

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3 TO
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Omeros Corporation

(Exact name of registrant as specified in its charter)

Washington
*(State or other jurisdiction of
incorporation or organization)*

2834
*(Primary Standard Industrial
Classification Code Number)*
1420 Fifth Avenue, Suite 2600
Seattle, Washington 98101
(206) 676-5000

91-1663741
*(I.R.S. Employer
Identification Number)*

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

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President, Chief Executive Officer,
Chief Medical Officer and
Chairman of the Board of Directors
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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a
smaller reporting company)

Smaller reporting company

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated May 15, 2009

Omeros Corporation



Shares Common Stock

This is the initial public offering of Omeros Corporation. We are offering _____ shares of our common stock. We anticipate that the initial public offering price will be between \$ _____ and \$ _____ per share. We have applied to list our common stock on the NASDAQ Global Market under the symbol "OMER."

Investing in our common stock involves risk. See "Risk Factors" beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to Omeros Corporation	\$	\$

We have granted the underwriters the right to purchase up to _____ additional shares of common stock to cover over-allotments.

Deutsche Bank Securities

Wedbush Pac Grow Life Sciences

Leerink Swann

Needham & Company, LLC

The date of this prospectus is _____, 2009.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock. Except where the context requires otherwise, in this prospectus the "Company," "Omeros," "we," "us" and "our" refer to Omeros Corporation, a Washington corporation, and, where appropriate, its subsidiary.

For investors outside the United States: Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of shares of common stock and the distribution of this prospectus outside of the United States.

Market Data

This prospectus contains market data regarding the healthcare industry that we obtained from Sharon O'Reilly Consulting, or SOR Consulting, Thomson Healthcare, The Reimbursement Group and Insight Pharma Reports. The market data regarding the number of arthroscopic operations, including knee arthroscopy operations, performed in the United States in 2006 is from SOR Consulting. Ms. O'Reilly is the founder of Medtech Insight, a market research firm that she left in 2007. Medtech Insight did not provide any of the data used in this prospectus. The market data regarding the number of cataract and uroendoscopic operations performed in the United States in 2006 is from Thomson Healthcare. In addition, our conclusions regarding the potential reimbursement of our PharmacoSurgery™ product candidates are based on reports that we commissioned from The Reimbursement Group, or TRG. The data regarding the number of drugs that target G protein-coupled receptors is from Insight Pharma Reports. Although we believe that all of these reports and data are reliable, we have not independently verified any of this information.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including our financial statements and the related notes, elsewhere in this prospectus. You should carefully consider, among other things, the matters discussed in "Risk Factors."

Omeros Corporation

We are a clinical-stage biopharmaceutical company committed to discovering, developing and commercializing products focused on inflammation and disorders of the central nervous system. Our most clinically advanced product candidates are derived from our proprietary PharmacoSurgery™ platform designed to improve the clinical outcomes of patients undergoing arthroscopic, ophthalmological, urological and other surgical and medical procedures. Our PharmacoSurgery platform is based on low-dose proprietary combinations of therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to preemptively inhibit inflammation and other problems caused by surgical trauma and to provide clinical benefits both during and after surgery. We currently have four ongoing PharmacoSurgery clinical development programs: two in arthroscopy, one in ophthalmology and one in uroendoscopy. The most advanced of these, OMS103HP for use in arthroscopy, is in Phase 3 clinical trials. In addition to our PharmacoSurgery platform, we have leveraged our expertise in inflammation and the central nervous system, or CNS, to build a pipeline of preclinical programs targeting large markets. By combining our late-stage PharmacoSurgery product candidates with our deep and diverse pipeline of preclinical development programs, we believe that we create multiple opportunities for commercial success. For each of our product candidates and programs, we have retained all manufacturing, marketing and distribution rights.

Our PharmacoSurgery Platform

Limitations of Current Treatments

Current standards of care for the management and treatment of surgical trauma are limited in effectiveness. Surgical trauma causes a complex cascade of molecular signaling and biochemical changes, resulting in inflammation, pain, spasm, loss of function and other problems. As a consequence, multiple pharmacologic actions are required to manage the complexity and inherent redundancy of the cascade. Accordingly, we believe that single-agent treatments acting on single targets do not result in optimal therapeutic benefit. Further, current pre-operative treatments are not optimally effective because the administration of standard irrigation solution during the surgical procedure washes out pre-operatively delivered drugs. In addition, current postoperative therapies are not optimally effective because the cascade and resultant inflammation, pain, spasm, loss of function and other problems have already begun, and are difficult to reverse and manage after surgical trauma has occurred. Also, drugs that currently are systemically delivered, such as by oral or intravenous administration, to target these problems are frequently associated with adverse side effects.

Advantages of our PharmacoSurgery Platform

In contrast, we generate from our PharmacoSurgery platform proprietary product candidates that are combinations of therapeutic agents designed to act simultaneously at multiple discrete targets to preemptively block the molecular-signaling and biochemical cascade caused by surgical trauma and to provide clinical benefits both during and after surgery. Supplied in pre-dosed, pre-formulated, single-use containers, our PharmacoSurgery product candidates are added to standard surgical irrigation solutions and delivered intra-

operatively to the site of tissue trauma throughout the surgical procedure. This results in the delivery of low concentrations of agents with minimal systemic uptake and reduced risk of adverse side effects, and does not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of our product candidates could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration. Our patent portfolio covers all arthroscopic, ophthalmological, urological, cardiovascular and other types of surgical and medical procedures, and includes both method and composition claims broadly directed to combinations of agents drawn from distinct classes of therapeutic agents delivered to the procedural site intra-operatively, regardless of whether the agents are generic or proprietary. Our current PharmacoSurgery product candidates are specifically comprised of active pharmaceutical ingredients, or APIs, contained in generic drugs already approved by the U.S. Food and Drug Administration, or FDA, with established profiles of safety and pharmacologic activities, and are eligible for submission under the potentially less-costly and time-consuming Section 505(b)(2) New Drug Application, or NDA, process.

Market Opportunity

According to market data from SOR Consulting and Thomson Healthcare, approximately a total of: 4.0 million arthroscopic operations, including 2.6 million knee arthroscopy operations; 2.9 million cataract operations; and 4.3 million uroendoscopic operations were performed in the United States in 2006. We expect the number of these operations to grow as the population and demand for minimally invasive procedures increases and endoscopic technologies improve. In addition, based on reports that we commissioned from The Reimbursement Group, a reimbursement consulting firm, we anticipate that each of our current PharmacoSurgery product candidates will be favorably reimbursed both to the surgical facility and to the surgeon. As a result, we estimate that there are large markets for each of our PharmacoSurgery product candidates and believe that OMS103HP alone provides a multi-billion dollar market opportunity.

Our Lead Product Candidate OMS103HP

OMS103HP, our lead PharmacoSurgery product candidate, is in two clinical programs. The first is a Phase 3 clinical program evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following arthroscopic anterior cruciate ligament, or ACL, reconstruction surgery. The second program is evaluating OMS103HP's safety and ability to reduce pain and improve postoperative joint function following arthroscopic meniscectomy surgery. OMS103HP is a proprietary combination of APIs with known anti-inflammatory, analgesic and vasoconstrictive activities. Each of the APIs in OMS103HP are components of generic, FDA-approved drugs that have been marketed in the United States as over-the-counter or prescription drug products for over 15 years and have established and well-characterized safety profiles. We believe that OMS103HP will, if approved, be the first commercially available drug product for the improvement of function following arthroscopic surgery, and will, based on the data from our OMS103HP Phase 1/Phase 2 clinical program, provide additional postoperative clinical benefits, including improved range of motion, reduced pain and earlier return to work. The results of this Phase 1/Phase 2 clinical program were published in a peer-reviewed article titled "Novel Drug Product to Improve Joint Motion and Function and Reduce Pain After Arthroscopic Anterior Cruciate Ligament Reconstruction" that appeared in the June 2008 issue of *Arthroscopy: The Journal of Arthroscopic and Related Surgery* (Vol. 24, No. 6: pp. 625-636).

OMS103HP selectively targets multiple and discrete pro-inflammatory mediators and pathways within the inflammatory and pain cascade. Added to standard irrigation solutions, OMS103HP is delivered to the joint at the initiation of surgical trauma to preemptively inhibit

the inflammatory and pain cascade. Continuous intra-operative delivery to the joint creates a constant concentration of OMS103HP, bathing and replenishing the joint with drug throughout the duration of the surgical procedure. Because OMS103HP is delivered locally to, and acts directly at, the site of tissue injury, it can be delivered in low concentration, and will not be subject to the substantial interpatient variability in metabolism that is associated with systemic delivery. By delivering low-concentration OMS103HP locally and only during the arthroscopic procedure, systemic absorption of the APIs will be minimized or avoided, thereby reducing the risk of adverse side effects.

We expect to complete the Phase 3 clinical trials in patients undergoing ACL reconstruction surgery and, assuming positive results, intend to submit an NDA to the FDA under the Section 505(b)(2) process during the second half of 2010. In the second half of 2009, we expect to review the data from our first Phase 2 clinical trial in patients undergoing meniscectomy surgery.

Our Other PharmacoSurgery Product Candidates

OMS302

OMS302 is our PharmacoSurgery product candidate being developed for use during ophthalmological procedures, including cataract and other lens replacement surgery. OMS302 is a proprietary combination of an anti-inflammatory API and an API that causes pupil dilation, or mydriasis, each with well-known safety and pharmacologic profiles. FDA-approved drugs containing each of these APIs have been used in ophthalmological clinical practice for more than 15 years, and both APIs are contained in generic, FDA-approved drugs.

OMS302 is added to standard irrigation solution used in cataract and other lens replacement surgery, and is delivered directly into the anterior chamber of the eye to maintain mydriasis, to prevent surgically induced pupil constriction, or miosis, and to reduce postoperative pain and irritation. Mydriasis is an essential prerequisite for these procedures and, if not maintained throughout the surgical procedure or if miosis occurs, risk of damaging structures within the eye increases as does the operating time required to perform the procedure. We recently completed a Phase 1/Phase 2 clinical trial that evaluated the efficacy and safety of OMS302 added to standard irrigation solution and delivered to patients undergoing cataract surgery. Patients treated with OMS302 reported less postoperative pain and demonstrated statistically significant improvement in maintenance of mydriasis compared to patients treated with vehicle control. There were no serious adverse events.

We are currently conducting a Phase 2 concentration-ranging clinical trial to determine the optimal concentration of the mydriatic API contained in OMS302 in patients undergoing cataract surgery. We expect to complete this trial in the second quarter of 2009.

OMS201

OMS201 is our PharmacoSurgery product candidate being developed for use during urological surgery, including uroendoscopic procedures of the bladder, ureter, urethra and other urinary tract structures. OMS201 is a proprietary combination of an anti-inflammatory API and a smooth muscle relaxant API. Both APIs are contained in generic, FDA-approved drugs with well-known profiles of safety and pharmacologic activities, and each has been individually prescribed to manage the symptoms of ureteral and renal stones. Each of the APIs in OMS201 is contained in drugs that have been marketed in the United States for more than 15 years.

Added to standard irrigation solutions in urological surgery, OMS201 is delivered directly to the surgical site during uroendoscopic procedures, such as bladder endoscopy, minimally invasive prostate surgery and ureteroscopy, to inhibit surgically induced inflammation, pain and smooth muscle spasm, or excess contractility. We recently completed a Phase 1 clinical trial that evaluated the safety and systemic absorption of OMS201 added to standard irrigation solution and delivered to patients undergoing ureteroscopy for removal of ureteral or renal stones. The pharmacokinetic

data from this clinical trial show that systemic plasma levels of the APIs of OMS201 in patients were minimal or below the level of quantification. There were no serious adverse events.

Based on the successfully completed Phase 1 clinical trial, we are now conducting a Phase 1/Phase 2 clinical trial to evaluate the efficacy, safety and systemic absorption of potentially two sequentially higher concentrations of OMS201, which we expect to complete in the first half of 2010.

Our Preclinical Development Programs

MASP-2 Program

In our mannan-binding lectin-associated serine protease-2, or MASP-2, program, we are developing antibody therapies to treat disorders caused by complement activated inflammation. MASP-2 is a novel pro-inflammatory protein target in the complement system, an important component of the immune system. MASP-2 appears to be required for the function of the lectin pathway, one of the principal complement activation pathways. Our preclinical data suggest that MASP-2 plays a significant role in macular degeneration, ischemia-reperfusion injury associated with myocardial infarction, transplant surgery and renal disease. We have generated several fully human, high-affinity, blocking antibodies to MASP-2, and from these or others expect to select a clinical product candidate in mid-2009.

Addiction Program

In our Addiction program, we are developing proprietary compositions that include peroxisome proliferator-activated receptor gamma, or PPAR γ , agonists for the treatment and prevention of addiction to substances of abuse, which may include opioids, nicotine, alcohol and amphetamines, as well as other compulsive behaviors. Based on the previously unknown link between PPAR γ and addictive disorders together with promising data from European pilot clinical studies and animal models of addiction, we have filed patent applications claiming the use of any PPAR γ agonist, alone or in combination with other agents, for the treatment or prevention of addiction and other compulsive behaviors. We plan to submit an IND to the FDA in the second half of 2009 to evaluate a PPAR γ agonist-opioid agonist combination product candidate as an analgesic without the addictive potential of currently marketed opioids.

PDE10 Program

In our Phosphodiesterase 10, or PDE10, program, we are developing compounds that inhibit PDE10 for the treatment of schizophrenia. PDE10 is an enzyme that is expressed in areas of the brain strongly linked to schizophrenia and other psychotic disorders and has been recently identified as a target for the development of new anti-psychotic drugs. Results from preclinical studies suggest that PDE10 inhibitors may address the limitations of currently used anti-psychotic drugs by avoiding the associated weight gain, improving cognition and, potentially, reducing the risk of associated sudden cardiac death. From our proprietary preclinical product candidates we plan to select one or more clinical candidates in mid-2009 to advance into toxicology studies in preparation for clinical trials.

PDE7 Program

Our Phosphodiesterase 7, or PDE7 program, is based on our demonstration of a previously unknown link between PDE7 and any movement disorder, such as Parkinson's disease, or PD, and Restless Legs Syndrome. Based on our promising preclinical data in a model of PD showing efficacy of PDE7 inhibitors equivalent to that of levodopamine, we are developing proprietary compounds for the treatment of movement disorders. Levodopamine has been the standard treatment for PD for nearly 40 years but is associated with severe side effects including dyskinesias, hallucinations, sleep disorders and cognitive impairment, and we believe that our PDE7 inhibitors may avoid one or more of these side effects. We have filed patent applications claiming the use of any PDE7 inhibitor for treating any movement disorder.

GPCR Program

We have scientific expertise in the field of G protein-coupled receptors, or GPCRs, and members of our scientific team were the first to identify and characterize all non-sensory GPCRs common to mice and humans. Our work was published in a peer-reviewed article titled "The G protein-coupled receptor repertoires of human and mouse" that appeared in the April 2003 issue of *Proceedings of the National Academy of Sciences* (Vol. 100, No. 8: pp. 4903-4908). Non-sensory GPCRs are involved in metabolism, behavior, reproduction, development, hormonal homeostasis and regulation of the central nervous system and comprise one of the largest families of proteins in the genomes of multicellular organisms. According to Insight Pharma Reports, 30% to 40% of all drugs sold worldwide target GPCRs. However, based on available data, we believe that there are 363 non-sensory GPCRs of which there are 227 non-orphans and 136 orphans. A non-orphan GPCR is one for which there is a known naturally occurring or synthetic molecule, or ligand, that binds the receptor, while an orphan GPCR has no known ligand. Without a known ligand, there is no template from which medicinal chemistry efforts can be readily initiated nor a means to identify the GPCR's signaling pathway and, therefore, drugs cannot easily be developed against orphan GPCRs.

We hold an exclusive option to acquire all patent and other intellectual property rights to a cellular redistribution assay, or CRA, which we have tested and optimized and that we believe can be used in a high-throughput manner to identify synthetic molecules, including antagonists, agonists and inverse agonists, that bind to orphan GPCRs. We also have developed a proprietary rapid mouse gene knock-out platform technology, which is described in a peer-reviewed article titled "Large-scale, saturating insertional mutagenesis of the mouse genome" that appeared in the September 2007 issue of *Proceedings of the National Academy of Sciences* (Vol. 104, No. 36: pp. 14406-14411). We have used this platform to create 61 different GPCR-specific strains of knock-out mice, and we have established a battery of behavioral tests that allows us to characterize these knock-out mice and identify candidate drug targets. Using our expertise and these assets, we believe that we are the first to possess the capability to conduct high-throughput de-orphanization of orphan GPCRs, and that there is no other existing high-throughput technology able to "unlock" orphan GPCRs. According to Insight Pharma Reports, 125, or greater than 50%, of the non-orphan GPCRs are either targeted by marketed drugs or drugs in development. Applying that same percentage to the 136 orphan GPCRs, we believe that there may be greater than 65 new druggable targets among the orphan GPCRs. "Unlocking" these orphan GPCRs could lead to the development of drugs that act at these new targets.

Our Strategy

Our objective is to become a leading biopharmaceutical company, discovering, developing and successfully commercializing a large portfolio of diverse products. The key elements of our strategy are to:

- obtain regulatory approval for our PharmacoSurgery product candidates OMS103HP, OMS302 and OMS201;
- maximize commercial opportunity for our PharmacoSurgery product candidates OMS103HP, OMS302 and OMS201;
- continue to leverage our business model to mitigate risk by combining our multiple late-stage PharmacoSurgery product candidates with our deep and diverse pipeline of preclinical development programs;
- further expand our broad patent portfolio; and
- manage our business with continued efficiency and discipline, while continuing to evaluate opportunities and acquire technologies that meet our business objectives.

Risks Related to our Business

The risks set forth under the section entitled "Risk Factors" beginning on page 11 of this prospectus reflect risks and uncertainties that could significantly and adversely affect our business and our ability to execute our business strategy. For example:

- We are largely dependent on the success of our PharmacoSurgery product candidates, particularly our lead product candidate, OMS103HP, and our clinical trials may fail to adequately demonstrate the safety and efficacy of OMS103HP or our other PharmacoSurgery product candidates. If a clinical trial fails, if regulatory approval is delayed or if additional clinical trials are required, our development costs may increase and we will not have the anticipated revenue from that product candidate to fund our operations.
- We are a clinical-stage company with no product revenue and no products approved for marketing. The regulatory approval process is expensive, time-consuming and uncertain, and our product candidates have not been, and may not be, approved for sale by regulatory authorities. Even if approved for sale by the appropriate regulatory authorities, our products may not achieve market acceptance and we may never achieve profitability.
- Our preclinical development programs may not generate product candidates that are suitable for clinical testing or that can be successfully commercialized.
- Our patents may not adequately protect our present and future product candidates or permit us to gain or keep a competitive advantage. Our pending patents for our present and future product candidates may not be issued.

Technology Development

We have retained all manufacturing, marketing and distribution rights for each of our product candidates and programs. Some of our product candidates and programs are based on inventions and other intellectual property rights that we acquired through assignments, exclusive licenses and our acquisition of nura, inc., a private biotechnology company. For instance, our scientific co-founders, Gregory A. Demopoulos, M.D. and Pamela Pierce Palmer, M.D., Ph.D., conceived the initial inventions underlying our PharmacoSurgery platform and have transferred all of their related intellectual property rights to us. Dr. Demopoulos is our president, chief executive officer, chief medical officer and chairman of our board of directors. We also require our employees to sign agreements with us pursuant to which they assign to us all inventions conceived by them in the course of their employment.

In addition, we hold worldwide exclusive licenses to rights related to MASP-2, the antibodies targeting MASP-2 and the therapeutic applications for the antibodies from the University of Leicester and from its collaborator, Medical Research Council at Oxford University, or MRC. Under the University of Leicester and MRC license agreements, we have agreed to pay royalties to each of the University of Leicester and MRC based on any proceeds that we receive from the licensed technology during the terms of these agreements. The term of each agreement ends when there are no longer any pending patent applications, applications in preparation or unexpired issued patents related to any of the intellectual property rights we are licensing under the agreement. We obtained the assets for our Addiction program in February 2009 pursuant to a Patent Assignment Agreement with Roberto Ciccocioppo, Ph.D. of the Università di Camerino. We have agreed to pay royalties and milestone payments to Dr. Ciccocioppo related to any products that are covered by the patents that we acquired from him. The term of our agreement with Dr. Ciccocioppo ends when there are no longer any valid and enforceable patents related to the intellectual property rights we acquired from him. We acquired our PDE10, GPCR and PDE7 programs and related patents and other intellectual property rights as a result of our acquisition of nura in August 2006. We hold an exclusive option to purchase the CRA for our GPCR program from Patobios Limited for approximately \$10.7 million Canadian dollars, or CAD, payable in cash and our common stock. Our exclusive option with Patobios ends on June 4, 2009, provided that we have the right to

extend our option for up to two additional six-month periods by paying Patobios \$650,000 CAD for each additional period.

