, 2) loans which are contractually past due 90 days or more as to interest or principal, but have not been put on a nonaccrual basis and 3) loans whose terms have been restructured for economic or legal reasons due to financial difficulties of the borrowers.

Loans past due 90 days or more were $12.48 million at September 30, 2012, a decrease of $3.70 million or 22.89% from $16.18 million at year-end 2011. The decrease in loans past due 90 days or more was primarily due to the renewal of several large commercial relationships which were matured at year-end. At September 30, 2012, nonaccrual loans were $81.86 million, an increase of $21.97 million or 36.68% from $59.89 million at year-end 2011. The increase in nonaccrual loans was primarily due to the deterioration in financial condition of two large relationships which necessitated transfer of the relationships to nonaccrual status. Restructured loans were $4.09 million at September 30, 2012 as compared to $3.59 million restructured loans at year-end 2011. The increase of $499 thousand was due to the restructure of a commercial loan. The loss potential on these loans has been properly evaluated and allocated within the company s allowance for loan losses.

Nonperforming assets include nonperforming loans and real estate acquired in foreclosure or other settlement of loans (OREO). Total nonperforming assets of $148.47 million, including OREO of $50.04 million at September 30, 2012, represented 1.77% of total assets which compares favorably to United s most recently reported Federal Reserve peer group banking companies (bank holding companies with total assets between $3 and $10 billion) percentage of 2.33% at June 30, 2012.

Loans are designated as impaired when, in the opinion of management, the collection of principal and interest in accordance with the loan contract is doubtful. At September 30, 2012, impaired loans were $102.24 million, which was a decrease of $25.80 million or 20.15% from the $128.04 million in impaired loans at December 31, 2011. This decrease in impaired loans was due mainly to decreased outstanding principal associated with impaired loans in the Company s non-owner occupied commercial real estate, residential real estate and construction and land development portfolios as a result of repayment of principal through the sale of associated collateral combined with improved borrower collateral positions which led to reduction of impairments. The loss potential on these loans has been properly evaluated and allocated within the Company s allowance for loan losses. For further details regarding impaired loans, see Note 5 to the unaudited Consolidated Financial Statements.

United maintains an allowance for loan losses and a reserve for lending-related commitments. The combined allowance for loan losses and reserve for lending-related commitments are referred to as the allowance for credit losses. At September 30, 2012, the allowance for credit losses was $75.54 million which was comparable to $75.73 million at December 31, 2011.

At September 30, 2012, the allowance for loan losses was $73.75 million as compared to $73.87 million at December 31, 2011. As a percentage of loans, net of unearned income, the allowance for loan losses was 1.15% at September 30, 2012 and 1.18% of loans, net of unearned income at December 31, 2011. The ratio of the allowance for loan losses to nonperforming loans or coverage ratio was 74.93% and 92.73% at September 30, 2012 and December 31, 2011, respectively. For United, this ratio at September 30, 2012 decreased from the ratio at December 31, 2011 because nonperforming loans increased $18.76 million or 23.55% while the allowance for loan losses was relatively flat from year-end 2011, decreasing $126 thousand or less than 1%. Adjustments to risk grades based on delinquency and loss trends of such loans and changes in qualitative risk factors within the allowance for loan loss analysis resulted in increased allowance allocations of $1.09 million or 1.53%. The increased allocations did not increase the overall level of the reserve because of a decrease in the estimate for imprecision of $1.22 million. The decrease in the estimate

Table of Contents

for imprecision is attributable to refined methodology utilized by the Bank to fully allocate amounts reserved for losses inherent in the Bank s portfolio. The Company s detailed methodology and analysis indicated only a slight decrease in the allowance for loan losses primarily due to the offsetting factors of the reduction in additional allocations to watch-rated loans and increased loss allocations on impaired loans.

Allocations are made for specific commercial loans based upon management s estimate of the borrowers ability to repay and other factors impacting collectibility. Other commercial loans not specifically reviewed on an individual basis are evaluated based on historical loss percentages applied to loan pools that have been segregated by risk. Allocations for loans other than commercial loans are made based upon historical loss experience adjusted for current environmental conditions. The allowance for credit losses includes estimated probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet fully manifested themselves in loss allocation factors. In addition, a portion of the allowance accounts for the inherent imprecision in the analysis of the allowance for credit losses.