Corporate Information

We were incorporated as a Washington corporation on June 16, 1994. Our principal executive offices are located at 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101, and our telephone number is (206) 676-5000. Our web site address is www.omeross.com. The information on, or that can be accessed through, our web site is not part of this prospectus.

Omeros®, the Omeros logo®, nura®, and PharmacoSurgery™ are trademarks of Omeros Corporation in the United States and other countries. This prospectus also includes trademarks of other persons.

The Offering

Shares of common stock offered by us shares

Shares of common stock to be outstanding after this offering shares

Use of proceeds We plan to use the net proceeds of this offering to fund (1) the completion of our Phase 3 clinical trials for OMS103HP and the submission of the related NDA(s) to the FDA, (2) the launch and commercialization of OMS103HP, (3) the clinical development of OMS302 and OMS201, (4) the development of our pipeline of preclinical programs and (5) working capital, capital expenditures, potential acquisitions of products or technologies and general corporate purposes. See "Use of Proceeds."

Proposed NASDAQ Global Market symbol OMER

The number of shares of common stock that will be outstanding after this offering is based on the number of shares outstanding at March 31, 2009, and excludes:

- 5,441,744 shares of common stock issuable upon the exercise of options outstanding at March 31, 2009, at a weighted-average exercise price of \$0.72 per share;
- shares of common stock issuable upon exercise of options granted from April 1, 2009 to , 2009, at a weighted-average exercise price of \$ per share;
- 22,613 shares of common stock issuable upon exercise of warrants outstanding at March 31, 2009, which will not automatically terminate upon the closing of this offering, at a weighted-average exercise price of \$4.66 per share; and
- 2,121,855 shares of common stock available for future issuance under our 2008 Equity Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes:

- *the automatic conversion of all outstanding shares of our convertible preferred stock into 22,567,407 shares of common stock, effective upon the closing of this offering;*
- *the conversion of all outstanding warrants to purchase shares of our convertible preferred stock into warrants to purchase 409,578 shares of common stock, effective upon the closing of this offering, 387,030 of which must be exercised or will automatically terminate upon the closing of this offering;*
- *the issuance of shares of common stock assuming the cashless net exercise of warrants that will automatically terminate upon the closing of this offering based on the assumed initial public offering price of \$ (the mid-point of the range set forth on the cover page of this prospectus); and*
- *no exercise by the underwriters of their right to purchase additional shares of common stock to cover over-allotments, if any.*

Summary Consolidated Financial Data

The following tables summarize consolidated financial data regarding our business and should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2008, 2007 and 2006 and for the period from June 16, 1994 (inception) to December 31, 2008 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) to March 31, 2009, and the consolidated balance sheet data as of March 31, 2009 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements included in this prospectus and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information in those statements. Our historical results are not necessarily indicative of the results to be expected in any future period, and the results for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. We acquired nura, inc., or nura, on August 11, 2006, and the results of nura are included in the consolidated financial statements from that date. The pro forma basic and diluted net loss per common share data are computed using the weighted-average number of shares of common stock outstanding, after giving effect to the conversion (using the as if-converted method) of all shares of our convertible preferred stock into common stock.

	Three Months Ended		Period from		Year Ended December 31,		Period from	
	March 31,	2008	June 16, 1994	(Inception) to	2008	2007	2006	June 16, 1994
	2009		March 31,	March 31,				(Inception) to
			2009	2008				December 31,
	(In thousands, except share and per share data)							
Consolidated Statements of Operations Data:								
Grant revenue	\$ 197	\$ 234	\$ 3,590	\$ 1,170	\$ 1,923	\$ 200	\$	3,393
Operating expenses:								
Research and development	4,022	4,170	66,256	17,850	15,922	9,637		62,234
Acquired in-process research and development	—	—	10,891	—	—	10,891		10,891
General and administrative	1,410	1,596	33,893	7,845	10,398	3,625		32,483
Total operating expenses	5,432	5,766	111,040	25,695	26,320	24,153		105,608
Loss from operations	(5,235)	(5,532)	(107,450)	(24,525)	(24,397)	(23,953)		(102,215)
Investment income	81	279	5,244	661	1,582	1,088		5,163
Interest expense	(590)	(22)	(1,219)	(335)	(151)	(91)		(629)
Other income (expense)	262	172	696	372	(125)	179		434
Net loss	\$ (5,482)	\$ (5,103)	\$ (102,729)	\$ (23,827)	\$ (23,091)	\$ (22,777)		\$ (97,247)
Basic and diluted net loss per common share	\$ (0.95)	\$ (0.92)		\$ (4.22)	\$ (6.44)	\$ (6.17)		
Weighted-average shares used to compute basic and diluted net loss per common share	5,740,914	5,522,711		5,651,583	4,248,212	3,694,388		
Pro forma basic and diluted net loss per common share (unaudited)	\$ (0.20)			\$ (0.84)				
Weighted-average pro forma shares used to compute pro forma basic and diluted net loss per common share (unaudited)	28,180,321			27,978,990				

The pro forma consolidated balance sheet data in the table below reflect (a) the automatic conversion of all outstanding shares of our convertible preferred stock into 22,567,407 shares of our common stock upon the closing of this offering and (b) the automatic conversion of all outstanding warrants to purchase convertible preferred stock into warrants to purchase 409,578 shares of our common stock upon the closing of this offering, resulting in the reclassification of \$1.7 million from preferred stock warrant liability to shareholders' equity (deficit). The pro forma as adjusted consolidated balance sheet data in the table below further adjust the pro forma information to reflect (a) our sale of _____ shares of our common stock in this offering at an assumed initial public offering price of \$ _____ per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and (b) the issuance of _____ shares of common stock assuming the cashless net exercise of warrants that will automatically terminate upon the closing of this offering based on the assumed initial public offering price.

	As of March 31, 2009	
	Actual	Pro Forma (in thousands)
Consolidated Balance Sheet Data:		
Cash, cash equivalents and short-term investments	\$ 16,818	\$ 16,818
Working capital (deficit)	(6,261)	(6,261)
Total assets	18,782	18,782
Total notes payable	16,344	16,344
Preferred stock warrant liability	1,720	—
Convertible preferred stock	91,019	—
Deficit accumulated during the development stage	(102,729)	(102,729)
Total shareholders' equity (deficit)	(96,093)	(3,354)

- (1) A \$1.00 increase (decrease) in the assumed public offering price of \$ _____ would increase (decrease) each of cash, cash equivalents and short-term investments, working capital, total assets and total shareholders' equity (deficit) by \$ _____, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition or operating results could be materially adversely affected by any of these risks, as well as other risks not currently known to us or that we currently deem immaterial. The trading price of our common stock could decline due to any of these risks and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the other information contained in this prospectus, including our consolidated financial statements and the related notes, before deciding to purchase any shares of our common stock.

Risks Related to Our Product Candidates and Operations

Our success largely depends on the success of our lead PharmacoSurgery™ product candidate, OMS103HP, and we cannot be certain that it will receive regulatory approval or be successfully commercialized. If we are unable to commercialize OMS103HP, or experience significant delays in doing so, our business will be materially harmed.

We are a biopharmaceutical company with no products approved for commercial sale and we have not generated any revenue from product sales. We have incurred, and will continue to incur, significant costs relating to the clinical development and commercialization of our lead product candidate, OMS103HP, for use during arthroscopic anterior cruciate ligament, or ACL, reconstruction surgery as well as arthroscopic meniscectomy surgery. We have not yet obtained regulatory approval to market this product candidate for ACL reconstruction surgery, arthroscopic meniscectomy surgery or any other indication in any jurisdiction and we may never be able to obtain approval or, if approvals are obtained, to commercialize this product candidate successfully. If OMS103HP does not receive regulatory approval for ACL reconstruction surgery or arthroscopic meniscectomy surgery, or if it is not successfully commercialized for one or both uses, we may not be able to generate revenue, become profitable, fund the development of our other product candidates or preclinical development programs or continue our operations.

We do not know whether our clinical trials for OMS103HP will be completed on schedule or result in regulatory approval or in a marketable product. If approved for commercialization, we do not anticipate that OMS103HP will reach the market until 2011 at the earliest.

Our success is also dependent on the success of our additional PharmacoSurgery product candidates, OMS302 and OMS201, and we cannot be certain that either will advance through clinical testing, receive regulatory approval or be successfully commercialized.

In addition to OMS103HP, our success will depend on the successful commercialization of one or both of two additional PharmacoSurgery product candidates, OMS302 and OMS201. We are currently conducting a Phase 2 concentration-ranging clinical trial to determine the optimal concentration of the mydriatic agent contained in OMS302 in patients undergoing cataract surgery. We are also conducting a Phase 1/Phase 2 clinical trial evaluating the efficacy, safety and systemic absorption of OMS201 when used during ureteroscopy for removal of ureteral or renal stones. We have incurred and will continue to incur significant costs relating to the clinical development and commercialization of these PharmacoSurgery product candidates. We have not obtained regulatory approval to market these product candidates for any indication in any jurisdiction and we may never be able to obtain approval or, if approvals are obtained, to commercialize these product candidates successfully. If OMS302 and OMS201 do not receive regulatory approval, or if they are not successfully commercialized, we may not be able to

generate revenue, become profitable, fund the development of our other product candidates or our preclinical programs or continue our operations.

We do not know whether our planned and current clinical trials for OMS302 and OMS201 will be completed on schedule, if at all. In addition, we do not know whether any of our clinical trials will be successful or result in approval of either product for marketing.

We have a history of operating losses and we may not achieve or maintain profitability.

We have not been profitable and have generated substantial operating losses since we were incorporated in June 1994. We had net losses of approximately \$5.5 million, \$23.8 million, \$23.1 million and \$22.8 million for the three months ended March 31, 2009 and for the years ended December 31, 2008, 2007 and 2006, respectively. As of March 31, 2009, we had an accumulated deficit of approximately \$102.7 million. We expect to incur additional losses for at least the next several years and cannot be certain that we will ever achieve profitability. As a result, our business is subject to all of the risks inherent in the development of a new business enterprise, such as the risks that we may be unable to obtain additional capital needed to support the preclinical and clinical expenses of development and commercialization of our product candidates, to develop a market for our potential products, to successfully transition from a company with a research and development focus to a company capable of commercializing our product candidates and to attract and retain qualified management as well as technical and scientific staff. In addition, the audit report covering our 2008 consolidated financial statements contains an explanatory paragraph stating that our recurring losses and negative cash flows from operations, due to our negative working capital prior to the successful completion of this offering, raise substantial doubt about our ability to continue as a going concern. We believe that the successful completion of this offering will eliminate this doubt and enable us to continue as a going concern; however, if we are unable to raise sufficient capital in this offering, we will need to obtain alternative financing or significantly modify our operational plans for us to continue as a going concern.

We are subject to extensive government regulation, including the requirement of approval before our products may be manufactured or marketed.

Both before and after approval of our product candidates, we, our product candidates, and our suppliers and contract manufacturers are subject to extensive regulation by governmental authorities in the United States and other countries, covering, among other things, testing, manufacturing, quality control, labeling, advertising, promotion, distribution, and import and export. Failure to comply with applicable requirements could result in, among other things, one or more of the following actions: warning letters; fines and other monetary penalties; unanticipated expenditures; delays in approval or refusal to approve a product candidate; product recall or seizure; interruption of manufacturing or clinical trials; operating restrictions; injunctions; and criminal prosecution. We or the U.S. Food and Drug Administration, or FDA, may suspend or terminate human clinical trials at any time on various grounds, including a finding that the patients are being exposed to an unacceptable health risk.

Our product candidates cannot be marketed in the United States without FDA approval. The FDA has not approved any of our product candidates for sale in the United States. All of our product candidates are in development, and will have to be approved by the FDA before they can be marketed in the United States. Obtaining FDA approval requires substantial time, effort, and financial resources, and may be subject to both expected and unforeseen delays, and there can be no assurance that any approval will be granted on a timely basis, if at all.

The FDA may decide that our data are insufficient for approval of our product candidates and require additional preclinical, clinical or other studies. As we develop our product candidates, we periodically discuss with the FDA clinical, regulatory and manufacturing

matters, and our views may, at times, differ from those of the FDA. For example, the FDA has questioned whether our studies evaluating OMS103HP in patients undergoing ACL reconstruction surgery are adequately designed to evaluate efficacy. If these studies fail to demonstrate efficacy, we will be required to provide additional information, including possibly the results of additional clinical trials. Also, the FDA regulates those of our product candidates consisting of two or more active ingredients as combination drugs under its Combination Drug Policy. The Combination Drug Policy requires that we demonstrate that each active ingredient in a drug product contributes to the product's effectiveness. The FDA has questioned the means by which we intend to demonstrate such contribution and whether available data and information demonstrate contribution for each active ingredient in OMS103HP. If we are unable to resolve these questions, we may be required to provide additional information, which may include the results of additional preclinical studies or clinical trials.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate for regulatory approval, if we are unable to successfully complete our clinical trials or other testing, or if the results of these and other trials or tests fail to demonstrate efficacy or raise safety concerns, we may be delayed in obtaining marketing approval for our product candidates, or may never be able to obtain marketing approval.

Even if regulatory approval of a product candidate is obtained, such approval may be subject to significant limitations on the indicated uses for which that product may be marketed, conditions of use, and/or significant post approval obligations, including additional clinical trials. These regulatory requirements may, among other things, limit the size of the market for the product. Even after approval, discovery of previously unknown problems with a product, manufacturer, or facility, such as previously undiscovered side effects, may result in restrictions on any product, manufacturer, or facility, including, among other things, a possible withdrawal of approval of the product.

If our clinical trials are delayed, we may be unable to develop our product candidates on a timely basis, which may increase our development costs and could delay the potential commercialization of our products and the subsequent receipt of revenue from sales, if any.

We cannot predict whether we will encounter problems with any of our completed, ongoing or planned clinical trials that will cause regulatory agencies, institutional review boards or us to delay our clinical trials or suspend or delay the analysis of the data from those trials. Clinical trials can be delayed for a variety of reasons, including:

- discussions with the FDA or comparable foreign authorities regarding the scope or design of our clinical trials;
- delays or the inability to obtain required approvals from institutional review boards or other governing entities at clinical sites selected for participation in our clinical trials;
- delays in enrolling patients into clinical trials;
- lower than anticipated retention rates of patients in clinical trials;
- the need to repeat or conduct additional clinical trials as a result of problems such as inconclusive or negative results, poorly executed testing or unacceptable design;
- an insufficient supply of product candidate materials or other materials necessary to conduct our clinical trials;
- the need to qualify new suppliers of product candidate materials for FDA and foreign regulatory approval;

- an unfavorable FDA inspection or review of a clinical trial site or records of any clinical investigation;
- the occurrence of drug-related side effects or adverse events experienced by participants in our clinical trials; or
- the placement of a clinical hold on a trial.

In addition, a clinical trial may be suspended or terminated by us, the FDA or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;
- inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities resulting in the imposition of a clinical hold;
- unforeseen safety issues or any determination that a trial presents unacceptable health risks; or
- lack of adequate funding to continue the clinical trial, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional trials and studies and increased expenses associated with the services of our contract research organizations, or CROs, and other third parties.

Changes in regulatory requirements and guidance may occur and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to institutional review boards for reexamination, which may impact the costs, timing or successful completion of a clinical trial. If the results of our clinical trials are not available when we expect or if we encounter any delay in the analysis of data from our clinical trials, we may be unable to file for regulatory approval or conduct additional clinical trials on the schedule we currently anticipate. Any delays in completing our clinical trials may increase our development costs, would slow down our product development and approval process, would delay our receipt of product revenue and would make it difficult to raise additional capital. Many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of a product candidate. In addition, significant clinical trial delays also could allow our competitors to bring products to market before we do and impair our ability to commercialize our future products and may harm our business.

If we are unable to raise additional capital when needed or on acceptable terms, we may be unable to complete the development and commercialization of OMS103HP and our other product candidates, or continue our other preclinical development programs.

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts to:

- complete the Phase 3 clinical trials of OMS103HP for use in arthroscopic ACL reconstruction surgery;
- initiate, conduct and complete the Phase 3 clinical trials of OMS103HP for use in arthroscopic meniscectomy surgery;
- conduct and complete the clinical trials of OMS302 for use during lens replacement surgery;
- conduct and complete the clinical trials of OMS201 for use in endoscopic surgery of the urological tract;
- continue our research and development;
- make milestone payments to our collaborators;

- make principal and interest payments due under our debt facility with BlueCrest Venture Finance Master Fund Limited, or BlueCrest;
- initiate and conduct clinical trials for other product candidates; and
- launch and commercialize any product candidates for which we receive regulatory approval.

In addition, if we elect under our Exclusive Technology Option Agreement with Patobios Limited to purchase assets for use in our GPCR program, we will be required to pay Patobios approximately \$10.7 million CAD, of which approximately \$7.7 million CAD is payable in cash and the remaining is payable in shares of our common stock.

Our clinical trials for OMS103HP may be delayed for many of the reasons discussed in these "Risk Factors," which would increase the development expenses of OMS103HP and may require us to raise additional capital beyond what we raise in this offering to complete the clinical development and commercialization of OMS103HP and to decrease spending on our other clinical and preclinical development programs. We have no commitments for additional funding and cannot be certain that it will be available on acceptable terms, if at all. Continued disruptions in the global equity and credit markets may further limit our ability to access capital. To the extent that we raise additional funds by issuing equity securities, our shareholders may experience significant dilution. Any debt financing, if available, may restrict our operations as further described in the following risk factor. If we are unable to raise additional capital when required or on acceptable terms, we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates or one or more of our other research and development initiatives. We also could be required to seek collaborators for one or more of our current or future product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than otherwise might be available; or relinquish or license on unfavorable terms our rights to technologies or product candidates that we otherwise would seek to develop or commercialize ourselves. Any of these events could significantly harm our business and prospects and could cause our stock price to decline.

The terms of our debt facility place restrictions on our operating and financial flexibility and if we raise additional capital through debt financing the terms of any new debt could further restrict our ability to operate our business.

In 2008 we borrowed \$17.0 million pursuant to the terms of a loan and security agreement with BlueCrest and pledged substantially all of our assets, other than intellectual property, as collateral for this loan. Our agreement with BlueCrest restricts our ability to incur additional indebtedness, pay dividends and engage in significant business transactions such as a change of control of Omeros, so long as we owe any amounts to BlueCrest under the agreement. Any of these restrictions could significantly limit our operating and financial flexibility and ability to respond to changes in our business or competitive activities. In addition, if we default under our agreement, BlueCrest may have the right to accelerate all of our repayment obligations under the agreement and to take control of our pledged assets, which include our cash, cash equivalents and short-term investments, potentially requiring us to renegotiate our agreement on terms less favorable to us or to immediately cease operations. Further, if we are liquidated, BlueCrest's right to repayment would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation. An event of default under the loan and security agreement includes the occurrence of any material adverse effect upon our business operations, properties, assets, results of operations or financial condition, taken as whole with respect to our viability, that would reasonably be expected to result in our inability to repay the loan. Although we believe that the breadth of our clinical and preclinical programs makes it unlikely that any single event would impact our viability, BlueCrest could nonetheless declare a

default upon the occurrence of any event that it interprets as having a material adverse effect upon us as defined under our agreement, thereby requiring us to repay the loan immediately or to attempt to reverse BlueCrest's declaration through negotiation or litigation. Any declaration by BlueCrest of an event of default could significantly harm our business and prospects and could cause our stock price to decline. If we raise any additional debt financing, the terms of such debt could further restrict our operating and financial flexibility.

Our lead product candidate OMS103HP or future product candidates may never achieve market acceptance even if we obtain regulatory approvals.

Even if we receive regulatory approvals for the commercial sale of our lead product candidate OMS103HP or future product candidates, the commercial success of these product candidates will depend on, among other things, their acceptance by physicians, patients, third-party payors and other members of the medical community. If our product candidates fail to gain market acceptance, we may be unable to earn sufficient revenue to continue our business. Market acceptance of, and demand for, any product candidate that we may develop and commercialize will depend on many factors, including:

- our ability to provide acceptable evidence of safety and efficacy;
- availability, relative cost and relative efficacy of alternative and competing treatments;
- the effectiveness of our marketing and distribution strategy to, among others, hospitals, surgery centers, physicians and/or pharmacists;
- prevalence of the surgical procedure or condition for which the product is approved;
- acceptance by physicians of each product as a safe and effective treatment;
- perceived advantages over alternative treatments;
- relative convenience and ease of administration;
- the availability of adequate reimbursement by third parties;
- the prevalence and severity of adverse side effects;
- publicity concerning our products or competing products and treatments; and
- our ability to obtain sufficient third-party insurance coverage.

The number of operations in which our PharmacoSurgery products, if approved, would be used may be significantly less than the total number of operations performed according to the market data obtained from industry sources. If our lead product candidate OMS103HP or future product candidates do not become widely accepted by physicians, patients, third-party payors and other members of the medical community, it is unlikely that we will ever become profitable, and if we are unable to increase market penetration of OMS103HP or our other product candidates, our growth will be significantly harmed.

We rely on third parties to conduct portions of our preclinical research and clinical trials. If these third parties do not perform as contractually required or otherwise expected, we may not be able to obtain regulatory approval for or commercialize our product candidates.

We rely on third parties, such as CROs and research institutions, to conduct a portion of our preclinical research. We also rely on third parties, such as medical institutions, clinical investigators and CROs, to assist us in conducting our clinical trials. Nonetheless, we are responsible for confirming that our preclinical research is conducted in accordance with applicable regulations, and that our clinical trials are conducted in accordance with applicable regulations, the relevant protocol and within the context of approvals by an institutional review board. Our reliance on these third parties does not relieve us of responsibility for ensuring compliance with FDA regulations and standards for conducting, monitoring, recording and

reporting the results of preclinical research and clinical trials to assure that data and reported results are credible and accurate and that the trial participants are adequately protected. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if the third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to their failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our preclinical and clinical development processes may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for our product candidates. For example, we engaged Scottish Biomedical, Ltd., or SBM, to assist us in developing compounds for our PDE10 and PDE7 programs. We believe that, among other things, SBM breached its obligations under our agreement and committed fraud, requiring us to re-perform certain services provided by SBM and delaying the advancement of our programs.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate product revenue.

We do not have a sales and marketing organization and have no experience in the sales, marketing and distribution of biopharmaceutical products. Developing an internal sales force is expensive and time-consuming and should be commenced 12 to 18 months in advance of product launch. Any delay in developing an internal sales force could impact the timing of any product launch. If we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenues are likely to be lower than if we market and sell any approved product candidates that we develop ourselves. Factors that may inhibit our efforts to commercialize our approved product candidates without collaboration partners include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of hospitals, surgery centers, physicians and/or pharmacists to purchase, use or prescribe our approved product candidates;
- the lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we are unsuccessful in building a sales and marketing infrastructure or unable to partner with one or more third parties to perform sales and marketing services for our product candidates, we will have difficulty commercializing our product candidates, which would adversely affect our business and financial condition.

We have no ability to manufacture clinical or commercial supplies of our product candidates and currently intend to rely solely on third parties to manufacture clinical and commercial supplies of all of our product candidates.

We currently do not intend to manufacture our product candidates for our clinical trials or on a commercial scale and intend to rely on third parties to do so. Our clinical supplies of OMS103HP have been manufactured in a freeze-dried, or lyophilized, form by Catalent Pharma Solutions, Inc. in its Albuquerque, New Mexico facility. In May 2008, Catalent announced that it sold this facility to OSO Biopharmaceuticals Manufacturing, LLC, or OSO. OSO announced that it intends to continue the manufacture of lyophilized drug products at this facility. We have not entered into a binding agreement with Catalent or OSO for the commercial supply of lyophilized OMS103HP, and cannot be certain that we will be able to do so on commercially

reasonable terms. Qualification of any other facility to manufacture lyophilized OMS103HP would require transfer of manufacturing methods, the production of an additional registration batch of lyophilized OMS103HP and the generation of additional stability data, which could delay the availability of commercial supplies of lyophilized OMS103HP.

We have also formulated OMS103HP as a liquid solution and, if approved for marketing, intend to launch OMS103HP as a liquid solution. We have entered into an agreement with Hospira Worldwide, Inc. for the commercial supply of liquid OMS103HP. We do not believe that the inactive ingredients in liquid OMS103HP, which are included in the FDA's Inactive Ingredient Guide due to being present in drug products previously approved for parenteral use, impact its safety or effectiveness. The FDA will require us to provide comparative information and complete a stability study and may require us to conduct additional studies, which we expect would be nonclinical and/or clinical pharmacokinetic studies, to demonstrate that liquid OMS103HP is as safe and effective as lyophilized OMS103HP. Delays or unexpected results in these studies could delay the commercial availability of liquid OMS103HP. Any significant delays in the manufacture of clinical or commercial supplies could materially harm our business and prospects.

If the contract manufacturers that we rely on experience difficulties with manufacturing our product candidates or fail FDA inspections, our clinical trials, regulatory submissions and ability to commercialize our product candidates and generate revenue may be significantly delayed.

Contract manufacturers that we select to manufacture our product candidates for clinical testing or for commercial use may encounter difficulties with the small- and large-scale formulation and manufacturing processes required for such manufacture. These difficulties could result in delays in clinical trials, regulatory submissions, or commercialization of our product candidates. Once a product candidate is approved and being marketed, these difficulties could also result in the later recall or withdrawal of the product from the market or failure to have adequate supplies to meet market demand. Even if we are able to establish additional or replacement manufacturers, identifying these sources and entering into definitive supply agreements and obtaining regulatory approvals may require a substantial amount of time and cost and such supply arrangements may not be available on commercially reasonable terms, if at all.

In addition, we and our contract manufacturers must comply with current good manufacturing practice, or cGMP, requirements strictly enforced by the FDA through its facilities inspection program. These requirements include quality control, quality assurance and the maintenance of records and documentation. We or our contract manufacturers may be unable to comply with cGMP requirements or with other FDA, state, local and foreign regulatory requirements. We have little control over our contract manufacturers' compliance with these regulations and standards or with their quality control and quality assurance procedures but we are responsible for their compliance. Large-scale manufacturing processes have been developed only for lyophilized OMS103HP. For the liquid formulation of OMS103HP and our other product candidates, development of large-scale manufacturing processes will require validation studies, which the FDA must review and approve. Failure to comply with these requirements by our contract manufacturers could result in the issuance of untitled letters and/or warning letters from authorities, as well as sanctions being imposed on us, including fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall or withdrawal of product approval. If the safety of any product candidate supplied by contract manufacturers is compromised due to their failure to adhere to applicable laws or for other reasons, we may not be able to obtain or maintain regulatory approval for or successfully commercialize one or more of our product candidates, which would harm our business and prospects significantly.

If one or more of our contract manufacturers were to encounter any of these difficulties or otherwise fail to comply with its contractual obligations, our ability to provide product candidates to patients in our clinical trials or on a commercial scale would be jeopardized. Any delay or interruption in the supply of clinical trial supplies could delay the completion of our clinical trials, increase the costs associated with maintaining our clinical trial programs and, depending on the period of delay, require us to commence new trials at significant additional expense or terminate the trials completely. If we need to change to other commercial manufacturers, the FDA and comparable foreign regulators must first approve these manufacturers' facilities and processes, which would require new testing and compliance inspections, and the new manufacturers would have to be educated in or independently develop the processes necessary for the production of our product candidates.

Ingredients necessary to manufacture our PharmacoSurgery product candidates may not be available on commercially reasonable terms, if at all, which may delay the development and commercialization of our product candidates.

We must purchase from third-party suppliers the ingredients necessary for our contract manufacturers to produce our PharmacoSurgery product candidates for our clinical trials and, if approved, for commercial distribution. Suppliers may not sell these ingredients to us at the time we need them or on commercially reasonable terms, if at all. Although we intend to enter into agreements with third-party suppliers that will guarantee the availability and timely delivery of ingredients for our PharmacoSurgery product candidates, we have not yet entered into and we may be unable to secure any such supply agreements or guarantees. Even if we were able to secure such agreements or guarantees, our suppliers may be unable or choose not to provide us the ingredients in a timely manner or in the minimum guaranteed quantities. If we are unable to obtain and then supply these ingredients to our contract manufacturer for our clinical trials, potential regulatory approval of our product candidates would be delayed, significantly impacting our ability to develop our product candidates, which would materially affect our ability to generate revenue from the sale of our product candidates.

We may need licenses for active ingredients from third parties so that we can develop and commercialize some products from some of our current preclinical programs, which could increase our development costs and delay our ability to commercialize products.

Should we decide to use active ingredients in any of our product candidates that are proprietary to one or more third parties, we would need to obtain licenses to those active ingredients from those third parties. For example, we are likely to use proprietary active ingredients in some product candidates that we develop from our PDE7 program and possibly in some of our future GPCR product candidates. We do not have licenses to any of the proprietary active ingredients we may elect to use in these programs. If we are unable to access rights to these active ingredients prior to preclinical toxicology studies intended to support clinical trials, we may need to develop alternate product candidates from these programs by either accessing or developing alternate active ingredients, resulting in increased development costs and delays in commercialization of these product candidates. If we are unable to access rights to the desired active ingredients on commercially reasonable terms or develop suitable alternate active ingredients, we may not be able to commercialize product candidates from these programs.

Our ability to pursue the development and commercialization of product candidates from our MASP-2 program depends on the continuation of licenses from third parties.

Our MASP-2 program is based in part on intellectual property rights that we licensed on a worldwide exclusive basis from the University of Leicester and from the UK Medical Research Council, or MRC. The continued maintenance of these agreements requires us to undertake development activities if and when a clinical candidate has been selected and, if regulatory

approval for marketing is obtained, to pay royalties to the University of Leicester and MRC upon commercialization of a MASP-2 product candidate. Our ability to continue development and commercialization of product candidates from our MASP-2 program depends on our maintaining these exclusive licenses, which cannot be assured.

Our ability to pursue the development and commercialization of product candidates from our MASP-2 program could be jeopardized by third-party patent rights.

Our MASP-2 program is based in part on the results of research conducted by collaborators at MRC, the University of Leicester and Aarhus Universitet, and on intellectual property rights that we licensed on a worldwide exclusive basis from the University of Leicester and from MRC stemming from that collaborative research and from subsequent research performed by the University of Leicester and by MRC. Researchers at Aarhus Universitet have obtained a U.S. Patent that claims antibodies that bind MASP-2, and have filed other patents and patent applications related to MASP-2. While we do not hold any direct license from Aarhus Universitet or its researchers, our license from MRC includes MRC's joint ownership interest in this U.S. Patent claiming antibodies that bind MASP-2, which joint ownership interest arises from an MRC employee having been added as a named inventor in this patent by the U.S. Patent and Trademark Office, or USPTO. We also believe that we hold lawful rights to other patents and patent applications related to MASP-2 filed by researchers at Aarhus Universitet by virtue of our licenses with MRC and the University of Leicester. Our ability to commercialize any MASP-2 antibody product candidate depends on the exclusive licenses we hold from MRC and the University of Leicester to at least joint ownership interest in the patents and patent applications filed by researchers at Aarhus Universitet. We have been in discussions with parties related to the Aarhus Universitet researchers regarding the terms of a potential additional license that could, if we deemed it to be advantageous, expand our position with respect to these patents and patent applications from exclusive licenses of at least joint ownership rights to exclusive licenses of all ownership rights. We cannot be certain that we would be able reach agreement on favorable terms, if any, of any such additional license, if determined to be advantageous, or that the Aarhus Universitet researchers or the parties related to them will not contest our licensed rights to these patents and patent applications, or that they will not seek through legal action to block the commercialization of any antibody product candidate from our MASP-2 program based on these or other patent applications that they filed. Perfecting, asserting or defending our rights to this intellectual property may be costly and time-consuming and, if unsuccessful, may limit our ability to pursue the development and commercialization of product candidates from our MASP-2 program.

Our ability to pursue the development and commercialization of product candidates from our MASP-2 program depends on third-party antibody developers and manufacturers.

Any product candidates from our MASP-2 program would be antibodies and we do not have the internal capability to sequence, hybridize or clone antibodies or to produce antibodies for use in clinical trials or on a commercial scale. We have entered into development agreements with Affitech AS and North Coast Biologics for the development of MASP-2 antibodies; however, we do not have agreements in place with antibody manufacturers and cannot be certain that such agreements could be entered into on commercially reasonable terms, if at all. There are only a limited number of antibody manufacturers. If we are unable to obtain clinical supplies of MASP-2 antibody product candidates, clinical trials or the development of any such product candidate could be substantially delayed until we can find and qualify a manufacturer, which may increase our development costs, slow down our product development and approval process, delay receipt of product revenue and make it difficult to raise additional capital.

Our programs may not produce product candidates that are suitable for clinical trials or that can be successfully commercialized.

Any product candidates from our preclinical programs, including our MASP-2, Addiction, PDE10, PDE7 and GPCR programs, must successfully complete preclinical testing, which may include demonstrating efficacy and the lack of toxicity in established animal models, before entering clinical trials. Many pharmaceutical and biological product candidates do not successfully complete preclinical testing and, even if preclinical testing is successfully completed, may fail in clinical trials. We cannot be certain that any of our preclinical product development programs will generate product candidates that are suitable for clinical testing. For example, we have not yet generated any product candidates from our GPCR program. Although we believe that we have the capability to de-orphanize orphan GPCRs, we have not yet attempted to do so. When we do attempt to de-orphanize orphan GPCRs, we may discover that there are fewer druggable targets among the orphan GPCRs than we currently estimate and that, for those de-orphanized GPCRs that we develop independently, we are unable to develop related product candidates that successfully complete preclinical or clinical testing. We also cannot be certain that any product candidates that do advance into clinical trials, such as OMS103HP, OMS302 and OMS201, will successfully demonstrate safety and efficacy in clinical trials. Even if we achieve positive results in early clinical trials, they may not be predictive of the results in later trials.

Because we have a number of development programs and are considering a variety of product candidates, we may expend our limited resources to pursue a particular candidate or candidates and fail to capitalize on candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited resources, we must focus on preclinical development programs and product candidates that we believe are the most promising. As a result, we may forego or delay pursuit of opportunities with other product candidates or other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Further, if we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, license or other royalty arrangements in cases in which it would have been advantageous for us to retain sole development and commercialization rights.

It is difficult and costly to protect our intellectual property and our proprietary technologies, and we may not be able to ensure their protection.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection for the use, formulation and structure of our product candidates and the methods used to manufacture them, and related to therapeutic targets and methods of treatment, as well as successfully defending these patents against potential third-party challenges. Our ability to protect our product candidates from unauthorized making, using, selling, offering to sell or importing by third parties is dependent upon the extent to which we have rights under valid and enforceable patents that cover these activities.

The patent positions of pharmaceutical, biotechnology and other life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the United States, and tests used for determining the patentability of patent claims in all technologies are in flux. The pharmaceutical, biotechnology and other life sciences patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Further, the determination that a patent application or patent claim meets all of the

requirements for patentability is a subjective determination based on the application of law and jurisprudence. For example, in the United States, a determination of patentability by the USPTO or validity by a court or other trier of fact requires a determination that the claimed invention has utility and is both novel and non-obvious to those of ordinary skill in the art in view of prior known publications and public information, and that the patent specification supporting the claim adequately describes the claimed invention, discloses the best mode known to the inventors for practicing the invention, and discloses the invention in a manner that enables one of ordinary skill in the art to make and use the invention. The ultimate determination by the USPTO or by a court of other trier of fact in the United States, or corresponding foreign national patent offices or courts, on whether a claim meets all requirements of patentability cannot be assured. Although we have conducted searches for third-party publications, patents and other information that may impact the patentability of claims in our various patent applications and patents, we cannot be certain that all relevant information has been identified. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents or patent applications, our licensed patents or patent applications or in third-party patents.

Our issued PharmacoSurgery patents have terms that will expire December 12, 2014 and, if our pending PharmacoSurgery patent applications issue as patents, October 20, 2019 for OMS103HP, July 30, 2023 for OMS302 and March 17, 2026 for OMS201, not taking into account any extensions due to potential adjustment of patent terms resulting from USPTO delays. We cannot assure you that any of these patent applications will issue as patents or of the scope of any claims that may issue from these pending and future patent applications, or the outcome of any proceedings by any potential third parties that could challenge the patentability, validity or enforceability of our patents and patent applications in the United States or foreign jurisdictions, which could limit patent protection for our product candidates and materially harm our business.

The degree of future protection for our proprietary rights is uncertain, because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we might not have been the first to make the inventions covered by any of our patents, if issued, or our pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- others may independently develop similar or alternative technologies or products or duplicate any of our technologies or products;
- it is possible that none of our pending patent applications will result in issued patents or, if issued, these patents may not be sufficient to protect our technology or provide us with a basis for commercially viable products and may not provide us with any competitive advantages;
- if our pending applications issue as patents, they may be challenged by third parties as not infringing, invalid or unenforceable under U.S. or foreign laws;
- if issued, the patents under which we hold rights may not be valid or enforceable; or
- we may develop additional proprietary technologies or products that are not patentable and which are unlikely to be adequately protected through trade secrets if, for example, a competitor were to independently develop duplicative, similar or alternative technologies or products.

In addition, to the extent we are unable to obtain and maintain patent protection for one of our product candidates or in the event such patent protection expires, it may no longer be cost-effective to extend our portfolio by pursuing additional development of a product candidate for follow-on indications.

We also may rely on trade secrets to protect our technologies or products, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third-party entity illegally obtained and is using any of our trade secrets is expensive and time-consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

We may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

If we choose to go to court to stop someone else from using our inventions, that individual or company has the right to ask the court to rule that the underlying patents are invalid or should not be enforced against that third party. These lawsuits are expensive and would consume time and other resources even if we were successful in stopping the infringement of these patents. There is also the risk that, even if the validity of these patents is upheld, the court will refuse to stop the other party on the ground that such other party's activities do not infringe the patents.

Further, a third party may claim that we or our contract manufacturers are using inventions covered by the third party's patent rights and may go to court to stop us from engaging in the alleged infringing activity, including making, using or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we or our contract manufacturers are infringing the third party's patents and would order us or our partners to stop the activities covered by the patents. In addition, there is a risk that a court will order us or our contract manufacturers to pay the other party damages for having violated the other party's patents. We have indemnified our contract manufacturers against certain patent infringement claims and thus may be responsible for any of their costs associated with such claims and actions. The pharmaceutical, biotechnology and other life sciences industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts and the interpretation is not always uniform. If we were sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Although we have conducted searches of third-party patents with respect to our OMS103HP, OMS302, OMS201, MASP-2, Addiction, PDE10, PDE7 and GPCR programs, these searches may not have identified all third-party patents relevant to these product candidates. Consequently, we cannot assure you that third-party patents containing claims covering our product candidates, programs, technologies or methods do not exist, have not been filed, or could not be filed or issued. For example, we are aware of a U.S. Patent that claims antibodies that bind MASP-2 and other patents and patent applications related to MASP-2 held by researchers at Aarhus Universitet that are described above in more detail in these "Risk Factors." Our ability to commercialize any MASP-2 antibody product candidate depends on the exclusive licenses we hold from MRC and the University of Leicester to at least joint ownership interest in the patents and patent applications filed by researchers at Aarhus Universitet.

Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and because

publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our patents, our licensors' patents, our pending applications or our licensors' pending applications, or that we or our licensors were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering technologies similar to ours. Any such patent application may have priority over our or our licensors' patent applications and could further require us to obtain rights to issued patents covering such technologies. If another party has filed a U.S. patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the USPTO to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our U.S. patent position with respect to such inventions.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the capital necessary to continue our operations.

We use hazardous materials in our business and must comply with environmental laws and regulations, which can be expensive.

Our research operations produce hazardous waste products, which include chemicals and radioactive and biological materials. We are subject to a variety of federal, state and local regulations relating to the use, handling, storage and disposal of these materials. Although we believe that our safety procedures for handling and disposing of these materials comply with applicable legal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. We generally contract with third parties for the disposal of such substances and store our low-level radioactive waste at our facilities until the materials are no longer considered radioactive. We may be required to incur further costs to comply with current or future environmental and safety regulations. In addition, although we carry insurance, in the event of accidental contamination or injury from these materials, we could be held liable for any damages that result and any such liability could exceed our insurance coverage and other resources.

The loss of members of our management team could substantially disrupt our business operations.

Our success depends to a significant degree on the continued individual and collective contributions of our management team. The members of our management team are at-will employees, and we do not maintain any key-person life insurance policies except for on the life of Gregory Demopolos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors. We have agreed to enter into a new employment agreement with Dr. Demopolos by May 1, 2009. Although we have not yet entered into a new employment agreement with Dr. Demopolos, we and Dr. Demopolos intend to do so. If we are unable to enter into a new agreement with Dr. Demopolos because of our actions or omissions, he could claim that we are in material breach of his current employment agreement, which may entitle Dr. Demopolos to severance benefits described below in "Management — Executive Compensation — Potential Payment upon Termination or Change in Control." Losing the services of any key member of our management team, whether from death or disability, retirement, competing offers or other causes, could delay execution of our business strategy, cause us to lose a strategic partner, or otherwise materially affect our operations.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to maintain our operations or grow effectively.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. In this regard, in anticipation of increased development and commercialization activities, we plan to increase the total number of our full-time employees from 68 as of April 30, 2009 to approximately 75 to 85 by the end of 2009. If we are unable to hire and train a sufficient number of qualified employees for any reason, we may not be able to implement our current initiatives or grow effectively. We have in the past maintained a rigorous, highly selective and time-consuming hiring process. We believe that our approach to hiring has significantly contributed to our success to date. If we do not succeed in attracting qualified personnel and retaining and motivating existing personnel, our existing operations may suffer and we may be unable to grow effectively.