United s formal company-wide review of the allowance for loan losses at September 30, 2012 produced increased allocations in three of the six loan categories. The allowance allocated to commercial real estate nonowner-occupied loans increased by $1.12 million due to an increase in historical loss rates and outstanding loan balances. The allocation related to the residential real estate loan pool increased by $887 thousand due to an increase in historical loss rates and specific allocations for impaired loans. The consumer loan pool experienced an increase in allocation of $326 thousand due to an increase in historical loss rates and increased outstanding balances. Offsetting these increases was a decrease in the other commercial loan pool allocation of $939 thousand driven by a combination of lower historical loss rates and a decrease in specific allocations for floorplan lending. The commercial real estate owner-occupied loan pool allocation experienced a decrease of $163 thousand and the real estate construction and development allocation decreased $145 thousand due to a change in methodology adopted by the Bank whereas the qualitative factors component is no longer applied to additional allocations within the allowance calculation. In summary, the overall level of the allowance for loan losses was stable in comparison to year-end 2011 as a result of offsetting factors within the portfolio as described above.

An allowance is established for probable credit losses on impaired loans via specific allocations. Nonperforming commercial loans and leases are regularly reviewed to identify impairment. A loan or lease is impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts contractually due. Measuring impairment of a loan requires judgment and estimates, and the eventual outcomes may differ from those estimates. Impairment is measured based upon the present value of expected future cash flows from the loan discounted at the loan s effective rate, the loan s observable market price or the fair value of collateral if the loan is collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment has occurred. The allowance for impaired loans was $15.63 million at September 30, 2012 and $11.16 million at December 31, 2011. Compared to the prior year-end, this element of the allowance increased by $4.47 million due to increased specific allocations for the nonowner-occupied commercial real estate, other commercial loan, and real estate construction and development loan pools.

An allowance is also recognized for imprecision inherent in loan loss migration models and other estimates of loss. There are many factors affecting the allowance for loan losses and reserve for lending-related commitments; some are quantitative while others require qualitative judgment. Although management believes its methodology for determining the allowance adequately considers all of the potential factors to identify and quantify probable losses in the portfolio, the process includes subjective elements and is therefore susceptible to change. This estimate for imprecision has been established to recognize the variance, within a reasonable margin, of the loss estimation process. The estimate for imprecision decreased at September 30, 2012 by $1.22 million to $1.36 million. This estimate for imprecision represents 1.84% of the Company s total allowance for credit losses and in as much as this variance approximates a pre-determined narrow parameter, the methodology has confirmed that the Company s allowance for credit losses is at an appropriate level.

Table of Contents

Management believes that the allowance for credit losses of $75.54 million at September 30, 2012 is adequate to provide for probable losses on existing loans and lending-related commitments based on information currently available. Note 6 to the accompanying unaudited Notes to Consolidated Financial Statements provides a progression of the allowance for loan losses by portfolio segment.

United s loan administration policies are focused on the risk characteristics of the loan portfolio in terms of loan approval and credit quality. The commercial loan portfolio is monitored for possible concentrations of credit in one or more industries. Management has established lending limits as a percentage of capital per type of credit concentration in an effort to ensure adequate diversification within the portfolio. Most of United s commercial loans are secured by real estate located in West Virginia, southeastern Ohio, Pennsylvania, Virginia, Maryland and the District of Columbia. It is the opinion of management that these commercial loans do not pose any unusual risks and that adequate consideration has been given to these loans in establishing the allowance for credit losses.

Management is not aware of any potential problem loans, trends or uncertainties, which it reasonably expects will materially impact future operating results, liquidity, or capital resources which have not been disclosed. Additionally, management has disclosed all known material credits, which cause management to have serious doubts as to the ability of such borrowers to comply with the loan repayment schedules.

Other Income

Other income consists of all revenues, which are not included in interest and fee income related to earning assets. Noninterest income has been and will continue to be an important factor for improving United s profitability. Recognizing the importance, management continues to evaluate areas where noninterest income can be enhanced.

Noninterest income was $49.55 million for the first nine months of 2012 which was an increase of $10.58 million or 27.16% from the first nine months of 2011. For the third quarter of 2012, noninterest income was $16.63 million, an increase of $5.66 million or 51.52% from the third quarter of 2011.

Net losses on investment securities transactions for the first nine months of 2012 were $5.19 million as compared to net losses of $12.50 million for the first nine months of 2011. Included in net losses on investment securities for the first nine months of 2012 were before-tax other-than-temporary impairment charges of $5.37 million on certain investment securities. Included in net losses on investment securities for the first nine months of 2011 were before-tax, other-than-temporary impairment charges of $14.13 million on certain investment securities and a before-tax, net gain of $1.63 million on the sale of investment securities. Excluding the results of security transactions, noninterest income for the first nine months of 2012 would have increased $3.27 million or 6.36% from the same period in 2011. For the third quarter of 2012, net losses on investment securities transactions were $2.19 million as compared to net losses of $7.48 million for the third quarter of 2011. Included in net losses on investment securities transactions for the third quarter of 2012 were before-tax other-than-temporary impairment charges of $2.26 million on certain investment securities. Included in net losses on investment securities transactions for the third quarter of 2011 were before-tax, other-than-temporary impairment charges of $7.92 million on certain investment securities. Excluding the results of security transactions, noninterest income for the third quarter of 2012 would have increased $367 thousand or 1.99% from the third quarter of 2011.