To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems and continue to recruit and train additional qualified personnel. Due to our limited financial resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

We will incur increased costs and demands on management as a result of complying with the laws and regulations affecting public companies, which could affect our operating results.

As a public company we will incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will continue to incur costs associated with recently adopted corporate governance requirements, including requirements under the Sarbanes-Oxley Act, as well as new rules implemented by the SEC and the NASDAQ Stock Market. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these new rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage than used to be available. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

We are not currently required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, and are therefore not required to make an assessment of the effectiveness of our internal controls over financial reporting. Further, our independent registered public accounting firm has not been engaged to express, nor has it expressed, an opinion on the effectiveness of our internal controls over financial reporting. As a public company, we will be required under Section 404 to perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting for fiscal years ending after December 31, 2009. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses.

If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, management may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could result in a negative reaction in the financial markets due to a loss of

confidence in the reliability of our financial statements. In addition, if we fail to develop and maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner or otherwise comply with the standards applicable to us as a public company. Any failure by us to provide the required financial information in a timely manner could materially and adversely impact our financial condition and the market value of our securities.

Risks Related to Our Industry

Our competitors may develop products that are less expensive, safer or more effective, or which may otherwise diminish or eliminate the commercial success of any potential products that we may commercialize.

If our competitors market products that are less expensive, safer or more effective than our future products developed from our product candidates, that reach the market before our product candidates, or that otherwise negatively affect the market, we may not achieve commercial success. For example, we are developing PDE10 inhibitors to identify a product candidate for use in the treatment of schizophrenia. Other pharmaceutical companies, many with significantly greater resources than we have, are also developing PDE10 inhibitors for the treatment of schizophrenia and these companies may be further along in development. The failure of a PDE10 inhibitor product candidate from any of our competitors to demonstrate safety or efficacy in clinical trials may negatively reflect on the ability of our PDE10 inhibitor product candidates under development to demonstrate safety and efficacy. Further, the failure of any future products developed from our product candidates to effectively compete with products marketed by our competitors would impair our ability to generate revenue, which would have a material adverse effect on our future business, financial condition and results of operations.

We expect to compete with other biopharmaceutical and biotechnology companies, and our competitors may:

- develop and market products that are less expensive or more effective than any future products developed from our product candidates;
- commercialize competing products before we can launch any products developed from our product candidates;
- operate larger research and development programs, possess commercial-scale manufacturing operations or have substantially greater financial resources than we do;
- initiate or withstand substantial price competition more successfully than we can;
- have greater success in recruiting skilled technical and scientific workers from the limited pool of available talent;
- more effectively negotiate third-party licenses and strategic relationships; and
- take advantage of acquisition or other opportunities more readily than we can.

We expect to compete for market share against large pharmaceutical and biotechnology companies, smaller companies that are collaborating with larger pharmaceutical companies, new companies, academic institutions, government agencies and other public and private research organizations. In addition, the pharmaceutical and biotechnology industry is characterized by rapid technological change. Because our research approach integrates many technologies, it may be difficult for us to remain current with rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Our competitors may render our technologies obsolete by advances in existing technological approaches or the development of new or different approaches, potentially eliminating the advantages in our product discovery process that we believe we derive from our research approach and proprietary technologies and programs. In addition,

physicians may continue with their respective current treatment practices, including the use of current preoperative and postoperative treatments, rather than adopt our PharmacoSurgery product candidates.

Our product candidates could be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements, or if we experience unanticipated problems with our product candidates, if and when any of them are approved.

Any product candidate for which we obtain marketing approval, together with the manufacturing processes, post-approval clinical data, and advertising and promotional activities for such product candidate, will be subject to continued regulation by the FDA and other regulatory agencies. Even if regulatory approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product candidate may be marketed or to the conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product candidate. Later discovery of previously unknown problems with our product candidates or their manufacture, or failure to comply with regulatory requirements, may result in:

- restrictions on such product candidates or manufacturing processes;
- withdrawal of the product candidates from the market;
- voluntary or mandatory recalls;
- fines;
- suspension of regulatory approvals;
- product seizures; or
- injunctions or the imposition of civil or criminal penalties.

If we are slow to adapt, or unable to adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements or policies, we may lose marketing approval for our product candidates when and if any of them are approved.

Failure to obtain regulatory approval in foreign jurisdictions would prevent us from marketing our products internationally.

We intend to have our product candidates marketed outside the United States. In order to market our products in the European Union and many other non-U.S. jurisdictions, we must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. We may be unable to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market. The approval procedure varies among countries and can involve additional testing and data review. The time required to obtain foreign regulatory approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval discussed in these "Risk Factors." We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory agencies in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory agencies in other foreign countries or by the FDA. The failure to obtain these approvals could harm our business.

If we are unable to obtain adequate reimbursement from governments or third-party payors for any products that we may develop or if we are unable to obtain acceptable prices for those products, they may not be purchased or used and, as a result, our revenue and prospects for profitability could suffer.

Our future revenue and profit will depend heavily upon the availability of adequate reimbursement for the use of our approved product candidates from governmental and other

third-party payors, both in the United States and in other countries. Even if we are successful in bringing one or more product candidates to market, these products may not be considered cost-effective, and the amount reimbursed for any product candidates may be insufficient to allow us to sell our product candidates profitably. Reimbursement by a third-party payor may depend on a number of factors, including the third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining reimbursement approval for a product from each government or third-party payor is a time-consuming and costly process that will require the build-out of a sufficient staff and could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to each payor. Because none of our product candidates have been approved for marketing, we can provide you no assurances at this time regarding their cost-effectiveness and the amount, if any, or method of reimbursement. There may be significant delays in obtaining reimbursement coverage for newly approved product candidates and we may not be able to provide data sufficient to gain acceptance with respect to reimbursement. Even when a payor determines that a product is eligible for reimbursement, coverage may be more limited than the purposes for which the product candidate is approved by the FDA or foreign regulatory agencies. Increasingly, third-party payors who reimburse healthcare costs, such as government and private payors, are requiring that companies provide them with predetermined discounts from list prices, and are challenging the prices charged for medical products. Moreover, eligibility for coverage does not mean that any product candidate will be reimbursed at a rate that allows us to make a profit in all cases, or at a rate that covers our costs, including research, development, manufacturing, sale and distribution. In non-U.S. jurisdictions, we must obtain separate reimbursement approvals and comply with related foreign legal and regulatory requirements. In some countries, including those in the European Union, our product candidates may be subject to government price controls. Pricing negotiations with governmental authorities can take a considerable amount of time after the receipt of marketing approval for a product candidate. If the reimbursement we are able to obtain for any product candidate we develop is inadequate in light of our development and other costs or is significantly delayed, our business could be materially harmed.

Product liability claims may damage our reputation and, if insurance proves inadequate, these claims may harm our business.

We may be exposed to the risk of product liability claims that is inherent in the biopharmaceutical industry. A product liability claim may damage our reputation by raising questions about our product candidate's safety and efficacy and could limit our ability to sell one or more product candidates, if approved, by preventing or interfering with commercialization of our product candidates. In addition, product liability insurance for the biopharmaceutical industry is generally expensive to the extent it is available at all. There can be no assurance that we will be able to obtain and maintain such insurance on acceptable terms or that we will be able to secure increased coverage if the commercialization of our product candidates progresses, or that future claims against us will be covered by our product liability insurance. Although we currently have product liability insurance coverage for our clinical trials, our insurance coverage may not reimburse us or may be insufficient to reimburse us for any or all expenses or losses we may suffer. A successful claim against us with respect to uninsured liabilities or in excess of insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the Offering

An active, liquid and orderly trading market for our common stock may not develop.

Prior to this offering, there has been no public market for shares of our common stock. We and the representative of the underwriters will determine the initial public offering price of our common stock through negotiation. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares following this offering. In addition, the trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- results from our clinical trial programs, including our ongoing Phase 3 clinical trials for OMS103HP for use in ACL reconstruction surgery, our Phase 2 clinical trial for OMS103HP for use in meniscectomy surgery, our ongoing Phase 2 clinical trial for OMS302, and our ongoing Phase 1/Phase 2 clinical trial for OMS201;
- FDA or international regulatory actions, including failure to receive regulatory approval for any of our product candidates;
- failure of any of our product candidates, if approved, to achieve commercial success;
- quarterly variations in our results of operations or those of our competitors;
- our ability to develop and market new and enhanced product candidates on a timely basis;
- announcements by us or our competitors of acquisitions, regulatory approvals, clinical milestones, new products, significant contracts, commercial relationships or capital commitments;
- third-party coverage and reimbursement policies;
- additions or departures of key personnel;
- commencement of, or our involvement in, litigation;
- our ability to meet our repayment and other obligations under our debt facility with BlueCrest, pursuant to which we have borrowed \$17.0 million;
- changes in governmental regulations or in the status of our regulatory approvals;
- changes in earnings estimates or recommendations by securities analysts;
- any major change in our board or management;
- general economic conditions and slow or negative growth of our markets; and
- political instability, natural disasters, war and/or events of terrorism.

From time to time, we estimate the timing of the accomplishment of various scientific, clinical, regulatory and other product development goals or milestones. These milestones may include the commencement or completion of scientific studies and clinical trials and the submission of regulatory filings. Also, from time to time, we expect that we will publicly announce the anticipated timing of some of these milestones. All of these milestones are based on a variety of assumptions. The actual timing of these milestones can vary dramatically compared to our estimates, in some cases for reasons beyond our control. If we do not meet these milestones as publicly announced, our stock price may decline and the commercialization of our product and product candidates may be delayed.

In addition, the stock market has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of publicly traded companies. Broad market and industry factors may seriously affect the market price of companies' stock, including ours, regardless of actual operating performance. These fluctuations may be even more pronounced in the trading market for our stock shortly

following this offering. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of \$ [redacted] in net tangible book value per share from the price you paid, based on an assumed initial public offering price of \$ [redacted] per share (the mid-point of the range set forth on the cover page of this prospectus). In addition, investors who purchase shares in this offering will contribute approximately [redacted] % of the total amount of equity capital raised through the date of this offering, but will only own approximately [redacted] % of the outstanding share capital and approximately [redacted] % of the voting rights. The exercise of outstanding options and warrants will result in further dilution. For a further description of the dilution that you will experience immediately after this offering, see "Dilution."

Future sales of shares by existing shareholders could cause our stock price to decline.

If our existing shareholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based on shares outstanding as of March 31, 2009, upon completion of this offering, we will have outstanding a total of [redacted] shares of common stock, assuming the issuance of [redacted] shares of common stock assuming the cashless net exercise of warrants that will automatically terminate upon the closing of this offering based on the assumed initial public offering price of \$ [redacted] (the mid-point of the range set forth on the cover page of this prospectus) and no exercise of the underwriters' over-allotment option. Of these shares, only the shares of common stock sold in this offering by us will be freely tradable, without restriction, in the public market. The representative of the underwriters may, in its sole discretion, release our officers, directors and other current shareholders from these contractual lock-up agreements prior to the expiration of these agreements.

We expect that the lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus, although those lock-up agreements may be extended for up to an additional 34 days under certain circumstances. After the lock-up agreements expire, up to an additional [redacted] shares of common stock will be eligible for sale in the public market, [redacted] of which shares of common stock are held by directors, executive officers and other affiliates and will be subject to volume limitations under Rule 144 under the Securities Act and various vesting agreements. In addition, [redacted] shares of common stock that are either subject to outstanding warrants that will not automatically terminate upon completion of this offering or subject to outstanding options or reserved for future issuance under our employee benefit plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, the lock-up agreements and Rules 144 and 701 under the Securities Act, as applicable. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Anti-takeover provisions in our charter documents and under Washington law could make an acquisition of us, which may be beneficial to our shareholders, more difficult and prevent attempts by our shareholders to replace or remove our current management.

Provisions in our articles of incorporation and bylaws and under Washington law may delay or prevent an acquisition of us or a change in our management. These provisions include a classified board of directors, a prohibition on shareholder actions by less than unanimous written consent, restrictions on the ability of shareholders to fill board vacancies and the ability of our board of directors to issue preferred stock without shareholder approval. In addition, because we are incorporated in Washington, we are governed by the provisions of Chapter 23B.19 of the Washington Business Corporation Act, which, among other things, restricts the ability of shareholders owning ten percent or more of our outstanding voting stock from merging or combining with us. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirors to negotiate with our board of directors, they would apply even if an offer may be considered beneficial by some shareholders. In addition, these provisions may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of our board of directors, which is responsible for appointing the members of our management.

We have broad discretion in the use of the net proceeds from this offering and may not use the net proceeds effectively.

We will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. Our failure to apply these funds effectively could have a material adverse effect on our business, delay the development of our product candidates and cause the price of our common stock to decline.

We have never declared or paid dividends on our capital stock, and we do not anticipate paying dividends in the foreseeable future.

Our business requires significant funding, and we have not generated any material revenue. We currently plan to invest all available funds and future earnings, if any, in the development and growth of our business. Therefore, we currently do not anticipate paying any cash dividends on our common stock in the foreseeable future. As a result, a rise in the market price of our common stock, which is uncertain and unpredictable, will be your sole source of potential gain in the foreseeable future, and you should not rely on an investment in our common stock for dividend income.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors." In light of these risks, uncertainties and assumptions, the forward-looking events and trends discussed in this prospectus may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Forward-looking statements in the prospectus include statements about:

- our ability to complete the Phase 3 clinical trials of OMS103HP in patients undergoing ACL reconstruction surgery and to submit a related NDA to the FDA during the second half of 2010;
- our ability to review the data from our first Phase 2 trial of OMS103HP in patients undergoing arthroscopic meniscectomy surgery in the second half of 2009;
- our ability to market OMS103HP by 2011;
- our ability to complete the Phase 2 clinical trial for OMS302 in patients undergoing cataract surgery in the second quarter of 2009;
- our ability to complete the Phase 1/Phase 2 clinical trial of OMS201 in patients undergoing ureteroscopic removal or ureteral or renal stones in the first half of 2010;
- our ability to achieve the expected near-term milestones in our pipeline of preclinical development programs, including the selection of a clinical product candidate for our MASP-2 program in mid-2009, submission of an IND to the FDA for our Addiction program in the second half of 2009 and the selection of one or more clinical product candidates for our PDE10 program in mid-2009, and the size of target markets;
- our expectations regarding the growth in the number of arthroscopic, cataract and uroendoscopic operations, the rates at which each of our PharmacoSurgery product candidates will be reimbursed to the surgical facility for its utilization and to the surgeon for its use, the size of the markets for our PharmacoSurgery product candidates, in particular, the market opportunity for OMS103HP, and the rate and degree of adoption and market penetration of our PharmacoSurgery product candidates;
- our ability to obtain commercial supplies of our PharmacoSurgery product candidates, our competition and, if approved, our ability to successfully commercialize our PharmacoSurgery product candidates with a limited, hospital-based marketing and sales force;
- our expectations regarding the clinical benefits of our PharmacoSurgery product candidates;
- the extent of protection that our patents provide and our pending patent applications may provide, if patents issue from such applications, to our technologies and programs;
- our estimate regarding how long our existing cash, cash equivalents and short-term investments, along with the net proceeds from this offering, will be sufficient to fund our anticipated operating expenses and capital expenditures, the factors impacting our future

capital expenditures and our expected number of full-time employees by the end of 2009;

- our expectations regarding our ability to de-orphanize orphan GPCRs and the number of druggable targets among the orphan GPCRs;
- our ability to meet our repayment and other obligations under our debt facility with BlueCrest, pursuant to which we have borrowed \$17.0 million; and
- our estimates regarding the use of the net proceeds from this offering and our future net losses, revenues, expenses and net operating loss carryforwards and research and development tax credit carryforwards.

You should read this prospectus and the registration statement of which this prospectus is a part completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus and, except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. The forward-looking statements contained in this prospectus are excluded from the safe harbor protection provided by the Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately \$ [redacted] from our sale of shares of common stock in this offering, or approximately \$ [redacted] if the underwriters exercise their over-allotment option in full, based upon an assumed initial public offering price of \$ [redacted] per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ [redacted] per share would increase (decrease) the net proceeds to us from this offering by \$ [redacted], assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We anticipate that the net proceeds from this offering, together with our existing cash, cash equivalents and short-term investments, will allow us to complete our Phase 3 clinical trials and to submit the related NDA(s) for our lead PharmacoSurgery product candidate, OMS103HP. We currently expect to use the net proceeds from this offering as follows:

- approximately \$ [redacted] to fund the completion of our clinical trials and our submission of the related NDA(s) to the FDA for our lead PharmacoSurgery product candidate, OMS103HP;
- approximately \$ [redacted] to fund the launch and commercialization of OMS103HP;
- approximately \$ [redacted] to fund the clinical development of our other PharmacoSurgery product candidates, OMS302 and OMS201, through Phase 2 clinical trials; and
- the remainder to continue to fund our pipeline of preclinical product development programs focused on inflammation and CNS disorders, and to fund working capital, capital expenditures, potential acquisitions of products or technologies and general corporate purposes.

We may use a portion of the net proceeds for the repayment of a \$17.0 million loan and related interest pursuant to the terms of a Loan and Security Agreement with BlueCrest Venture Finance Master Fund Limited, assignee of BlueCrest Capital Finance, L.P., dated as of September 12, 2008. We borrowed the \$17.0 million in three tranches, one \$5.0 million tranche in September 2008 and two \$6.0 million tranches in December 2008. The proceeds of this borrowing have been used for working capital and general corporate activities. Our obligations under the agreement are secured by a first priority security interest in our assets excluding intellectual property. We are required to pay only interest on amounts borrowed during the first three months, and thereafter the amount borrowed is amortized over 36 months with equal monthly principal and interest payments. The interest rate of the debt is 12.50%. We have the right to prepay the principal amount of the loan in whole, but not in part, upon 30 days advance written notice to BlueCrest. If we prepay the loan, we will be required to pay BlueCrest a prepayment premium equal to two percent of the principal amount of any part of the loan that has been outstanding for 18 months or less and one percent for any amount that has been outstanding for more than 18 months. In connection with this financing arrangement, we are obligated to pay a one-time fee to BlueCrest in the amount of \$340,000 upon closing of this offering.

We may also use a portion of the net proceeds from this offering to purchase assets for our GPCR program pursuant to the terms of an Exclusive Technology Option Agreement with Patobios Limited. Under this agreement, we have the right to purchase Patobios' assets related to a GPCR assay technology, comprised of patents and other intellectual property rights, for approximately \$10.7 million Canadian dollars, or CAD, of which \$7.7 million CAD is payable in cash and \$3.0 million CAD is payable in our common stock, subject to adjustment as described below. Upon signing the agreement, we paid Patobios a \$200,000 CAD cash option fee (\$188,000 USD) for the right to test and exclusive option to purchase the assets during the

nine-month period ending June 4, 2009. We have the option to extend this period for two consecutive six-month option periods ending December 4, 2009 and June 4, 2010 if, prior to each period, we pay a cash option fee of \$650,000 CAD. We currently intend to extend the option period to at least December 4, 2009. If during any option period we purchase these assets, the cash portion of the purchase price will be reduced by a portion of the related option fee we paid for such period based on the number of days remaining in the period. The purchase price and the option fee for the period ending December 4, 2009 are also subject to adjustments for any patent fees we pay on behalf of Patobios during the option period related to these assets. In addition, if during an option period we identify a set of molecules, or ligands, that binds to an orphan GPCR using the assay technology, Patobios will have the option to require us to purchase these assets for the same price we would be required to pay if we elected to purchase them. While we are currently evaluating the utility of these assets for our GPCR program, we are not required to and are not currently attempting to identify any ligands that bind to an orphan GPCR using the assay technology.

The expected uses of the net proceeds from this offering represents our current intentions based on our present plans and business conditions. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to be received from this offering. The amounts and timing of our actual expenditures will depend on numerous factors including the progress in, and costs of, our clinical trials and other preclinical development programs. Accordingly, our management will have broad discretion in the application of the net proceeds, and investors will be relying on the judgement of management regarding the application of the net proceeds from the offering. We may find it necessary or advisable to use the net proceeds for other purposes. Pending such uses set forth above, we plan to invest the net proceeds in highly liquid, investment grade securities.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock, we do not currently intend to pay any cash dividends on our common stock in the foreseeable future and under our Loan and Security Agreement with BlueCrest Venture Finance Master Fund Limited we have agreed not to pay any dividends so long as we have any outstanding obligations under the agreement. We expect to retain all available funds and future earnings, if any, to fund the development and growth of our business. Any future determination to pay dividends, if any, on our common stock will be at the discretion of our board of directors and will depend on, among other factors, our results of operations, financial condition, capital requirements and contractual restrictions.

CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments and our capitalization as of March 31, 2009, as follows:

- on an actual basis;
- on a pro forma basis reflecting (a) the automatic conversion of all outstanding shares of our convertible preferred stock into 22,567,407 shares of our common stock upon the closing of this offering and (b) the automatic conversion of all outstanding warrants to purchase convertible preferred stock into warrants to purchase 409,578 shares of our common stock upon the closing of this offering, resulting in the reclassification of \$1.7 million from preferred stock warrant liability to additional paid-in capital;
- on a pro forma as adjusted basis to give effect (a) to the issuance and sale by us of _____ shares of common stock in this offering and the receipt of the net proceeds from our sale of these shares at an assumed initial public offering price of \$ _____ per share (the mid-point of the range set forth on the cover page of this prospectus), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and (b) to the issuance of _____ shares of common stock assuming the cashless net exercise of warrants that will automatically terminate upon the closing of this offering based on the assumed initial public offering price.

You should read this table together with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	As of March 31, 2009		
	Actual	Pro Forma (in thousands, except share and per share data)	Pro Forma As Adjusted
Cash, cash equivalents and short-term investments	\$ 16,818	\$ 16,818	\$
Total notes payable	\$ 16,344	\$ 16,344	
Preferred stock warrant liability	1,720	—	—
Convertible preferred stock; Issued and outstanding shares—22,567,407 (0 pro forma and pro forma as adjusted)	91,019	—	—
Shareholders' equity (deficit):			
Preferred stock, par value \$0.01 per share; Authorized shares—26,314,511 (20,000,000 pro forma and pro forma as adjusted; issued and outstanding shares—0 pro forma and pro forma as adjusted)	—	—	—
Common stock, par value \$0.01 per share; Authorized shares—40,000,000 (150,000 pro forma and pro forma as adjusted); issued and outstanding shares—5,787,899 (28,355,306 pro forma and pro forma as adjusted)	57	284	
Additional paid-in capital	6,586	99,098	
Accumulated other comprehensive loss	(7)	(7)	
Deficit accumulated during the development stage	(102,729)	(102,729)	
Total shareholders' equity (deficit)	(96,093)	(3,354)	
Total capitalization	\$ 12,990	\$ 12,990	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) each of cash, cash equivalents and short-term investments, additional paid-in capital, total shareholders' equity (deficit) and total capitalization by \$, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The outstanding share information set forth in the table above excludes the following shares:

- 5,441,744 shares of common stock issuable upon the exercise of options outstanding at March 31, 2009, at a weighted-average exercise price of \$0.72 per share;
- shares of common stock issuable upon exercise of options granted from April 1, 2009 to , 2009, at a weighted-average exercise price of \$ per share;
- 22,613 shares of common stock issuable upon exercise of warrants outstanding at March 31, 2009, which will not automatically terminate upon the closing of this offering, at a weighted-average exercise price of \$4.66 per share; and
- 2,121,855 shares of common stock available for future issuance under our 2008 Equity Incentive Plan.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock immediately after this offering.

Our historical net tangible book value as of March 31, 2009 was \$(96.1) million, or \$(16.61) per share of common stock. Our pro forma net tangible book value as of March 31, 2009 was \$3.4 million, or \$(0.12) per share of common stock. Our pro forma net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of our common stock outstanding as of March 31, 2009, after giving effect (a) to the automatic conversion of all outstanding shares of our convertible preferred stock into common stock upon the closing of this offering and (b) to the automatic conversion of all outstanding warrants to purchase convertible preferred stock into warrants to purchase common stock upon the closing of this offering, 387,030 of which must be exercised or will automatically terminate upon closing of this offering.

After giving effect (a) to our issuance and sale in this offering of _____ shares of common stock at an assumed initial public offering price of \$ _____ per share (the midpoint of the range set forth on the cover page of this prospectus), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, and (b) to the issuance of _____ shares of common stock assuming the cashless net exercise of warrants that will automatically terminate upon the closing of this offering based on the assumed initial public offering price, our pro forma net tangible book value as of March 31, 2009 would have been approximately \$ _____, or \$ _____ per share of common stock. This represents an immediate increase in pro forma net tangible book value of \$ _____ per share to our existing shareholders and an immediate dilution of \$ _____ per share to investors purchasing shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share		\$
Historical net tangible book value per common share at March 31, 2009	\$ (16.61)	
Pro forma increase in net tangible book value per common share attributable to conversion of all outstanding convertible preferred stock into common stock and the reclassification of the preferred stock warrant liability to additional paid-in capital	(16.49)	
Pro forma net tangible book value per share as of March 31, 2009	(0.12)	
Pro forma increase in net tangible book value per share attributable to investors participating in this offering		
Pro forma net tangible book value per share after this offering		
Dilution in pro forma net tangible book value per share to investors purchasing shares in this offering		\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share would increase (decrease) our pro forma net tangible book value per share after this offering by \$ _____ and the dilution in pro forma net tangible book value per share to investors purchasing shares in this offering by \$ _____, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, at an assumed initial public offering price of \$ _____ per share, the pro forma net tangible book value per share after this offering would be approximately \$ _____ per share, and the dilution in pro forma net tangible

book value per share to investors purchasing shares in this offering would be approximately \$ per share.

The following table sets forth on an as adjusted basis, as of March 31, 2009, the number of shares of common stock purchased or to be purchased from us, the total consideration paid or to be paid and the average price per share paid or to be paid by existing holders of common stock and by the new investors purchasing shares in this offering, before deducting estimated underwriting discounts and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders	28,355,306	%	\$ 92,051,000	%	\$ 3.25
Holders of warrants exercised at closing					
New investors					
Total		%	\$	%	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) total consideration paid by new investors by \$, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, our existing shareholders would own % and our new investors would own % of the total number of shares of our common stock outstanding after this offering.

The discussion and tables above are based on the number of shares of common stock outstanding at March 31, 2009. The discussion and tables above exclude the following shares:

- 5,441,744 shares of common stock issuable upon the exercise of options outstanding at March 31, 2009, at a weighted-average exercise price of \$0.72 per share;
- shares of common stock issuable upon the exercise of options granted from April 1, 2009 to , 2009, at a weighted-average exercise price of \$ per share;
- 22,613 shares of common stock issuable upon exercise of warrants outstanding at March 31, 2009, which will not automatically terminate upon the closing of this offering, at a weighted-average exercise price of \$4.66 per share; and
- 2,121,855 shares of common stock available for future issuance under our 2008 Equity Incentive Plan.

To the extent outstanding options or warrants are exercised, new investors will experience further dilution.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the accompanying notes included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2008, 2007 and 2006 and for the period from June 16, 1994 (inception) to December 31, 2008, and the consolidated balance sheet data as of December 31, 2008 and 2007 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2005 and 2004, and the consolidated balance sheet data as of December 31, 2006, 2005 and 2004 are derived from our consolidated financial statements not included in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) to March 31, 2009, and the consolidated balance sheet data as of March 31, 2009 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. The unaudited consolidated financial statements have been prepared on a basis consistent with our audited consolidated financial statements included in this prospectus and include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the financial information in those statements. Our historical results are not necessarily indicative of the results to be expected in any future period, and the results for the three months ended March 31, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. We acquired nura on August 11, 2006, and the results of nura are included in the consolidated financial statements from that date. The pro forma basic and diluted net loss per common share data are computed using the weighted-average number of shares of common stock outstanding, after giving effect to the conversion (using the as-if-converted method) of all shares of our convertible preferred stock into common stock.

	Three Months Ended March 31,		Period from June 16, 1994 (inception) to March 31,	Years Ended December 31,				Period from June 16, 1994 (inception) to December 31,	
	2009	2008	2009	2008	2007	2006	2005	2004	
(in thousands, except share and per share data)									
Consolidated Statements of Operations Data:									
Grant revenue	\$ 197	\$ 234	\$ 3,590	\$ 1,170	\$ 1,923	\$ 200	\$ —	\$ —	\$ 3,393
Operating expenses:									
Research and development	4,022	4,170	66,256	17,850	15,922	9,637	5,803	2,670	62,234
Acquired in-process research and development	—	—	10,891	—	—	10,891	—	—	10,891
General and administrative	1,410	1,596	33,893	7,845	10,398	3,625	1,904	2,079	32,483
Total operating expenses	5,432	5,766	111,040	25,695	26,320	24,153	7,707	4,749	105,608
Loss from operations	(5,235)	(5,532)	(107,450)	(24,525)	(24,397)	(23,953)	(7,707)	(4,749)	(102,215)
Investment income	81	279	5,244	661	1,582	1,088	333	171	5,163
Interest expense	(590)	(22)	(1,219)	(335)	(151)	(91)	—	—	(629)
Other income (expense)	262	172	696	372	(125)	179	8	—	434
Net loss	\$ (6,482)	\$ (5,103)	\$ (102,729)	\$ (23,827)	\$ (23,091)	\$ (22,777)	\$ (7,366)	\$ (4,578)	\$ (97,247)
Basic and diluted net loss per common share	\$ (0.95)	\$ (0.92)		\$ (4.22)	\$ (5.44)	\$ (6.17)	\$ (2.12)	\$ (1.34)	
Weighted-average shares used to compute basic and diluted net loss per common share	5,740,914	5,522,711		5,651,583	4,248,212	3,694,388	3,468,886	3,416,197	
Pro forma basic and diluted net loss per common share (unaudited)	\$ (0.20)			\$ (0.84)					
Weighted-average pro forma shares used to compute pro forma basic and diluted net loss per common share (unaudited)	28,190,321			27,978,990					

	As of March 31, 2009	As of December 31,				
		2008	2007	2006	2005	2004
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short-term investments	\$ 16,818	\$ 19,982	\$ 24,082	\$ 35,885	\$ 12,372	\$ 14,008
Working capital (deficit)	(6,261)	(3,083)	16,526	32,277	10,672	13,664
Total assets	18,782	21,681	27,162	38,432	13,109	14,600
Total notes payable	16,344	16,674	1,010	2,015	—	—
Preferred stock warrant liability	1,720	1,780	1,562	1,037	483	—
Convertible preferred stock	91,019	89,168	89,168	85,742	40,888	35,203
Deficit accumulated in the development stage	(102,729)	(97,247)	(73,420)	(50,329)	(27,553)	(20,187)
Total shareholders' deficit	(96,053)	(91,166)	(69,941)	(53,363)	(29,743)	(21,114)

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our audited annual and unaudited interim consolidated financial statements and the related notes that appear elsewhere in this prospectus. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this prospectus.

Overview

Background

We are a clinical-stage biopharmaceutical company committed to discovering, developing and commercializing products focused on inflammation and disorders of the central nervous system. Our most clinically advanced product candidates are derived from our proprietary PharmacoSurgery™ platform designed to improve clinical outcomes of patients undergoing arthroscopic, ophthalmological, urological and other surgical and medical procedures. Our PharmacoSurgery platform is based on low-dose combinations of therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to preemptively inhibit inflammation and other problems caused by surgical trauma and to provide clinical benefits both during and after surgery. We currently have four ongoing PharmacoSurgery clinical development programs, the most advanced of which is in Phase 3 clinical trials. In addition to our PharmacoSurgery platform, we have leveraged our expertise in inflammation and the central nervous system, or CNS, to build a deep and diverse pipeline of preclinical programs targeting large markets. For each of our product candidates and programs, we have retained all manufacturing, marketing and distribution rights.

OMS103HP, our lead PharmacoSurgery product candidate, is in two clinical programs. The first is a Phase 3 clinical program evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following arthroscopic anterior cruciate ligament, or ACL, reconstruction surgery. The second program is evaluating OMS103HP's safety and ability to reduce pain and improve postoperative joint function following arthroscopic meniscectomy surgery. We expect to complete the Phase 3 clinical program for ACL reconstruction surgery and, assuming positive results, intend to submit a New Drug Application, or NDA, to the U.S. Food and Drug Administration, or FDA, under the Section 505(b)(2) NDA process during the second half of 2010. We believe that OMS103HP will, if approved, be the first commercially available drug product for the improvement of function following arthroscopic surgery. In the second half of 2009, we expect to review the data from our first Phase 2 clinical trial in patients undergoing meniscectomy surgery.

Our other current PharmacoSurgery product candidates are OMS302, being developed for use during ophthalmological procedures, including cataract and other lens replacement surgery, and OMS201, being developed for use during urological surgery, including uroendoscopic procedures. We recently completed a Phase 1/Phase 2 clinical trial that evaluated the efficacy and safety of OMS302 added to standard irrigation solution and delivered to patients undergoing cataract surgery, and we are currently conducting a Phase 2 concentration-ranging clinical trial of the mydriatic agent contained in OMS302 in patients undergoing cataract surgery and a Phase 1/Phase 2 clinical trial of OMS201 in patients undergoing ureteroscopic removal of ureteral or renal stones. We own and exclusively control a U.S. and international portfolio of issued patents and pending patent applications that we believe protects our PharmacoSurgery platform.

In addition to our PharmacoSurgery platform, we have a deep and diverse pipeline of preclinical product development programs targeting large market opportunities in

inflammation and the CNS covered by a broad intellectual property portfolio. In our mannan-binding lectin-associated serine protease-2, or MASP-2, program, we are developing proprietary MASP-2 antibody therapies to treat disorders caused by complement-activated inflammation. Our CNS pipeline includes our Addiction program, our Phosphodiesterase 10, or PDE10, program, our PDE7 program and our G protein-coupled receptors, or GPCR, program. In our Addiction program, we are developing proprietary compositions that include peroxisome proliferator-activated receptor gamma agonists for the treatment and prevention of addiction to substances of abuse, which may include opioids, nicotine, alcohol and amphetamines, as well as other compulsive behaviors. In our PDE10 program, we are developing proprietary compounds to treat schizophrenia. Our PDE7 program is based on our demonstration of a previously unknown link between PDE7 and any movement disorder, such as Parkinson's disease and Restless Legs Syndrome, and we are developing proprietary compounds for the treatment of these and other movement disorders. In our GPCR program, we believe that we have the capability to complete high-throughput de-orphanization of orphan GPCRs, or the identification of synthetic molecules that bind the receptors, and to develop product candidates that act at these new potential drug targets.

We have incurred significant losses since our inception. As of March 31, 2009, our accumulated deficit was \$102.7 million and total shareholders' deficit was \$96.1 million. We recognized net losses of \$5.5 million, \$23.8 million, \$23.1 million and \$22.8 million for the three months ended March 31, 2009 and the years ended December 31, 2008, 2007 and 2006, respectively. These losses have resulted principally from expenses incurred in connection with research and development activities, consisting primarily of preclinical studies, manufacturing services, and clinical trials associated with our current product candidates. We expect our net losses to increase as we continue to advance our clinical trials, expand our research and development efforts, and add personnel as well as laboratory and office space for our anticipated growth. We plan to increase the total number of our full-time employees from 68 as of April 30, 2009 to approximately 75 to 85 by the end of 2009.

Revenue

We have recognized \$3.6 million of revenue from inception through March 31, 2009, consisting of grant funding from third parties. Other than grant funding, we do not expect to receive any revenue from our product candidates until we receive regulatory approval and commercialize the products or until we potentially enter into collaborative agreements with third parties for the development and commercialization of our product candidates. We continue to pursue government and private grant funding for our product candidates and research programs. If our development efforts for any of our product candidates result in clinical success and regulatory approval or collaboration agreements with third parties, we could generate revenue from those product candidates.

Research and Development Expenses

The majority of our operating expenses to date have been for research and development activities. Research and development expenses consist of costs associated with research activities, as well as costs associated with our product development efforts, which include clinical trials and third party manufacturing services. Internal research and development costs are recognized as incurred. Third-party research and development costs are expensed at the earlier of when the contracted work has been performed or as upfront and milestone payments are made. Research and development expenses include:

- employee and consultant-related expenses, which include salaries and benefits;
- external research and development expenses incurred pursuant to agreements with third-party manufacturing organizations, contract research organizations and clinical trial sites;

- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and depreciation of leasehold improvements and equipment; and
- third-party supplier expenses including laboratory and other supplies.

At any time, we have many ongoing research and development projects.

The following table identifies our current major research and development projects:

Project	Development Status	Expected Near-Term Milestone (1)
OMS103HP — Arthroscopic ACL reconstruction	Phase 3	Complete Phase 3 trials and file NDA in second half of 2010
OMS103HP — Arthroscopic meniscectomy	Phase 2	Review data from Phase 2 trial in second half of 2009
OMS302 — Cataract surgery	Phase 2	Complete Phase 2 trial in second quarter of 2009
OMS201 — Ureteroscopy	Phase 1/ Phase 2	Complete Phase 1/ Phase 2 trial in first half of 2010
MASP-2 — Macular degeneration, ischemia-reperfusion injury, transplant surgery	Preclinical	Select clinical candidate in mid-2009
Addiction — Addiction and other compulsive behaviors	Preclinical	File IND in second half of 2009
PDE10 — Schizophrenia	Preclinical	Select clinical candidate in mid-2009
PDE7 — Parkinson's disease, Restless Legs Syndrome	Preclinical	Select clinical candidate
GPCR — Multiple CNS Disorders	Preclinical	Surrogate de-orphanization of orphan GPCR(s)

(1) Following selection of a clinical candidate, we must conduct additional studies, including in vivo toxicity studies of the clinical candidate. We must submit the results of these studies, together with manufacturing information and analytical results related to the clinical candidate, to the FDA as part of an IND, which must become effective before we may commence clinical trials. Submission of an IND does not always result in the FDA allowing clinical trials to commence. Depending on the nature of information that we must obtain and include in an IND, it may take from 12 to 24 months from selection of the clinical candidate to IND submission, if it occurs at all. All of these expected near-term milestones are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors," and may not occur in the timelines set forth above or at all.

Our internal resources, employees and infrastructure are not directly tied to any individual research project and are typically deployed across multiple projects. Through our clinical development programs, we are advancing our product candidates in parallel for multiple therapeutic indications and, through our preclinical development programs, we are seeking to develop potential product candidates for additional disease indications. Due to the number of ongoing projects and our ability to utilize resources across several projects, we do not record or maintain information regarding the costs incurred for our research and development programs on a program-specific basis. In addition, we believe that allocating costs on the basis of time incurred by our employees does not reflect the actual costs of a project.

Research and development expenses since inception to March 31, 2009 were \$66.3 million. Our research and development expenses can be divided into research and preclinical development activities and clinical development and regulatory activities. The following table illustrates our expenses associated with these activities:

	Three Months Ended		Years Ended December 31,		
	March 31,		2008	2007	2006
	2009	2008	2008	2007	2006
	(In thousands)				
Clinical Research and Development					
Salaries, benefits, and related costs	\$ 922	\$ 888	\$ 3,521	\$ 2,944	\$ 1,849
Clinical trials	553	688	3,525	3,630	2,116
Manufacturing services, consulting, laboratory supplies, and other costs	332	516	2,080	1,943	825
Other costs	284	241	1,049	633	152
Stock-based compensation	130	186	590	280	181
Total Clinical Research and Development Expenses	2,221	2,519	10,765	9,430	5,123
Preclinical Research and Development					
Salaries, benefits, and related costs	684	650	2,572	2,315	1,848
Research and preclinical studies, consulting, laboratory supplies, and other costs	658	504	2,774	2,566	1,604
Other costs	369	356	1,346	1,412	934
Stock-based compensation	90	141	393	199	128
Total Preclinical Research and Development Expenses	1,801	1,651	7,085	6,492	4,514
Total Research and Development Expenses	\$4,022	\$4,170	\$17,850	\$15,922	\$ 9,637
Total Acquired In-process Research and Development Expense	\$ —	\$ —	\$ —	\$ —	\$10,891

Clinical research and development costs consist of clinical trials, manufacturing services, and related personnel costs, and other costs such as rent, utilities and depreciation, and stock-based compensation. Preclinical research and development costs consist of our research activities, preclinical studies, and related personnel costs, laboratory supplies and other costs such as rent, utilities and depreciation, and stock-based compensation. Acquired in-process research and development was recorded in 2006 as an operating expense as a result of our acquisition of the PDE10 program, which we obtained in connection with our purchase of nura, and was determined using the income approach to estimate the present value of future cash flows from the program.

At this time, due to the inherently unpredictable nature of preclinical and clinical development processes and given the early stage of our preclinical product development programs, we are unable to estimate with any certainty the costs we will incur in the continued development of our product candidates for potential commercialization. Clinical development timelines, the probability of success and development costs can differ materially from expectations. While we are currently focused on advancing each of our product development programs, our future research and development expenses will depend on the clinical success of each product candidate, as well as ongoing assessments of each product candidate's commercial potential. In addition, we cannot forecast with any degree of certainty which product candidates may be subject to future collaborations, when such arrangements will be secured, if at all, and to what degree such arrangements would affect our development plans and capital requirements.

We expect our research and development expenses to increase in the future as we continue the advancement of our clinical trials and preclinical product development programs. The lengthy process of completing clinical trials and seeking regulatory approval for our product candidates requires expenditure of substantial resources. Any failure or delay in completing clinical trials, or in obtaining regulatory approvals, could cause a delay in

generating product revenue and cause our research and development expense to increase and, in turn, have a material adverse effect on our operations. We do not expect any of our current product candidates to be commercially available before 2011, if at all. Because of the factors above, we are not able to estimate with any certainty when we would recognize any net cash inflows from our projects.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for personnel in executive, legal, finance, accounting, information technology and human resource functions. Other general and administrative expenses include facility costs not otherwise included in research and development expenses, patent costs and professional fees for legal, consulting and audit services.