Revenue from trust and brokerage services for the first nine months of 2012 increased $2.14 million or 21.34% from the first nine months of 2011. Revenue from trust and brokerage services was $12.17 million for the first nine months of 2012 as compared to $10.03 million for the first nine months of 2011. For the third quarter of 2012, revenue from trust and brokerage services increased $890 thousand or 27.13% from the prior year s third quarter. Revenue from trust and brokerage services was $4.17 million for the third quarter of 2012 as compared to $3.28 million for the third quarter of 2011. The higher amounts of revenue in 2012 were due to increases in volume and the value of assets under management.

Table of Contents

Fees from deposit services for the first nine months of 2012 were $31.23 million, an increase of $792 thousand or 2.60% from the first nine months of 2011. In particular, debit card income and account analysis fees increased $1.70 million and $292 thousand, respectively, during the first nine months of 2012. Partially offsetting these increases were decreases in overdraft fees and ATM fees of $707 thousand and $287 thousand, respectively, for the first nine months of 2012. For the third quarter of 2012, fees from deposit services were $10.52 million which was relatively flat from the third quarter of 2011. In particular, an increase in debit card income of $1.20 million was offset by declines in ATM fees of $790 thousand and other deposit service charges of $399 thousand.

Fees from bankcard services decreased $224 thousand or 9.05% and $371 thousand or 29.99%, for the first nine months and third quarter of 2012, respectively, as compared to the same time periods in 2011. Fees from bankcard services were $2.25 million and $866 thousand for the first nine months and third quarter of 2012, respectively, as compared to $2.48 million and $1.24 million, respectively, for the first nine months and third quarter of 2011. The decreases for 2012 were due to a lower volume of transactions.

Income from bank-owned life insurance decreased $156 thousand or 3.95% and $297 thousand or 19.24% for the first nine months and third quarter of 2012, respectively, as compared to the first nine months and third quarter of 2011. These decreases in income as compared to the same time period in 2011 were due to decreases in the cash surrender values of the insurance policies.

Mortgage banking income increased $1.05 million or 184.21% and $614 thousand or 299.51% for the first nine months and third quarter of 2012 from the same periods in 2011. These increases were due primarily to increased mortgage loan production and sales in the secondary market. Mortgage loan sales were $91.46 million in the first nine months of 2012 as compared to $41.03 million in the first nine months of 2011. Mortgage loan sales were $43.36 million in the third quarter of 2012 as compared to $19.75 million in the third quarter of 2011.

Other income decreased $730 thousand or 26.82% for the first nine months of 2012. This decrease in other income is due mainly to a decrease of $377 thousand from derivatives not in a hedging relationship as a result of a change in value. For the third quarter of 2012, other income decreased $586 thousand or 46.07% due mainly to a decrease of $201 thousand from derivatives not in a hedging relationship as a result of a change in value. Corresponding amounts of expense from derivatives not in a hedging relationship are included in other expense in the income statement.

On a linked-quarter basis, noninterest income for the third quarter of 2012 was flat from the second quarter of 2012. Included in the results for the third quarter of 2012 and second quarter of 2012 were noncash, before-tax, other-than-temporary impairment charges of $2.26 million and $1.74 million, respectively. Excluding the results of the noncash, other-than-temporary impairment charges as well as net gains and losses from sales and calls of investment securities, noninterest income would have increased $692 thousand or 3.82% on a linked-quarter basis due primarily to increases in mortgage banking income due to increased production and sales of mortgage loans in the secondary market and in income from trust and brokerage services due to increases in volume and the value of assets under management.

Other Expenses

Just as management continues to evaluate areas where noninterest income can be enhanced, it strives to improve the efficiency of its operations to reduce costs. Other expenses include all items of expense other than interest expense, the provision for loan losses, and income taxes. For the first nine months of 2012, noninterest expense increased $21.36 million or 15.94% from the first nine months of 2011. This increase was mainly the result of the Centra merger. Noninterest expense increased $5.00 million or 10.22% for the third quarter of 2012 compared to the same period in 2011. This increase was due mainly to the previously mentioned accrual of $3.3 million with respect to class actions against United Bank, Inc. of West Virginia.

Employee compensation increased $6.28 million or 13.39% for the first nine months of 2012 when compared to the first nine months of 2011. This increase was due mainly to the additional employees from the Centra merger. Employee compensation for the third quarter of 2012 increased $288 thousand or 1.70% from the third quarter of 2011 due to an increase in base salaries.

Employee benefits expense for the first nine months of 2012 increased $3.42 million or 26.54% from the first nine months of 2011. Employee benefits expense for the third quarter of 2012 increased $910 thousand or 20.87% from the third quarter of 2011. Specifically within employee benefits expense, pension expense increased $2.56 million and $909 thousand for the first nine months and third quarter of 2012, respectively, from the same periods last year. In addition, health insurance expense increased $246 thousand while FICA expense increased $309 thousand for the first nine months of 2012 as compared to the first nine months of 2011.

Net occupancy expense for the first nine months of 2012 increased $1.85 million or 13.59% from the first nine months of 2011. The increase was due mainly to the additional offices acquired from Centra. In particular, building rental expense increased $746 thousand for the first nine months of 2012, respectively, while building depreciation and maintenance increased $335 thousand and $324 thousand, respectively. Net occupancy expense for the third quarter of 2012 was flat from the third quarter of 2011.

Other real estate owned (OREO) expense for the first nine months and third quarter of 2012 increased $1.52 million or 29.62% and $31 thousand or 1.46%, respectively, from the first nine months and third quarter of 2011. The increase was due mainly to decreases in the fair values of OREO properties.

Equipment expense for the first nine months of 2012 increased $1.06 million or 19.83% from the first nine months of 2011. This increase was due to higher depreciation and maintenance expense as a result of the Centra merger. Equipment expense for the third quarter of 2012 decreased slightly from the third quarter of 2011 due to a decrease in maintenance.

Data processing expense increased $905 thousand or 10.50% for the first nine months of 2012 as compared to the first nine months of 2011. For the third quarter of 2012, data processing expense increased $734 thousand or 24.96% from the third quarter of 2011. These increases were due mainly to the conversion to a new servicer.

Bankcard processing expense for the first nine months and third quarter of 2012 increased $210 thousand or 28.04% and $68 thousand or 24.82%, respectively, from the first nine months and third quarter of 2011. The increase was due to a higher volume of transactions.

FDIC insurance expense for the first nine months and third quarter of 2012 decreased $2.43 million or 34.90% and $819 thousand or 35.49%, respectively, from the first nine months and third quarter of 2011. The decreases were due to lower premiums.

Other expense for the first nine months and third quarter of 2012 increased $8.57 million or 25.27% and $3.95 million or 31.36% from the first nine months and third quarter of 2011, respectively. These increases were due mainly to the previously mentioned accrual of $3.3 million with respect to class actions against United Bank, Inc. of West Virginia. The additional increase from the first nine months of 2011 was due mainly to higher general operating expenses as a result of the Centra merger. In particular, ATM expense for the first nine months of 2012 increased $1.53 million and consulting and legal expense increased $1.42 million from the first nine months of 2011. Other increases for the first nine months of 2012 included amortization expense on intangibles of $586 thousand, advertising expenses of $479 thousand, and office supplies of $493 thousand.

Table of Contents

On a linked-quarter basis, noninterest expense for the third quarter of 2012 increased $2.62 million or 5.11% from the second quarter of 2012. This increase was due primarily to the litigation settlement accrual as well as an increase of $1.04 million in data processing expense related to the overlap of data processors and the conversion to a new servicer. Partially offsetting these increases were decreases of $707 thousand and $552 thousand in employee compensation and benefits, respectively.

Income Taxes

Income tax expense for the first nine months of 2012 and 2011 was $28.89 million and $25.45 million, respectively. For the first nine months of 2012 and 2011, United s effective tax rate was 32.00% and 31.50%, respectively. Income taxes for the third quarter of 2012 were $9.10 million as compared to $9.20 million for the third quarter of 2011. For the quarters ended September 30, 2012 and 2011, United s effective tax rate was 32.00% and 31.50%, respectively. For further details related to income taxes, see Note 15 of the unaudited Notes to Consolidated Financial Statements contained within this document.

Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements

United has various financial obligations, including contractual obligations and commitments, that may require future cash payments. Please refer to United s Annual Report on Form 10-K for the year ended December 31, 2011 for disclosures with respect to United s fixed and determinable contractual obligations. There have been no material changes outside the ordinary course of business since year-end 2011 in the specified contractual obligations disclosed in United s 2011 Annual Report on Form 10-K.

As of September 30, 2012, United recorded a liability for uncertain tax positions, including interest and penalties, of $2.00 million in accordance with ASC topic 740. This liability represents an estimate of tax positions that United has taken in its tax returns which may ultimately not be sustained upon examination by tax authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability is excluded from the contractual obligations table in the 2011 Form 10-K report.