Investment Income

Investment income consists of interest earned on our cash, cash equivalents, and short-term investments.

Interest Expense

Interest expense consists of interest paid on our notes payable.

Other Income (Expense)

Other income (expense) consists primarily of rental income received under subleases for use of a portion of our vivarium and laboratory facility and changes in the fair value of our preferred stock warrant liability.

Income Taxes

As of December 31, 2008, we had federal net operating loss carryforwards and research and development tax credit carryforwards of approximately \$72.5 million and \$2.3 million, respectively. Our net operating loss and research and development tax credit carryforwards will expire between 2009 and 2027 unless utilized prior to such dates. Our ability to utilize our net operating loss and tax credit carryforwards may be limited in the event a change in ownership, as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, has occurred or may occur in the future. In each period since our inception, we have recorded a 100% valuation allowance for the full amount of our deferred tax asset, as the realization of the deferred tax asset is uncertain. As a result, we have not recorded any federal tax benefit in our statement of operations.

Critical Accounting Policies and Significant Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities at the date of the financial statements, as well as reported revenue and expenses during the reporting periods. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances. An accounting policy is considered critical if it is important to a company's financial condition and results of operations, and if it requires the exercise of significant judgment and the use of estimates on the part of management in its application. Although we believe that our judgments and estimates are appropriate, actual results may differ from our estimates.

We believe the following to be our critical accounting policies because they are both important to the portrayal of our financial condition and results of operations and they require critical management judgment and estimates about matters that are uncertain:

- revenue recognition;
- research and development expenses, primarily clinical trial expenses;
- stock-based compensation;
- preferred stock warrant liability; and
- fair value measurement of financial instruments.

If actual results or events differ materially from those contemplated by us in making these estimates, our reported financial condition and results of operations for future periods could be materially affected.

Revenue Recognition

Our revenue since inception relates to grant funding from third parties. We recognize grant funding as revenue when the related qualified research and development expenses are incurred up to the limit of the approved funding amounts.

Revenue arrangements are accounted for in accordance with the provisions of Securities and Exchange Commission Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, and Emerging Issues Task Force, or EITF, No. 00-21, *Revenue Arrangements with Multiple Deliverables*. A variety of factors are considered in determining the appropriate method of revenue recognition under these arrangements, such as whether the various elements can be considered separate units of accounting, whether there is objective and reliable evidence of fair value for these elements and whether there is a separate earnings process associated with a particular element of an agreement.

Research and Development

Research and development expenses are comprised primarily of employee and consultant-related expenses, which include salaries and benefits; external research and development expenses incurred pursuant to agreements with third-party manufacturing organizations, contract research organizations and clinical trial sites; facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities and depreciation of leasehold improvements and equipment; and third-party supplier expenses including laboratory and other supplies. Clinical trial expenses for investigational sites require certain estimates. We estimate these costs based on a cost per patient which varies depending on the site of the clinical trial. As actual costs become known to us, we adjust our accrual; these changes in estimates may result in understated or overstated expenses at a given point in time. To date, our estimates have not differed significantly from actual costs. Internal research and development expenses are expensed as incurred. Third-party research and development expenses are expensed at the earlier of when the contracted work has been performed or as upfront and milestone payments are made.

Stock-Based Compensation

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, or SFAS 123R, under the prospective method, which requires that the measurement and recognition of compensation expense for all future share based payments made to employees and directors be based on estimated fair values. We are using the straight-line method to allocate compensation cost to reporting periods over each optionee's requisite service period, which is generally the vesting period. We estimate the fair value of our share-based awards to employees and directors using the Black-Scholes option-valuation model. The Black-Scholes model requires the input of subjective assumptions, including the expected stock price volatility, the calculation of

expected term, and the fair value of the underlying common stock on the date of grant, among other inputs.

The following table summarizes our assumptions used in the Black-Scholes model:

	Three Months Ended March 31,		Years Ended December 31,		
	2009	2008	2008	2007	2006
Expected volatility	71%	60%	60%	60%	60%
Expected term (in years)	6.08	6.08	6.08	6.00-6.08	5.00-6.08
Risk-free interest rate	2.13%	2.80% - 3.40%	2.80% - 3.40%	3.78% - 4.78%	4.57% - 5.04%
Expected dividend yield	0%	0%	0%	0%	0%

Expected Volatility. The expected volatility rate used to value stock option grants is based on volatilities of a peer group of similar companies whose share prices are publicly available. The peer group consists of companies in the biopharmaceutical industry in a stage of development similar to us.

Expected Term. We elected to utilize the "simplified" method for "plain vanilla" options as provided for in SAB No. 107 and as amended by Staff Accounting Bulletin No. 110, to value stock option grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

Risk-free Interest Rate. The risk-free interest rate assumption was based on zero coupon U.S. Treasury instruments whose term was consistent with the expected term of our stock option grants.

Expected Dividend Yield. We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates. We estimate forfeitures based on our historical experience; separate groups of employees that have similar historical forfeiture behavior are considered separately for expense recognition. During the fourth quarter of 2008, a revision was made for changes in estimated forfeitures related to stock-based compensation expense, including some immaterial changes that related to prior periods.

Common Stock Fair Value. Due to the absence of an active market for our common stock, the fair value of our common stock for purposes of determining the exercise price for stock option grants was determined by our board of directors, with assistance of our management, in good faith based on a number of objective and subjective factors including;

- the prices of our convertible preferred stock sold to outside investors in arms-length transactions, and the rights, preferences and privileges of our convertible preferred stock relative to those of our common stock including the liquidation preference of our preferred stock;
- our results of operations, financial position, and the status of our research and product development efforts, including continued enrollment in our Phase 3 clinical trials evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following ACL reconstruction surgery, continued enrollment in our clinical trials for OMS302 and OMS201, and advancement of our preclinical development programs;
- our stage of development and business strategy;
- the composition of and changes to our management team;
- the market value of a comparison group of publicly traded pharmaceutical and biotechnology companies that are in a similar stage of development to us;
- the lack of liquidity of our common stock as a private company;

- contemporaneous valuations performed by an unrelated valuation specialist prepared in accordance with methodologies not outlined in the *AICPA Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation*; and
- the likelihood of achieving a liquidity event for the shares of our common stock and underlying stock options, such as an initial public offering, or IPO, given prevailing market conditions.

Based on these factors, our board of directors granted options at exercises prices that increased from \$0.50 per share in 2006 up to \$6.33 per share in 2009.

In connection with the preparation of the financial statements necessary for a planned registration of shares with the SEC, in 2007 we reassessed the estimated fair value of our common stock for financial reporting purposes in light of the potential completion of this offering as of December 31, 2006 and at the end of each quarter in 2007 by performing valuation analyses as of each of these dates. In 2008 and 2009, we continued to perform valuation analyses at the end of each quarter. There are significant judgments and estimates inherent in the determination of fair values under SFAS 123R. We used these fair value estimates derived from the valuations to determine the SFAS 123R stock compensation expense recorded in our financial statements.

These valuations were prepared using a methodology that first estimated the fair value of the company as a whole, or enterprise value, and then allocated a portion of the enterprise value to our common stock. This approach is consistent with the methods outlined in the *AICPA Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. The valuation methodology utilized in the 2006 reassessment of fair value relied primarily on the "market approach" to estimate enterprise value giving consideration to the total financing amount received by us, the implied enterprise value of the company based on the convertible preferred stock transactions and market-based industry initial public offering valuations. The "income approach" was considered as a secondary concurring approach and involved projecting future cash flows and discounting them to present value.

Our enterprise value was allocated to our different classes of equity using the option pricing method. The option pricing method involves making certain other assumptions regarding the anticipated timing of a potential liquidity event, the expected volatility of our equity securities and effects of rights of our convertible preferred stock relative to those of our common stock. The per share price of the Series E convertible preferred stock was higher than the estimated fair value of our common stock as of December 31, 2006, March 31, 2007, and June 30, 2007 since the enterprise valuations used on those dates to estimate the common stock fair value did not rely solely on the Series E preferred financing. Also, the Series E convertible preferred stock pricing reflects rights not attributed to the common stock including: (1) price-based anti-dilution protection, which increases the conversion ratio of our convertible preferred stock if we issue stock at prices lower than the original issue prices of our outstanding convertible preferred stock (subject to certain exceptions); (2) liquidation preferences, which provide that in the event of our acquisition, the holders of our outstanding convertible preferred stock have the right to receive their original investment amounts plus any declared and unpaid dividends prior to the payment of any amounts to the holders of our common stock; (3) dividend rights that require the payment of a dividend on our convertible preferred stock prior to the payment of a dividend on our common stock; (4) the right to elect a majority of our directors; and (5) approval rights with respect to our ability to issue any stock that has rights on parity with or senior to our convertible preferred stock, to pay dividends on our common stock, to redeem any of our outstanding stock (subject to certain exceptions), to sell the company, to increase the number of authorized shares of convertible preferred stock, to amend our articles of incorporation in a manner adverse to the holders of our convertible preferred stock, or to change the authorized number of our directors.

The valuation methodology utilized in the estimates of fair value from 2007 through 2009 also relied primarily on the "market approach" to estimate enterprise value and then allocated the enterprise value to our different classes of equity using the probability-weighted expected return, or PWER, method whereby the value of our common stock was estimated based on an analysis of future values for the equity assuming various future outcomes including liquidity events. Our 2007 through 2009 estimated share values are based on the probability-weighted present value of expected investment returns, considering each of the possible future outcomes available to us. In our situation, the future outcomes included three alternatives: (1) we complete an IPO with a pre-money value equal to the highest value of the companies that we surveyed for the valuation analysis, (2) we complete an IPO with a pre-money value equal to the average value of the companies that we surveyed for the valuation analysis, and (3) we have an event in which no liquidity is available for common shareholders. For the first two alternatives, collectively the "IPO scenario," the estimated future and present values of our common stock were based on a survey of biotechnology and pharmaceutical companies that completed IPO's in 2006 and 2007, and were calculated using assumptions including: the expected pre-money or sale valuations based on the market approach, the expected dates of the future expected IPO or sale, and an appropriate risk-adjusted discount rate. There were no comparable IPOs completed in 2008 or 2009. For the scenario where we have an event in which no liquidity is available for common shareholders, the estimated value of our common stock was calculated using the cumulative liquidation preferences of the outstanding convertible preferred stock. The present value calculated for our common stock under each scenario was probability-weighted based on our estimate of the probability of each scenario. We assigned weights to each scenario, including the two IPO scenarios, based on significant judgments and estimates that included the impact of operational factors, our estimates regarding when we may be able to complete an IPO and market data.

Finally, the estimated fair value of our common stock was reduced by a discount for lack of marketability. The discount for lack of marketability was analyzed in light of the restrictive factors associated with privately held common stock. For our determination of an appropriate discount for lack of marketability, we used a Longstaff Regression Analysis and a put-option model that considers variables such as time to liquidity, volatility, and the risk-free rate. Based on these analyses and consideration of restrictions, we applied discounts for lack of marketability that declined from 20% in the March 2007 valuation, to 10% in the December 2007 through 2009 valuations, as the then-estimated time to an expected liquidity event decreased.

Summary of Stock Option Grants. Based on the valuations we performed for financial statement purposes, we determined that the stock options we granted in 2009, 2008, 2007 and 2006 had exercise prices different than or equal to the estimated fair values of the common stock at the dates of grant. The following table compares the originally determined fair value and reassessed fair value:

Grant Date	Number of Shares Subject to Options Granted	Exercise Price per Share	Estimated Fair Value of Common Stock per Share at Date of Grant	Intrinsic Value per Share at Date of Grant
July 2006	23,000	\$0.50	\$0.89	\$0.39
September 2006	28,000	0.50	0.89	0.39
December 2006	4,274,853	0.50	0.89	0.39
March 2007	308,500	1.00	1.05	0.05
May 2007	350,000	1.00	3.63	2.63
October 2007	275,733	1.25	6.23	4.98
December 2007	522,500	1.25	6.32	5.07
January 2008	45,000	1.25	6.32	5.07
March 2008	1,200	6.32	6.32	—
June 2008	27,000	6.32	6.88	0.56
September 2008	22,000	6.88	6.87	—
March 2009	15,500	6.36	6.33	—

For purposes of determining stock-based compensation expense, stock options granted in 2006 were valued based on the estimated fair value as of December 31, 2006 and stock options granted in March 2007 and May 2007 were valued based on the estimated fair values determined as of March 31, 2007 and June 30, 2007, respectively. There were no stock options granted during the three months ended September 30, 2007. Stock options granted in October 2007 were valued based on the estimated fair value determined as of September 30, 2007 and stock options granted in December 2007 and January 2008 were valued based on the estimated fair value determined as of December 31, 2007. Stock options granted in March 2008, June 2008, September 2008 and March 2009 were valued based on our latest analysis estimating fair value which were determined as of December 31, 2007, March 31, 2008, June 30, 2008 and December 31, 2008, respectively.

The estimated per share fair value of our common stock from December 31, 2006 to March 31, 2007 increased from \$0.89 to \$1.05. The change in estimated fair value primarily reflects operational factors such as continued advancement in our research and development programs, including additional patient enrollment in our Phase 3 clinical trials evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following ACL reconstruction surgery, or our Phase 3 ACL study. Also, as of March 31, 2007, based on an analysis of the percentage of biotechnology and pharmaceutical companies that had received a round of late-stage venture financing and that had completed an IPO, and because we had made no material progress toward an IPO, we determined that there was a 20% probability of an IPO scenario, divided equally among the two IPO scenarios, and an 80% probability of an event in which no liquidity is available to common shareholders. We ascribed equal weight to each of the two IPO scenarios due to the absence of data supporting one scenario over the other. We also applied a 20% discount for lack of marketability.

The estimated per share fair value of our common stock from March 31, 2007 to June 30, 2007 increased from \$1.05 to \$3.63. The change in estimated fair value reflects the following:

- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study and advancement of additional product candidates through preclinical development;

- expanded activities in preparation for an IPO; and
- progress towards an IPO.

Because of advancement in our development programs and our progress toward an IPO, we determined that there was a 60% probability of an IPO scenario, divided equally between the two IPO scenarios, and a 40% probability of an event in which no liquidity is available to common shareholders. We also applied a 15% discount for lack of marketability based on a reduction in the amount of time to an expected liquidity event.

The estimated per share fair value of our common stock from June 30, 2007 to September 30, 2007 increased from \$3.63 to \$6.23. The change in estimated fair value reflects the following:

- positive efficacy data in a preclinical study evaluating OMS302, our PharmacoSurgery product candidate for use during ophthalmological surgery, and its components in a primate model of lens replacement surgery;
- filing of an IND for OMS201, our PharmacoSurgery product candidate being developed for use during urological surgery;
- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study; and
- continued progress toward an IPO.

Because of advancement in our development programs and our progress toward an IPO, we determined that there was an 85% probability of an IPO scenario (50% probability of an IPO scenario at the high end of the surveyed market data and 35% probability of a scenario at the average of the surveyed market data) and a 15% probability of an event in which no liquidity is available to common shareholders. We attributed more weight to the higher scenario to reflect an increase in the probability of achieving an IPO at the high end of the surveyed market data due to the factors cited above. We applied a 10% discount for lack of marketability based on a reduction in the amount of time to an expected liquidity event.

The estimated per share fair value of our common stock from September 30, 2007 to December 31, 2007 increased from \$6.23 to \$6.32. The change in estimated fair value reflects the following:

- initiation of sites for the Phase 2 clinical trial of OMS103HP evaluating the safety and efficacy of the product candidate in patients undergoing meniscectomy surgery;
- initiation of sites for the OMS201 Phase 1 clinical trial; and
- continued progress toward an IPO together with an extension in the estimated completion date of the IPO compared to our estimate at September 30, 2007.

Because of advancement in our development programs and our additional progress toward an IPO, we determined that there was a 90% probability of an IPO scenario, divided equally among the two IPO scenarios, and a 10% probability of an event in which no liquidity is available to common shareholders. We reduced the probability from the higher market valuation scenario because of the completion of IPOs in the fourth quarter of 2007 at valuations closer to the average valuations than to the higher valuations of the surveyed market data. We applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

The estimated per share fair value of our common stock from December 31, 2007 to March 31, 2008 remained at \$6.32. The estimated fair value reflects the following:

- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study and Phase 1 study for OMS201;
- advancement of our preclinical development programs;

- filing of an IND for OMS302, our PharmacoSurgery product candidate being developed for use during cataract surgery; and
- continued progress toward an IPO together with an extension in the estimated completion date of the IPO compared to our estimate at December 31, 2007.

Because of advancement in our development programs and our progress toward an IPO, we determined that there was a 90% probability of an IPO scenario, divided equally between the two IPO scenarios, and a 10% probability of an event in which no liquidity is available to common shareholders. We also applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

The estimated per share fair value of our common stock from March 31, 2008 to June 30, 2008 increased from \$6.32 to \$6.88. The change in estimated fair value reflects the following:

- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study, Phase 1 study for OMS201, and Phase 1/Phase 2 Study for OMS302;
- advancement of our preclinical development programs; and
- continued progress toward an IPO together with an extension in the estimated completion date of the IPO compared to our estimate at March 31, 2008.

Because of advancement in our development programs and our progress toward an IPO, we determined that there was a 95% probability of an IPO scenario, divided equally between the two IPO scenarios, and a 5% probability of an event in which no liquidity is available to common shareholders. We increased the probability of an IPO to reflect progress in our development programs that could not be reflected in the progress toward an IPO, which is measured by the time to an IPO. We also applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

The estimated per share fair value of our common stock from June 30, 2008 to September 30, 2008 decreased from \$6.88 to \$6.87. The change in estimated fair value reflects the following:

- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study and Phase 1/Phase 2 Study for OMS302;
- completion of enrollment in our Phase 1 study for OMS201;
- advancement of our preclinical development programs;
- establishment of debt facility providing up to \$20.0 million in borrowings;
- extension of an estimated date for an IPO; and
- weakness of the equity capital markets.

We continued to use a 95% probability of an IPO scenario, divided equally among the two IPO scenarios, and a 5% probability of an event in which no liquidity is available to common shareholders. We applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

The estimated per share fair value of our common stock from September 30, 2008 to December 31, 2008 decreased from \$6.87 to \$6.36. The change in estimated fair value reflects the following:

- extension of an estimated date for an IPO;
- weakness of the equity capital markets;
- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study and Phase 1/Phase 2 study for OMS302;
- initiation of a Phase 1/Phase 2 study for OMS201;

- advancement of our preclinical development programs; and
- draw down of additional \$12.0 million of debt under our debt facility.

We continued to use a 95% probability of an IPO scenario, divided equally among the two IPO scenarios, and a 5% probability of an event in which no liquidity is available to common shareholders. We applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

The estimated per share fair value of our common stock from December 31, 2008 to March 31, 2009 decreased from \$6.36 to \$6.33. The change in estimated fair value reflects the following:

- extension of an estimated date for an IPO;
- weakness of the equity capital markets;
- continued advancement in our development programs, including additional patient enrollment in our Phase 3 ACL study, and completed enrollment in our Phase 1/Phase 2 study for OMS302;
- initiation of sites for a Phase 1/Phase 2 study for OMS201; and
- advancement of our preclinical development programs.

We continued to use a 95% probability of an IPO scenario, divided equally among the two IPO scenarios, and a 5% probability of an event in which no liquidity is available to common shareholders. We applied a 10% discount for lack of marketability based on the expected time to a liquidity event.

Stock Options and Note Receivable from Related Party. In conjunction with the exercise of certain stock options by Gregory A. Demopoulos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors, we received promissory notes from Dr. Demopoulos totaling \$239,000. The promissory notes accrued interest at rates ranging from 3% to 6.25% and were secured by pledges of the underlying common stock. Based on the terms of the notes, the notes were treated as stock options and were subject to variable accounting whereby changes in the estimated fair value of the underlying option is reported as an increase or decrease, as applicable, in stock-based compensation expense (credit) until such time that the notes were repaid. Stock-based compensation expense (credit) related to these notes and common stock was \$5.0 million and \$361,000 for the years ended December 31, 2007 and 2006, respectively. The notes and accrued interest were repaid in full in December 2007.

Stock-Based Compensation Summary. Stock-based compensation expense includes variable awards, amortization of deferred stock compensation, and awards accounted for under SFAS 123R and have been reported in our consolidated statements of operations as follows:

	Three Months Ended March 31,		Years Ended December 31,		
	2009	2008	2008 (in thousands)	2007	2006
Research and development	\$ 220	\$ 327	\$ 983	\$ 482	\$ 309
General and administrative	228	391	1,332	5,574	1,130
Total	\$ 448	\$ 718	\$ 2,315	\$ 6,056	\$ 1,439

At March 31, 2009 there were 989,552 unvested employee options outstanding that will vest over a weighted-average period of 2.5 years. The total estimated compensation expense of these shares is up to \$3.1 million. This excludes non-employee options.