United also enters into derivative contracts, mainly to protect against adverse interest rate movements on the value of certain assets or liabilities, under which it is required to either pay cash to or receive cash from counterparties depending on changes in interest rates. Derivative contracts are carried at fair value and not notional value on the consolidated balance sheet. Because the derivative contracts recorded on the balance sheet at September 30, 2012 do not present the amounts that may ultimately be paid under these contracts, they are excluded from the contractual obligations table in the 2011 Form 10-K report. Further discussion of derivative instruments is presented in Note 11 to the unaudited Notes to Consolidated Financial Statements.

United is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments and standby letters of credit. United s maximum exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for the loan commitments and standby letters of credit is the contractual or notional amount of those instruments. United uses the same policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. Further discussion of off-balance sheet commitments is included in Note 10 to the unaudited Notes to Consolidated Financial Statements.

Table of Contents

Liquidity

In the opinion of management, United maintains liquidity that is sufficient to satisfy its depositors requirements and the credit needs of its customers. Like all banks, United depends upon its ability to renew maturing deposits and other liabilities on a daily basis and to acquire new funds in a variety of markets. A significant source of funds available to United is core deposits . Core deposits include certain demand deposits, statement and special savings and NOW accounts. These deposits are relatively stable, and they are the lowest cost source of funds available to United. Short-term borrowings have also been a significant source of funds. These include federal funds purchased and securities sold under agreements to repurchase as well as advances from the FHLB. Repurchase agreements represent funds which are obtained as the result of a competitive bidding process.

Liquid assets are cash and those items readily convertible to cash. All banks must maintain sufficient balances of cash and near-cash items to meet the day-to-day demands of customers and United s cash needs. Other than cash and due from banks, the available for sale securities portfolio and maturing loans are the primary sources of liquidity.

The goal of liquidity management is to ensure the ability to access funding which enables United to efficiently satisfy the cash flow requirements of depositors and borrowers and meet United s cash needs. Liquidity is managed by monitoring funds availability from a number of primary sources. Substantial funding is available from cash and cash equivalents, unused short-term borrowing and a geographically dispersed network of branches providing access to a diversified and substantial retail deposit market.

Short-term needs can be met through a wide array of outside sources such as correspondent and downstream correspondent federal funds and utilization of Federal Home Loan Bank advances.

Other sources of liquidity available to United to provide long-term as well as short-term funding alternatives, in addition to FHLB advances, are long-term certificates of deposit, lines of credit, borrowings that are secured by bank premises or stock of United s subsidiaries and issuances of trust preferred securities. In the normal course of business, United through its Asset Liability Committee evaluates these as well as other alternative funding strategies that may be utilized to meet short-term and long-term funding needs.

For the nine months ended September 30, 2012, cash of $89.20 million was provided by operating activities due mainly to net income of $61.39 million for the first nine months of 2012. Net cash of $153.35 million was used in investing activities which was primarily due to net loan growth of $203.88 million. Partially offsetting the net cash used for loan growth were net purchases of $48.38 million over sales, calls and maturities of investment securities. During the first nine months of 2012, net cash of $135.53 million was used in financing activities due primarily to a decline of $62.29 million in deposits, the net repayment of $55.30 million in long-term FHLB advances and the payment of cash dividends in the amount of $46.75 million for the first nine months of 2012. Partially offsetting these uses of cash in financing activities was cash provided by a growth in short-term borrowings of $33.72 million. The net effect of the cash flow activities was a decrease in cash and cash equivalents of $199.68 million for the first nine months of 2012.

United anticipates it can meet its obligations over the next 12 months and has no material commitments for capital expenditures. There are no known trends, demands, commitments, or events that will result in or that are reasonably likely to result in United s liquidity increasing or decreasing in any material way. United also has lines of credit available. See Notes 8 and 9 to the accompanying unaudited Notes to Consolidated Financial Statements for more details regarding the amounts available to United under lines of credit.

The Asset Liability Committee monitors liquidity to ascertain that a liquidity position within certain prescribed parameters is maintained. No changes are anticipated in the policies of United s Asset Liability Committee.

Table of Contents

Capital Resources

United s capital position is financially sound. United seeks to maintain a proper relationship between capital and total assets to support growth and sustain earnings. United has historically generated attractive returns on shareholders equity. Based on regulatory requirements, United and its banking subsidiaries are categorized as well capitalized institutions. United s risk-based capital ratios of 13.75% at September 30, 2012 and 13.83% at December 31, 2011, were both significantly higher than the minimum regulatory requirements. United s Tier I capital and leverage ratios of 12.51% and 10.60%, respectively, at September 30, 2012, are also well above regulatory minimum requirements.

Total shareholders equity was $988.43 million at September 30, 2012, which increased $19.59 million or 2.02% from December 31, 2011. United s equity to assets ratio was 11.79% at September 30, 2012 as compared to 11.46% at December 31, 2011. The primary capital ratio, capital and reserves to total assets and reserves, was 12.58% at September 30, 2012 as compared to 12.25% at December 31, 2011. United s average equity to average asset ratio was 11.72% for the first nine months of 2012 as compared to 11.39% for the first nine months of 2011. All of these financial measurements reflect a financially sound position.