Preferred Stock Warrant Liability

We adopted the provisions of Financial Accounting Standards Board, or FASB, Staff Position 150-5, *Issuer's Accounting under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable*, or FSP 150-5, on July 1, 2005. In accordance with FSP 150-5, we estimated the fair value of all outstanding convertible preferred stock warrants at July 1, 2005 and reclassified this amount from equity to a liability. The warrant obligation is adjusted to fair value at the end of each reporting period. Such fair values were estimated using the Black-Scholes option-pricing model and an estimated term equal to each warrant's contractual life. We will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise of the warrants or the completion of a liquidation event, including the completion of this offering, at which time the liability will be reclassified to shareholders' equity (deficit).

Fair Value Measurement of Financial Instruments

We adopted the provisions of SFAS No. 157, *Fair Value Measurements*, or SFAS 157, effective January 1, 2008, for our financial assets and liabilities. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability, an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. On January 1, 2009, we adopted the provisions of SFAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis. The partial adoption of SFAS 157 did not have a material impact, nor is the full adoption expected to have a material impact, on our financial position, results of operations or cash flows. In October 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, or FSP 157-3, an interpretation of SFAS 157. We have assessed FSP 157-3 and determined that the guidance is not applicable with respect to our financial assets.

In determining the fair value of our financial assets and liabilities, we used various valuation approaches. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources such as quotes in active markets. Unobservable inputs are those in which little or no market data exists reflecting our assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances. The availability of observable inputs can vary among the various types of financial assets and liabilities. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

Whenever the estimated fair value of any of our available-for-sale securities is less than their related cost, we perform an impairment analysis in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related guidance issued by the FASB and the SEC, in order to determine the classification of the impairment as "temporary" or "other-than-temporary". A temporary impairment results in an unrealized loss being recorded in the other comprehensive income component of shareholders' equity. Such an unrealized loss does not affect net loss for the applicable accounting period. However, an other-than-temporary impairment charge is recorded as a realized loss in the consolidated statement of operations and increases net loss for the applicable accounting period. The primary factors we consider to differentiate our impairments between temporary and other-than-temporary impairments include the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and

our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

As of March 31, 2009, our investment portfolio was made up of cash, cash equivalents, and mortgage-backed, adjustable-rate securities issued by, or fully collateralized by, the U.S. government or U.S. government-sponsored entities. To determine the fair market value of our mortgage-backed securities, our external investment manager formally prices securities at least monthly with external market sources. Mortgage-backed securities are priced using "round lot" pricing from external market sources. The primary external sources have historically been primary and secondary broker/dealers that trade and make markets in an open market exchange of these securities. Key drivers of pricing used by these external sources include rate reset margins, reset index, pool diversification and prepayment levels.

We believe that the values assigned to our available-for-sale securities and mortgage backed securities as of March 31, 2009 and December 31, 2008 and 2007 are fairly stated in accordance with GAAP and are based upon reasonable estimates and assumptions. In addition, we believe that the cost basis for our available-for-sale securities as of March 31, 2009 and December 31, 2008 and 2007 were recoverable in all material respects. In 2009, the U.S. economy continued to be adversely affected by tightening in the credit markets and volatility in capital markets. Interest rates on U.S. treasury instruments declined considerably during this crisis while other interest rates fluctuated in excess of historical norms. Continuing distress in the economic environment could ultimately result in other-than-temporary impairments of the carrying values of our available-for-sale securities and/or a material adverse impact on the carrying values of our financial instruments.

Results of Operations

Effect of nura, inc. Acquisition

Our August 2006 acquisition of nura, inc., or nura, a private biotechnology company, which expanded and diversified our CNS pipeline and strengthened our discovery research capabilities, caused a significant change in our business and results of operations. The acquisition of nura was accounted for as an asset purchase and the results of nura have been included in our results of operations since August 11, 2006. The inclusion of nura for a portion of 2006 impacts the comparability of our 2007 and 2006 financial information with the financial information for previous periods.

We acquired nura through the issuance of 3.4 million shares of Series E convertible preferred stock and 36,246 shares of common stock, and the assumption of a \$2.4 million promissory note, for a total purchase price value of \$14.4 million. The convertible preferred stock issued in conjunction with the acquisition included shares issued to certain nura shareholders in exchange for their \$5.2 million investment in us concurrent with the acquisition. Since nura was a development-stage company, the acquisition was accounted for as an acquisition of assets rather than as a business combination in accordance with EITF 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*.

We recorded the convertible preferred stock issued to the nura stockholders at its fair value. In valuing the nura acquisition, we followed the guidance as provided in paragraphs 5 and 6 of SFAS 141, which state that the value is measured on the fair value of the consideration given or the fair value of the asset acquired, whichever is more clearly evident, and, thus, more reliably measurable. Because the tangible assets of nura were minor in comparison to the intangible assets acquired, we believed that the fair value of the consideration given, our convertible preferred stock, was more clearly evident and measurable.

Of the aggregate purchase price of \$14.4 million, \$3.2 million was allocated to the net tangible assets acquired based on the estimated fair values at the acquisition date, \$310,000 was allocated to intangible assets and \$10.9 million was allocated to in-process research and development as the acquired research projects had not reached technological feasibility and

had no alternative use at the acquisition date. We believe that the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions given available facts and circumstances at the acquisition date.

nura's research and development activities were early stage and none of its product candidates had yet entered clinical studies. Based on a review of the acquired research and development technology, management believed that the economic benefit associated with the acquisition of nura related to only one of the preclinical product candidates, PDE10. PDE10 product candidates were at the time being developed by other life science companies, indicating potential to commercialize the acquired technology.

The acquired in-process research and development was valued at \$10.9 million and recorded as an operating expense in 2006. The value was determined using the income approach whereby estimated future net cash flows of the PDE10 program from 2007 to 2026 were discounted to present value using a risk-adjusted discount rate of 40%.

As a preclinical program, our ability to successfully commercialize a PDE10 product candidate is highly uncertain. It is expected to take a number of years to conduct the necessary preclinical and clinical studies to file for product approval with the FDA and there is no assurance that such studies will be successful. Our development effort for PDE10 is currently supported by funds from The Stanley Medical Research Institute, or SMRI, a non-profit institution that supports research on the causes and treatment of schizophrenia and bipolar disorder. We continue to evaluate our options with respect to our PDE10 program, including partnering with a third-party to offset future development costs.

Selected nura financial information for the period January 1, 2006 to August 11, 2006 is as follows:

	Period from January 1, 2006 to August 11, 2006 (in thousands)
Grant revenue	\$ 200
Research and development expenses	2,394
General and administrative expenses	957
Net loss	3,219

Comparison of Three Months Ended March 31, 2009 and March 31, 2008

Revenue. Revenue was \$197,000 for the three months ended March 31, 2009 compared with \$234,000 for the three months ended March 31, 2008. The decrease was primarily due to lower grant funding for our PDE10 program, offset by an increase in grant funding related to our PDE7 program.

Research and Development Expenses. Research and development expenses were \$4.0 million for the three months ended March 31, 2009 compared with \$4.2 million for the three months ended March 31, 2008. The \$200,000 decrease was due primarily to lower clinical trial expenses as we completed enrollment in our Phase 2 clinical study of OMS103HP for arthroscopic meniscectomy surgery in the first quarter of 2009 and successfully concluded our Phase 1 clinical study for OMS201 during the second half of 2008, as well as lower contract services in connection the completion of validation and stability studies for OMS103HP. We expect research and development expenses to increase in the future due to an increased number of product candidates in preclinical studies and clinical trials, as well as the related expansion of our research and development staff.

General and Administrative Expenses. General and administrative expenses were \$1.4 million for the three months ended March 31, 2009 compared with \$1.6 million for the three months ended March 31, 2008. The \$200,000 decrease is primarily due to lower stock-

based compensation. We expect our general and administrative expenses to increase in the future as we add additional employees and office space to support our anticipated growth as a public company.

Investment Income. Investment income was \$81,000 for the three months ended March 31, 2009 compared with \$279,000 for the three months ended March 31, 2008. The decrease is due primarily to a lower average investment balance and lower market rates.

Interest expense. Interest expense was \$590,000 for the three months ended March 31, 2009 compared with \$22,000 for the three months ended March 31, 2008. We borrowed a total of \$17.0 million with an annual interest rate of 12.5% under a loan and security agreement with BlueCrest Venture Finance Master Fund Limited, assignee of BlueCrest Capital Finance, L.P., or BlueCrest, in September and December of 2008. Interest expense increased in 2009 due to these borrowings. In 2008, interest expense included interest incurred on a note we assumed in connection with our acquisition of nura in 2006. We paid off the remaining principle amount of \$190,000 due under the assumed note in September 2008.

Other income (expense). Other income was \$262,000 for the three months ended March 31, 2009 compared with \$172,000 for the three months ended March 31, 2008. The increase in other income is primarily due to an addition of sublease tenants toward the end of 2008.

Comparison of Years Ended December 31, 2008 and December 31, 2007

Revenue. Revenue was \$1.2 million in 2008 compared with \$1.9 million in 2007. Revenue in 2008 and 2007 represents grant funding from third parties related to our MASP-2, PDE10, and GPCR programs. The decrease was primarily due to approximately \$300,000 less recognized under our grant from SMRI and approximately \$445,000 less recognized on a government grant in 2008 compared to 2007, as the research related to each grant award was coming to a completion.

Research and Development Expenses. Research and development expenses were \$17.9 million in 2008 compared with \$15.9 million in 2007. The increase was due primarily to additional personnel, stock based compensation, additional facility and research costs, and increased preclinical research study costs associated with advancing additional product candidate development, including in our MASP-2 and PDE10 programs.

General and Administrative Expenses. General and administrative expenses were \$7.8 million in 2008 compared with \$10.4 million in 2007. The decrease was due primarily to higher stock-based compensation in 2007. Stock-based compensation for the years ended December 31, 2008 and 2007 were \$1.3 million and \$5.6 million, respectively. The higher stock-based compensation in 2007 relates primarily to related-party notes receivable that were treated as variable option awards through their repayment in December 2007. An increase in the fair value of our common stock during 2007 resulted in an increase to this expense. Excluding stock-based compensation expense, the increase in general and administrative expenses in 2008 primarily reflects the non-cash write off of a portion of our deferred offering costs related to this offering from 2007 and 2008 due to delay in the filing of amendment no. 3 to our registration statement on Form S-1, additional personnel, and higher patent legal costs as we continue to broaden our intellectual property portfolio, partially offset by a decrease in audit fees and overall professional services costs in 2008 compared to 2007.

Investment Income. Investment income was \$661,000 in 2008 compared with \$1.6 million in 2007. The decrease is due to interest earned on lower average cash balances in 2008 compared to 2007.

Interest expense. Interest expense was \$335,000 in 2008 compared with \$151,000 in 2007. Interest expense increased in 2008 due to our borrowings from BlueCrest. Interest expense also includes interest incurred through September 2008 on a note we assumed in connection with our acquisition of nura in 2006.

Other income (expense). Other income was \$372,000 in 2008 compared to other (expense) of (\$125,000) in 2007. The increase in other income is primarily due to an increase of \$209,000 from new sublease tenants and \$284,000 less expense from the revaluation of the fair value of warrants in accordance with FAS 150-5 in 2008 compared to 2007.

Comparison of Years Ended December 31, 2007 and December 31, 2006

Revenue. Revenue was \$1.9 million in 2007 compared with \$200,000 in 2006. Revenue in 2007 and 2006 represents grant funding from third parties related to our MASP-2, PDE10, PDE7 and GPCR programs. The increase was due to research activities related to new grants and advancement of research in these programs during 2007 compared to 2006.

Research and Development Expenses. Research and development expenses were \$15.9 million in 2007 compared with \$9.6 million in 2006. The increase was due primarily to additional personnel, which included 13 staff from our acquisition of nura in August 2006, additional facility and research costs subsequent to the nura acquisition, increased clinical trial and manufacturing service costs associated with our Phase 3 clinical trial program for our lead product candidate, OMS103HP, and increased preclinical research study costs associated with advancing additional product candidates, OMS302 and OMS201, toward IND submissions.

Acquired In-Process Research and Development. Acquired in-process research and development of \$10.9 million for the year ended December 31, 2006 resulted from our acquisition of nura in August 2006.

General and Administrative Expenses. General and administrative expenses were \$10.4 million, including \$5.6 million in stock-based compensation expense, in 2007 compared with \$3.6 million, including \$1.1 million in stock-based compensation expense, in 2006. The \$5.6 million in stock-based compensation in 2007 relates primarily to related-party notes receivable that were treated as variable option awards through their repayment in December 2007. An increase in the fair value of our common stock during the period resulted in this expense. Excluding stock-based compensation expense, the increase in general and administrative expenses primarily reflects personnel, consulting, and professional services costs in preparation of an IPO, and higher patent legal costs as we continued to broaden our intellectual property portfolio.

Investment Income. Investment income was \$1.6 million in 2007 compared with \$1.1 million in 2006. The increase is due to interest earned on higher cash balances resulting from net proceeds of \$3.2 million and \$34.2 million received from sales of Series E convertible preferred stock in 2007 and 2006, respectively.

Interest expense. Interest expense was \$151,000 in 2007 compared with \$91,000 in 2006. We assumed a note payable of \$2.4 million in connection with our acquisition of nura in August 2006. This note bore interest at the lender's prime rate, which was 9.69% at December 31, 2007.

Other income (expense). Other (expense) was (\$125,000) in 2007 compared with other income of \$179,000 in 2006. The increase in expense is due to the revaluation of the fair value of warrants in accordance with FAS 150-5 in the amount of \$503,000 offset by sublease income from laboratory space in 2007 compared with 2006.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through private placements of equity securities and recently through a debt facility. Through March 31, 2009, we received net proceeds of \$77.6 million from the sale of shares of our convertible preferred stock as follows:

- in 1994, we issued and sold a total of 875,000 shares of Series A convertible preferred stock for aggregate net proceeds of \$868,000;

- in 1998, we issued and sold a total of 2,663,244 shares of Series B convertible preferred stock for aggregate net proceeds of \$4.4 million;
- in 2000, we issued and sold a total of 2,825,291 shares of Series C convertible preferred stock for aggregate net proceeds of \$7.2 million;
- in 2002, we issued and sold a total of 972,580 shares of Series D convertible preferred stock for aggregate net proceeds of \$3.7 million; and
- from 2004 through 2009, we issued and sold a total of 12,895,208 shares of Series E convertible preferred stock for aggregate net proceeds of \$61.2 million.

In September 2008, we entered into a loan and security agreement with BlueCrest to borrow up to \$20.0 million. We have borrowed a total of \$17.0 million under the agreement in three separate tranches.

As of March 31, 2009, we had \$16.8 million in cash, cash equivalents and short-term investments, consisting of \$9.9 million in cash and cash equivalents and \$6.9 million in short-term investments. Our cash, cash equivalents and short-term investment balances are held in a variety of interest-bearing instruments, including mortgage-backed securities issued by or fully collateralized by U.S. government or U.S. government-sponsored entities, high credit rating corporate borrowers and money market accounts. Cash in excess of immediate requirements is invested in accordance with established guidelines to preserve principal and maintain liquidity. The audit report covering our 2008 consolidated financial statements contains an explanatory paragraph stating that our recurring losses and negative cash flows from operations, due to our negative working capital prior to the successful completion of this offering, raise substantial doubt about our ability to continue as a going concern. We believe that the successful completion of this offering will eliminate this doubt and enable us to continue as a going concern; however, if we are unable to raise sufficient capital in this offering, we will need to obtain alternative financing or significantly modify our operational plans for us to continue as a going concern.

Net cash used in operating activities of \$4.7 million for the three months ended March 31, 2009 was primarily due to the net loss for the period of \$5.5 million, offset in part by \$1.1 million of deferred revenue from SMRI grant funding. Net cash used in operating activities of \$19.7 million in 2008 was primarily due to the net loss of \$23.8 million, offset in part by \$2.7 million of non-cash stock-based compensation expense and depreciation and amortization and \$1.5 million from the write-off of deferred offering costs. Net cash used in operating activities of \$14.3 million in 2007 was primarily due to the net loss for the period of \$23.1 million, offset in part by \$6.1 million of non-cash stock-based compensation expense and a \$3.2 million increase in accounts payable and accrued expenses, which was a result of activities from our clinical studies, manufacturing of clinical supplies and costs related to the proposed IPO. Net cash used in operating activities of \$10.2 million in 2006 was primarily a result of the net loss during the period excluding non-cash expenses.

Net cash provided by investing activities was \$415,000 for the three months ended March 31, 2009 primarily due to maturities of investments during the period. Net cash provided by investing activities was \$10.6 million in 2008 primarily due to the sale and maturities of investments in the amount of \$10.7 million. Net cash used in investing activities was \$6.1 million in 2007 and \$579,000 in 2006. Investing activities consist primarily of purchases and sales of marketable securities, and property and equipment purchases. Purchases of property and equipment were \$164,000, \$534,000 and \$166,000 in the years ended December 31, 2008, 2007 and 2006, respectively.

Net cash provided by financing activities was \$1.5 million for the three months ended March 31, 2009 primarily due to the sale of 240,000 shares of our convertible preferred stock to SMRI with an estimated fair value of \$1.9 million, offset by \$376,000 in principal payments, which include \$349,000 due on our notes payable to BlueCrest and \$27,000 due on our

software financing arrangement. Net cash provided by financing activities was \$15.9 million in 2008 due to borrowing \$17.0 million under the loan with BlueCrest, offset by \$1.0 million of principal payments to pay off the note we assumed in connection with our acquisition of nura. Net cash provided by financing activities was \$2.9 million and \$33.9 million in the years ended December 31, 2007 and 2006, respectively. Net proceeds from these financing activities were primarily related to the sale of our convertible preferred stock.

In September 2008, we entered into a loan and security agreement with BlueCrest to borrow up to \$20.0 million in four tranches. We have borrowed a total of \$17.0 million under the agreement in three separate tranches. Our ability to borrow the fourth tranche of up to \$3.0 million was conditioned on our meeting financing milestones by March 31, 2009 that we did not meet. Interest on borrowings under the loan agreement accrues at an annual rate of 12.5%. Payments under each borrowing tranche are interest only for the first three months and interest and principal thereafter for 36 months. Under the loan agreement, we must satisfy specified conditions prior to any borrowings and comply with affirmative and negative covenants. In addition, if any event, condition or change occurs that has a material adverse effect (as defined in the agreement), BlueCrest may require immediate repayment of all borrowings then currently outstanding. We have no indication that we are in default of the material adverse effect clause, and no scheduled loan payments have been accelerated as a result of this provision. We may use the proceeds of the loan for working capital, capital expenditures and general corporate purposes. Our obligations under the loan agreement are collateralized by substantially all of our assets, other than intellectual property. We may prepay the outstanding principal amount of all loans then outstanding in whole, but not in part, by providing 30 days written notice. However, a prepayment premium of 2.0% applies if the prepayment is made within 18 months after the borrowing date of the applicable tranche. If a prepayment is made more than 18 months after the date of the applicable tranche, then the prepayment premium is reduced to 1.0%. In connection with the loan and security agreement, we incurred debt issuance costs of \$122,000.

As a condition to BlueCrest making the initial \$5.0 million loan, we agreed to pay a success fee to BlueCrest in an amount up to \$400,000 should certain exit events occur prior to September 12, 2018. The success fee amount will be pro rated based on the ratio of the actual amounts borrowed under the loan agreement to the total \$20.0 million that could be borrowed. An exit event is defined in the agreement as including a change in control, a sale of all or substantially all of our assets or an initial public offering of our common stock. If we complete this offering, we will be obligated to pay BlueCrest a success fee of \$340,000.

In connection with the execution of the loan and security agreement, we issued two warrants to BlueCrest to purchase common stock at an exercise price of \$6.88 per share. The warrants vest in tranches, commensurate with our borrowings under the loan agreement. As of March 31, 2009, a total of 49,416 shares of common stock had vested under the first warrant in connection with our drawdowns of the first three tranches available under the loan agreement. The first warrant is fully vested and, because we did not borrow the fourth tranche by March 31, 2009, no shares vested under the second warrant.

In connection with our acquisition of nura in August 2006, we assumed a note payable of \$2.4 million. At December 31, 2007, the note payable balance was \$1.0 million with an interest rate of 9.69%. We paid \$96,000 per month for principal and interest on the note until September 2008 when the remaining principal of \$190,000 due under the note was repaid.

We have a funding agreement with The Stanley Medical Research Institute, or SMRI, to develop a proprietary product candidate that inhibits PDE10 for the treatment of schizophrenia. Under the agreement, we may receive grant and equity funding upon achievement of product development milestones through Phase I clinical trials totaling \$9.0 million, subject to our mutual agreement with SMRI. As of March 31, 2009, we have received \$5.7 million from SMRI.