During the third quarter of 2012, United s Board of Directors declared a cash dividend of $0.31 per share. Cash dividends were $0.93 per common share for the first nine months of 2012. Total cash dividends declared were $15.59 million for the third quarter of 2012 and $46.76 million for the first nine months of 2012 as compared to $15.06 million and $41.26 million, respectively, for the third quarter and first nine months of 2011.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The objective of United s Asset Liability Management function is to maintain consistent growth in net interest income within United s policy guidelines. This objective is accomplished through the management of balance sheet liquidity and interest rate risk exposures due to changes in economic conditions, interest rate levels and customer preferences.

Interest Rate Risk

Management considers interest rate risk to be United s most significant market risk. Interest rate risk is the exposure to adverse changes in United s net interest income as a result of changes in interest rates. United s earnings are largely dependent on the effective management of interest rate risk.

Management of interest rate risk focuses on maintaining consistent growth in net interest income within Board-approved policy limits. United s Asset Liability Management Committee (ALCO), which includes senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk to maintain an acceptable level of change to net interest income as a result of changes in interest rates. Policy established for interest rate risk is stated in terms of the change in net interest income over a one-year and two-year horizon given an immediate and sustained increase or decrease in interest rates. The current limits approved by the Board of Directors are structured on a staged basis with each stage requiring specific actions.

United employs a variety of measurement techniques to identify and manage its exposure to changing interest rates. One such technique utilizes an earnings simulation model to analyze the sensitivity of net interest income to movements in interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. The model also includes executive management projections for activity levels in product lines offered by United. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. Rate scenarios could involve parallel or nonparallel shifts in the yield curve, depending on historical, current, and expected conditions, as well as the need to capture any material effects of explicit or embedded options. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and management s strategies.

Interest sensitive assets and liabilities are defined as those assets or liabilities that mature or are repriced within a designated time frame. The principal function of interest rate risk management is to maintain an appropriate relationship between those assets and liabilities that are sensitive to changing market interest rates. The difference between rate sensitive assets and rate sensitive liabilities for specified periods of time is known as the GAP. Earnings-simulation analysis captures not only the potential of these interest sensitive assets and liabilities to mature or reprice but also the probability that they will do so. Moreover, earnings-simulation analysis considers the relative sensitivities of these balance sheet items and projects their behavior over an extended period of time. United closely monitors the sensitivity of its assets and liabilities on an on-going basis and projects the effect of various interest rate changes on its net interest margin.

The following table shows United s estimated earnings sensitivity profile as of September 30, 2012 and December 31, 2011:

	Percentage Change in Net Interest Income	
Change in Interest Rates (basis points)	**September 30, 2012**	**December 31, 2011**
+200	4.61%	8.61%
+100	1.17%	3.58%
-100	(0.06%)	(1.43%)

At September 30, 2012, given an immediate, sustained 100 basis point upward shock to the yield curve used in the simulation model, net interest income for United is estimated to increase by 1.17% over one year as compared to an increase of 3.58% at December 31, 2011. A 200 basis point immediate, sustained upward shock in the yield curve would increase net interest income by an estimated 4.61% over one year as of September 30, 2012, as compared to an increase of 8.61% as of December 31, 2011. A 100 basis point immediate, sustained downward shock in the yield curve would decrease net interest income by an estimated 0.06% over one year as of September 30, 2012 as compared to a decrease of 1.43%, over one year as of December 31, 2011. With the federal funds rate at 0.25% at September 30, 2012 and December 31, 2011, management believed a 200 basis point immediate, sustained decline in rates was highly unlikely.

This analysis does not include the potential increased refinancing activities, which should lessen the negative impact on net income from falling rates. While it is unlikely market rates would immediately move 100 or 200 basis points upward or downward on a sustained basis, this is another tool used by management and the Board of Directors to gauge interest rate risk. All of these estimated changes in net interest income are and were within the policy guidelines established by the Board of Directors.

To further aid in interest rate management, United s subsidiary banks are members of the Federal Home Loan Bank (FHLB). The use of FHLB advances provides United with a low risk means of matching maturities of earning assets and interest-bearing funds to achieve a desired interest rate spread over the life of the earning assets. In addition, United uses credit with large regional banks and trust preferred securities to provide funding.

As part of its interest rate risk management strategy, United may use derivative instruments to protect against adverse price or interest rate movements on the value of certain assets or liabilities and on future cash flows. These derivatives commonly consist of interest rate swaps, caps, floors, collars, futures, forward contracts, written and purchased options. Interest rate swaps obligate two parties to exchange one or more payments generally calculated with reference to a fixed or variable rate of interest applied to the notional amount. United accounts for its derivative activities in accordance with the provisions of ASC topic 815, Derivatives and Hedging.

Table of Contents

United previously sold residential mortgage loans in a securitization transaction and retained an interest-only strip, and lower-rated subordinated classes of asset-backed securities, all of which are subordinated interests in the securitized assets. United recognized the excess of all cash flows attributable to the subordinated interests using the effective yield method. However, because the carrying value of United s subordinated interest has been zero since June 30, 2005, the difference between the cash flows associated with these underlying mortgages and amounts owed to third party investors has been recognized in interest income as cash is received by United over the remaining life of the loans. However, the securitization trust (the Trust) is subject to an adverse judgment arising from a class action suit. An order granting supplemental damages and entry of final judgment was entered March 5, 2010. Subsequent to the order, the Trust entered into a settlement with all members of the Settlement Class wherein the Trust agreed not to appeal the case and the plaintiffs agreed to accept reduced and limited damages in settlement and dismissal of their claims with prejudice. The settlement will be strictly paid from the residual cash flows from the Trust and not the Company. Because the future payments and prepayments of loans in the Trust cannot be predicted, United cannot currently determine the amounts, if any, of residual cash flows that will be received. During the first nine months of 2012, United received no cash on the retained interest in the securitization.

Extension Risk

A key feature of most mortgage loans is the ability of the borrower to repay principal earlier than scheduled. This is called a prepayment. Prepayments arise primarily due to sale of the underlying property, refinancing, or foreclosure. In general, declining interest rates tend to increase prepayments, and rising interest rates tend to slow prepayments. Like other fixed-income securities, when interest rates rise, the value of mortgage- related securities generally declines. The rate of prepayments on underlying mortgages will affect the price and volatility of mortgage-related securities and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If interest rates rise, United s holdings of mortgage-related securities may experience reduced returns if the borrowers of the underlying mortgages pay off their mortgages later than anticipated. This is generally referred to as extension risk.

At September 30, 2012, United s mortgage related securities portfolio had an amortized cost of $135 million, of which approximately $65 million or 48% were fixed rate collateralized mortgage obligations (CMOs). These fixed rate CMOs consisted primarily of planned amortization class (PACs), sequential-pay and accretion directed (VADMs) bonds having an average life of approximately 1.7 years and a weighted average yield of 5.48%, under current projected prepayment assumptions. These securities are expected to have very little extension risk in a rising rate environment. Current models show that with an immediate, sustained upward shock of 300 basis points, the average life of these securities would extend to 2.8 years. The projected price decline of the fixed rate CMO portfolio in rates up 300 basis points would be 4.4%, less than the price decline of a 2 year treasury note. By comparison, the price decline of a 30-year current coupon mortgage backed security (MBS) for an immediate, sustained upward shock of 300 basis points would be approximately be approximately 18%.

United had approximately $31 million in 15-year mortgage backed securities with a projected yield of 4.80% and a projected average life of 2.8 years as of September 30, 2012. This portfolio consisted of seasoned 15-year mortgage paper with a weighted average loan age (WALA) of 7.3 years and a weighted average maturity (WAM) of 7.3 years.

United had approximately $4 million in 20-year mortgage backed securities with a projected yield of 4.83% and a projected average life of 2.8 years on September 30, 2012. This portfolio consisted of seasoned 20-year mortgage paper with a weighted average loan age (WALA) of 9.6 years and a weighted average maturity (WAM) of 9.8 years.

United had approximately $6 million in 30-year mortgage backed securities with a projected yield of 6.59% and a projected average life of 3.8 years on September 30, 2012. This portfolio consisted of seasoned 30-year mortgage paper with a weighted average loan age (WALA) of 12.6 years and a weighted average maturity (WAM) of 16.4 years.

Table of Contents

The remaining 20% of the mortgage related securities portfolio at September 30, 2012, included adjustable rate securities (ARMs), balloon securities, and 10-year mortgage backed pass-through securities.

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2012, an evaluation was performed under the supervision of and with the participation of United s management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of United s disclosure controls and procedures. Based on that evaluation, United s management, including the CEO and CFO, concluded that United s disclosure controls and procedures as of September 30, 2012 were effective in ensuring that information required to be disclosed in the Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time period required by the Securities and Exchange Commission s rules and forms. There have been no changes in United s internal control over financial reporting that occurred during the quarter ended September 30, 2012, or in other factors that have materially affected or are reasonably likely to materially affect United s internal control over financial reporting.

73

Table of Contents

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

On October 24, 2012, United Bankshares, Inc. and its wholly owned subsidiary, United Bank, Inc. of West Virginia, agreed to settle two class actions. The class actions alleged that United Bank improperly posted, processed, and paid consumer checking account debit card transactions, which allegedly resulted in the assessment of improper overdraft fees. These cases are virtually identical to cases filed against more than 70 other United States banks over the last three years.

The first case has been consolidated, with similar cases against a myriad of other banks, into a federal multidistrict litigation pending in the United States District Court for the Southern District of Florida that is known as In re Checking Account Overdraft Litigation, Case No. 1:09-md-02036-JLK. The second case is pending in the Circuit Court of Jackson County, West Virginia. Without admitting liability or any wrongdoing and to avoid further litigation expense, United Bankshares, Inc. and United Bank, Inc. of West Virginia agreed to settle these cases in exchange for a payment of $3.3 million and an agreement to pay certain settlement-related expenses. The settlement is subject to court approval. As of September 30, 2012, the $3.3 million settlement amount was fully accrued by the Company.

In the normal course of business, United and its subsidiaries are currently involved in various legal proceedings. Management is vigorously pursuing all its legal and factual defenses and, after consultation with legal counsel, believes that all such litigation will be resolved with no material effect on United s financial position.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, please refer to United s Annual Report on Form 10-K for the year ended December 31, 2011 for disclosures with respect to United s risk factors which could materially affect United s business, financial condition or future results. The risks described in the Annual Report on Form 10-K are not the only risks facing United. Additional risks and uncertainties not currently known to United or that United currently deems to be immaterial also may materially adversely affect United s business, financial condition and/or operating results. There are no material changes from the risk factors disclosed in United s Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There have been no United equity securities sales during the quarter ended September 30, 2012 that were not registered. The table below includes certain information regarding United s purchase of its common shares during the quarter ended September 30, 2012:

Period	Total Number of Shares Purchased (1) (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (3)	Maximum Number of Shares that May Yet be Purchased Under the Plans (3)
7/01 7/31/2012	0	$ 00.00	0	322,200
8/01 8/31/2012	112	$ 25.96	0	322,200
9/01 9/30/2012	0	$ 00.00	0	322,200
Total	112	$ 25.96	0	

Table of Contents

(1) Includes shares exchanged in connection with the exercise of stock options under United s stock option plans. Shares are purchased pursuant to the terms of the applicable stock option plan and not pursuant to a publicly announced stock repurchase plan. For the quarter ended September 30, 2012, no shares were exchanged by participants in United s stock option plans.
(2) Includes shares purchased in open market transactions by United for a rabbi trust to provide payment of benefits under a deferred compensation plan for certain key officers of United and its subsidiaries. For the quarter ended September 30, 2012, the following shares were purchased for the deferred compensation plan: August 2012 112 shares at an average price of $25.96.
(3) In May of 2006, United s Board of Directors approved a repurchase plan to repurchase up to 1.7 million shares of United s common stock on the open market (the 2006 Plan). The timing, price and quantity of purchases under the plan are at the discretion of management and the plan may be discontinued, suspended or restarted at any time depending on the facts and circumstances.

Item 3. DEFAULTS UPON SENIOR SECURITIES
None.

Item 4. MINE SAFETY DISCLOSURES
None.

Item 5. OTHER INFORMATION

(a) None.

(b) No changes were made to the procedures by which security holders may recommend nominees to United s Board of Directors.

Item 6. EXHIBITS
Exhibits required by Item 601 of Regulation S-K

Exhibit 3.1	Articles of Incorporation
Exhibit 3.2	Bylaws
Exhibit 31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
Exhibit 32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
Exhibit 32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
Exhibit 101	Interactive data file (XBRL)

Table of Contents

SIGNATURES

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

	UNITED BANKSHARES, INC. (Registrant)
Date: November 8, 2012	/s/ Richard M. Adams Richard M. Adams, Chairman of the Board and Chief Executive Officer
Date: November 8, 2012	/s/ Steven E. Wilson Steven E. Wilson, Executive Vice President, Treasurer, Secretary and Chief Financial Officer

76

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description	Page Number
3.1	Articles of Incorporation	(a)
3.2	Bylaws	(b)
31.1	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	78
31.2	Certification as Adopted Pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	79
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer	80
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer	81
101	Interactive data file (XBRL)	(c)

Footnotes:

* Furnished not filed.

(a) Incorporated by reference to a Current Report on Form 8-K dated December 23, 2008 and filed December 31, 2008 for United Bankshares, Inc., File No. 0-13322.

(b) Incorporated into this filing by reference to a Current Report on Form 8-K dated January 25, 2010 and filed January 29, 2010 for United Bankshares, Inc., File No. 0-13322.

(c) Exhibit not provided herein. The interactive data file (XBRL) exhibit is available through United s corporate website at www.ubsi-inc.com.