\$3.2 million of which is characterized as grant funding and \$2.5 million of which is characterized as equity funding under the funding agreement.

In November 2008, we entered into an agreement with The Michael J. Fox Foundation to provide funding for a study of PDE7 inhibitors for the treatment of Parkinson's disease. The agreement is for a one-year period and provides funding of actual costs incurred up to a total of \$464,000. We received an advance payment of \$232,000 in December 2008 and a final installment is due in June 2009, conditioned on our compliance with the terms of the agreement.

Funding Requirements

We believe that our existing cash, cash equivalents and short-term investments, along with the net proceeds of this offering, will be sufficient to fund our anticipated operating expenses and capital expenditures for at least the next 24 months. We have based this estimate on assumptions that may prove to be wrong and we could use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, and to the extent that we may or may not enter into collaborations with third parties to participate in development and commercialization, we are unable to estimate the amounts of increased capital requirements and operating expenditures associated with our currently anticipated clinical trials.

Our future capital requirements will depend on many factors, including:

- the progress and results of our clinical trials for OMS103HP, OMS302 and OMS201;
- costs related to manufacturing services;
- whether the hiring of a number of new employees to support our continued growth during this period will occur at salary levels consistent with our estimates;
- the scope, rate of progress, results and costs of our preclinical testing, clinical trials and other research and development activities for additional product candidates;
- the terms and timing of payments of any collaborative or licensing agreements that we have or may establish, including pursuant to our agreements with Affitech AS and North Coast Biologics;
- market acceptance of our approved product candidates;
- the cost, timing and outcomes of the regulatory processes for our product candidates;
- the costs of commercialization activities, including product manufacturing, marketing, sales and distribution;
- the number and characteristics of product candidates that we pursue;
- the cost of establishing clinical and commercial supplies of our product candidates;
- the cost of preparing, filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- the extent to which we acquire or invest in businesses, products or technologies, although we currently have no commitments or agreements relating to any of these types of transactions other than our right to acquire assets for our GPCR program from Patobios Limited for \$10.7 million CAD in cash and stock;
- whether we receive grant funding for our programs; and
- our degree of success in commercializing OMS103HP and other product candidates.

We do not anticipate generating revenue from the sale of our product candidates until 2011 at the earliest. In the absence of additional funding, we expect our continuing operating losses to result in increases in our cash used in operations over the next several years. To the extent

our capital resources are insufficient to meet our future capital requirements, we will need to finance our future cash needs through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. We currently do not have any commitments for future external funding. Additional equity or debt financing or corporate collaboration and licensing arrangements may not be available on acceptable terms, if at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate our research and development programs, reduce our planned commercialization efforts or obtain funds through arrangements with collaborators or others that may require us to relinquish rights to certain product candidates that we might otherwise seek to develop or commercialize independently, or enter into corporate collaborations at a later stage of development. In addition, any future equity funding will dilute the ownership of our equity investors.

Contractual Obligations and Commitments

The following table presents a summary of our contractual obligations and commitments as of December 31, 2008.

	Payments Due Within				Total
	1 Year	2-3 Years	4-5 Years (in thousands)	More Than 5 Years	
Operating leases (1)	\$1,560	\$ 2,697	\$ 38	\$—	\$ 4,295
License maintenance fees	5	10	10	40	65
Notes payable (principal and interest)	3,704	11,759	1,730	—	17,193
Total	<u>\$5,269</u>	<u>\$14,466</u>	<u>\$1,778</u>	<u>\$40</u>	<u>\$21,553</u>

(1) We are contracted to receive sublease income of \$603,000 and \$240,000 in 2009 and 2010, respectively, which is excluded from operating lease payment amounts.

Related-Party Transactions

We conduct research using the services of one of our founders, Pamela Pierce Palmer, M.D., Ph.D. Costs incurred for the three months ended March 31, 2009 and the years ended December 31, 2008, 2007, and 2006 totaled \$0, \$5,000, \$5,000 and \$41,000, respectively, and \$445,000 for the period from inception (June 16, 1994) through March 31, 2009. In 2007, we granted Dr. Palmer an option to purchase 40,000 shares of common stock and recognized \$14,000, \$66,000 and \$42,000 of non-cash stock compensation associated with this option for the three months ended March 31, 2009 and the years ended December 31, 2008 and 2007, respectively, and \$122,000 for the period of inception (June 16, 1994) through March 31, 2009.

In conjunction with the exercise of certain stock options by Gregory A. Demopulos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors, we received promissory notes from Dr. Demopulos totaling \$239,000. The promissory notes accrued interest at rates ranging from 3% to 6.25% and were secured by pledges of the underlying common stock. Based on the terms of the notes, the notes were treated as options subject to variable accounting whereby changes in the estimated fair value of the underlying deemed options were reported as increases or decreases, as applicable, in stock-based compensation expense until such time that the notes were repaid. The notes and accrued interest were repaid in full in December 2007. For the years ended December 31, 2007 and 2006, \$5.0 million and \$362,000, respectively, and \$5.6 million for the period of inception (June 16, 1994) through March 31, 2009, has been recognized as stock compensation expense.

In December 2007 we approved a payment to Dr. Demopulos of \$159,000 as a tax gross-up amount related to payments that we made to him during 2007 that he used to repay his indebtedness to us in the amount of \$278,000, including principal and interest. The \$159,000 was recorded as an accrued liability as of December 31, 2007 and was subsequently paid to Dr. Demopulos in January 2008.

For a description of additional related-party transactions, see "Certain Relationships and Related-Party Transactions."

Recent Accounting Pronouncements

In November 2007, the EITF reached a final consensus on EITF Issue No. 07-1, *Accounting for Collaborative Arrangements*, or EITF 07-1. EITF 07-1 requires disclosure of the nature and purpose of our significant collaborative arrangements in the annual financial statements, including our obligations under the arrangement, the amount and income statement classification of significant financial expenditures and commitments, and a description of accounting policies for the arrangement. EITF 07-1 is effective beginning January 1, 2009 and will require us to apply it as a change in accounting principle through retrospective application to all prior periods for all applicable collaborative arrangement existing as of the effective date. There was no impact on our results of operations or financial position upon adoption.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is primarily confined to our investment securities and note payable. The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. To achieve our objectives, we maintain a portfolio of investments in a variety of securities of high credit quality. As of March 31, 2009, we had cash, cash equivalents and short-term investments of \$16.8 million. The securities in our investment portfolio are not leveraged and are classified as available for sale. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that an increase in market rates would have a material negative impact on the realized value of our investment portfolio. We actively monitor changes in interest rates. While our investment portfolio includes mortgage-backed securities, we do not hold sub-prime mortgages. Our investments in mortgage-backed securities are issued by, or fully collateralized by, the U.S. government or U.S. government-sponsored entities.

BUSINESS

Overview

We are a clinical-stage biopharmaceutical company committed to discovering, developing and commercializing products focused on inflammation and disorders of the central nervous system. Our most clinically advanced product candidates are derived from our proprietary PharmacoSurgery™ platform designed to improve clinical outcomes of patients undergoing arthroscopic, ophthalmological, urological and other surgical and medical procedures. Our PharmacoSurgery platform is based on low-dose combinations of therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to preemptively inhibit inflammation and other problems caused by surgical trauma and to provide clinical benefits both during and after surgery. We currently have four ongoing PharmacoSurgery clinical development programs, the most advanced of which is in Phase 3 clinical trials. In addition to our PharmacoSurgery platform, we have leveraged our expertise in inflammation and the central nervous system, or CNS, to build a deep and diverse pipeline of preclinical programs targeting large markets. For each of our product candidates and programs, we have retained all manufacturing, marketing and distribution rights.

OMS103HP, our lead PharmacoSurgery product candidate, is in two clinical programs. The first is a Phase 3 clinical program evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following arthroscopic anterior cruciate ligament, or ACL, reconstruction surgery. The second program is evaluating OMS103HP's safety and ability to reduce pain and improve postoperative joint function following arthroscopic meniscectomy surgery. We expect to complete the Phase 3 clinical program for ACL reconstruction surgery and, assuming positive results, intend to submit a New Drug Application, or NDA, to the U.S. Food and Drug Administration, or FDA, under the Section 505(b)(2) NDA process during the second half of 2010. We believe that OMS103HP will, if approved, be the first commercially available drug product for the improvement of function following arthroscopic surgery. In the second half of 2009, we expect to review the data from our first Phase 2 clinical trial in patients undergoing meniscectomy surgery. Our other current PharmacoSurgery product candidates are OMS302, being developed for use during ophthalmological procedures, including cataract and other lens replacement surgery, and OMS201, being developed for use during urological surgery, including uroendoscopic procedures. We recently completed a Phase 1/Phase 2 clinical trial that evaluated the efficacy and safety of OMS302 added to standard irrigation solution and delivered to patients undergoing cataract surgery, and we are currently conducting a Phase 2 concentration-ranging clinical trial of the mydriatic agent contained in OMS302 in patients undergoing cataract surgery and a Phase 1/Phase 2 clinical trial of OMS201 in patients undergoing ureteroscopic removal of ureteral or renal stones.

According to market data from SOR Consulting and Thomson Healthcare, approximately a total of: 4.0 million arthroscopic operations, including 2.6 million knee arthroscopy operations; 2.9 million cataract operations; and 4.3 million uroendoscopic operations were performed in the United States in 2006. We expect the number of these operations to grow as the population and demand for minimally invasive procedures increase and endoscopic technologies improve. Based on reports that we commissioned from The Reimbursement Group, or TRG, a reimbursement consulting firm, we anticipate that each of our current PharmacoSurgery product candidates will be favorably reimbursed both to the surgical facility and to the surgeon. As a result, we estimate that there are large markets for each of our PharmacoSurgery product candidates and believe that OMS103HP alone provides a multi-billion dollar market opportunity. We own and exclusively control a U.S. and international portfolio of issued patents and pending patent applications that we believe protects our PharmacoSurgery platform. Our patent portfolio covers all arthroscopic, ophthalmological, urological, cardiovascular and other types of surgical and medical procedures, and includes both method and composition claims broadly directed to combinations of agents drawn from distinct classes of therapeutic agents

delivered to the procedural site intra-operatively, regardless of whether the agents are generic or proprietary. From this intellectual property estate, we are able to develop a series of proprietary follow-on PharmacoSurgery product candidates.

Limitations of Current Treatments

Current standards of care for the management and treatment of surgical trauma are limited in effectiveness. Surgical trauma causes a complex cascade of molecular signaling and biochemical changes, resulting in inflammation, pain, spasm, loss of function and other problems. As a consequence, multiple pharmacologic actions are required to manage the complexity and inherent redundancy of the cascade. Accordingly, we believe that single-agent treatments acting on single targets do not result in optimal therapeutic benefit. Further, current pre-operative treatments are not optimally effective because the administration of standard irrigation solution during the surgical procedure washes out pre-operatively delivered drugs. In addition, current postoperative therapies are not optimally effective because the cascade and resultant inflammation, pain, spasm, loss of function and other problems have already begun and are difficult to reverse and manage after surgical trauma has occurred. Also, drugs that currently are systemically delivered, such as by oral or intravenous administration, to target these problems are frequently associated with adverse side effects.

Advantages of our PharmacoSurgery Platform

In contrast, we generate from our PharmacoSurgery platform proprietary product candidates that are combinations of therapeutic agents designed to act simultaneously at multiple discrete targets to preemptively block the molecular-signaling and biochemical cascade caused by surgical trauma and to provide clinical benefits both during and after surgery. Supplied in pre-dosed, pre-formulated, single-use containers, our PharmacoSurgery product candidates are added to standard surgical irrigation solutions and delivered intra-operatively to the site of tissue trauma throughout the surgical procedure. This results in the delivery of low concentrations of agents with minimal systemic uptake and reduced risk of adverse side effects, and does not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of our product candidates could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration. Our current PharmacoSurgery product candidates are specifically comprised of active pharmaceutical ingredients, or APIs, contained in generic drugs already approved by the FDA, with established profiles of safety and pharmacologic activities, and are eligible for submission under the potentially less-costly and time-consuming Section 505(b)(2) NDA process.

Our Preclinical Development Programs

In addition to our PharmacoSurgery platform, we have a deep and diverse pipeline of preclinical product development programs targeting large market opportunities in inflammation and the CNS covered by a broad intellectual property portfolio. In our mannan-binding lectin-associated serine protease-2, or MASP-2, program, we are developing proprietary MASP-2 antibody therapies to treat disorders caused by complement-activated inflammation. Our preclinical data suggest that MASP-2 plays a significant role in macular degeneration, ischemia-reperfusion injury associated with myocardial infarction, transplant surgery and renal disease, and we have generated several fully human, high-affinity, blocking antibodies to MASP-2.

Our CNS pipeline includes our Addiction program, our Phosphodiesterase 10, or PDE10, program, our PDE7 program and our G protein-coupled receptors, or GPCR, program. In our Addiction program, we are developing proprietary compositions that include peroxisome proliferator-activated receptor gamma, or PPAR γ , agonists for the treatment and prevention of addiction to substances of abuse, which may include opioids, nicotine, alcohol and amphetamines, as well as other compulsive behaviors. Based on the previously unknown link between PPAR γ and addictive disorders together with promising data from European pilot

clinical studies and animal models of addiction, we have filed patent applications claiming the use of any PPAR γ agonist, alone or in combination with other agents, for the treatment or prevention of addiction and other compulsive behaviors.

In our PDE10 program, we are developing proprietary compounds to treat schizophrenia. Results from preclinical animal studies suggest that PDE10 inhibitors may address the limitations of currently used anti-psychotic drugs by avoiding the associated weight gain, improving cognition and, potentially, reducing the risk of associated sudden cardiac death. From our proprietary preclinical product candidates we plan to select one or more clinical candidates in mid-2009 to advance into toxicology studies in preparation for clinical trials.

Our PDE7 program is based on our demonstration of a previously unknown link between PDE7 and any movement disorder, such as Parkinson's disease, or PD, and Restless Legs Syndrome. Based on our promising preclinical animal data in a model of PD showing efficacy of PDE7 inhibitors equivalent to that of levodopamine, we are developing proprietary compounds for the treatment of movement disorders. Levodopamine has been the standard treatment for PD for nearly 40 years but is associated with severe side effects including dyskinesias, hallucinations, sleep disorders and cognitive impairment, and we believe that our PDE7 inhibitors may avoid one or more of these side effects. We have filed patent applications claiming the use of any PDE7 inhibitor for treating any movement disorder.

We have scientific expertise in the field of G protein-coupled receptors, or GPCRs, and members of our scientific team were the first to identify and characterize all non-sensory GPCRs common to mice and humans. Non-sensory GPCRs are involved in metabolism, behavior, reproduction, development, hormonal homeostasis and regulation of the central nervous system and comprise one of the largest families of proteins in the genomes of multicellular organisms. A non-orphan GPCR is one for which there is a known naturally occurring or synthetic molecule, or ligand, that binds the receptor, while an orphan GPCR has no known ligand. Without a known ligand, drugs cannot easily be developed against orphan GPCRs. We hold an exclusive option to acquire all patent and other intellectual property rights to a cellular redistribution assay that we believe can be used in a high-throughput manner to identify synthetic molecules that bind to orphan GPCRs, and we have developed a proprietary platform technology that allows us to create GPCR-specific strains of knock-out mice as well as established a battery of behavioral tests that allows us to characterize these knock-out mice and identify candidate drug targets. Using our expertise and these assets, we believe that we are the first to possess the capability to conduct high-throughput de-orphanization of orphan GPCRs, and that there is no other existing high-throughput technology able to "unlock" orphan GPCRs. Based on available data, we believe that there may be greater than 65 new druggable targets among the orphan GPCRs. "Unlocking" these orphan GPCRs could lead to the development of drugs that act at these new targets.

We obtained our Addiction program in February 2009 under a patent assignment agreement with Roberto Ciccocioppo, Ph.D. of the Università di Camerino, Italy. We acquired our PDE10, PDE7 and GPCR programs and related patents and other intellectual property rights in 2006 in connection with our \$14.4 million acquisition of nura, inc., or nura, a private biotechnology company, and we hold an exclusive option to purchase the CRA for our GPCR program from Patobios Limited.

Our Product Candidates and Preclinical Development Programs

Our clinical product candidates and pipeline of preclinical development programs consist of the following:

Product Candidate/Program	Targeted Procedure/Disease	Development Status	Expected Near-Term Milestone (1)	Worldwide Rights
Inflammation				
OMS103HP — Arthroscopy	Arthroscopic ACL reconstruction	Phase 3	Complete Phase 3 trials and file NDA in second half of 2010	Omeros
OMS103HP — Arthroscopy	Arthroscopic meniscectomy	Phase 2	Review data from Phase 2 trial in second half of 2009	Omeros
OMS302 — Ophthalmology	Cataract surgery	Phase 2	Complete Phase 2 trial in second quarter of 2009	Omeros
OMS201 — Urology	Ureterscopy	Phase 1/ Phase 2	Complete Phase 1/ Phase 2 trial in first half of 2010	Omeros
MASP-2	Macular degeneration, ischemia-reperfusion injury, transplant surgery	Preclinical	Select clinical candidate in mid-2009	In-licensed(2)
Central Nervous System				
Addiction	Addiction and other compulsive behaviors	Preclinical	File IND in second half of 2009	Omeros
PDE10	Schizophrenia	Preclinical	Select clinical candidate in mid-2009	Omeros
PDE7	Parkinson's disease, Restless Legs Syndrome	Preclinical	Select clinical candidate	Omeros
GPCR	Multiple CNS Disorders	Preclinical	Surrogate de-orphanization of orphan GPCR(s)	Omeros

(1) Following selection of a clinical candidate, we must conduct additional studies, including in vivo toxicity studies of the clinical candidate. We must submit the results of these studies, together with manufacturing information and analytical results related to the clinical candidate, to the FDA as part of an IND, which must become effective before we may commence clinical trials. Submission of an IND does not always result in the FDA allowing clinical trials to commence. Depending on the nature of information that we must obtain and include in an IND, it may take from 12 to 24 months from selection of the clinical candidate to IND submission, if it occurs at all. All of these expected near-term milestones are subject to a number of risks, uncertainties and assumptions, including those described in "Risk Factors," and may not occur in the timelines set forth above or at all.

(2) We hold worldwide exclusive licenses to rights in connection with MASP-2, the antibodies targeting MASP-2 and the therapeutic applications for those antibodies from the University of Leicester and from its collaborator, Medical Research Council at Oxford University.

Strategy

Our objective is to become a leading biopharmaceutical company, discovering, developing and successfully commercializing a large portfolio of diverse products. The key elements of our strategy are to:

- Obtain regulatory approval for our *PharmacoSurgery* product candidates OMS103HP, OMS302 and OMS201. We are conducting Phase 3 and Phase 2 clinical trials for OMS103HP and we plan to submit an NDA for OMS103HP in the second half of 2010. In addition, we are conducting a Phase 2 clinical trial for OMS302 and a Phase 1/Phase 2 clinical trial for OMS201. Each of these *PharmacoSurgery* product candidates are specifically comprised of APIs contained in generic, FDA-approved drugs with established safety and pharmacological profiles, and are delivered to the surgical site in low concentrations with minimal systemic uptake and reduced risk of adverse side effects. All of these product candidates are eligible for submission under the potentially less-costly and time-consuming Section 505(b)(2) NDA process.

- *Maximize commercial opportunity for our PharmacoSurgery product candidates OMS103HP, OMS302 and OMS201.* Our PharmacoSurgery product candidates target large surgical markets with significant unmet medical needs. For each of our product candidates, we have retained all manufacturing, marketing and distribution rights and have not entered into any partnerships granting any of these rights to any third party. Our product candidates do not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of our product candidates could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration. Because accessing the surgeons who perform the procedures targeted by our PharmacoSurgery product candidates requires a limited, hospital-based marketing and sales force, we believe that we are well positioned to successfully commercialize these product candidates independently or through third-party partnerships.
- *Continue to leverage our business model to mitigate risk by combining our multiple late-stage PharmacoSurgery product candidates with our deep and diverse pipeline of preclinical development programs.* Our lead PharmacoSurgery product is in clinical trials for two distinct therapeutic indications, providing two potential paths for commercialization. We are also advancing two additional PharmacoSurgery product candidates through clinical trials, and from our intellectual property estate we are able to develop a series of proprietary follow-on product candidates. Further, all of these current product candidates consist of generic APIs and are eligible for submission under the potentially less-costly and time-consuming Section 505(b)(2) NDA process. We believe that these attributes collectively mitigate the typical risks of late-stage clinical programs. Leveraging our clinical development experience and our expertise in inflammation and the CNS, we have built multiple development programs, including our PharmacoSurgery and MASP-2 programs targeting large markets focused on inflammation, and our Addiction, PDE10, PDE7 and GPCR programs targeting large markets in disorders of the CNS. By combining our late-stage PharmacoSurgery product candidates with this deep and diverse pipeline of preclinical development programs, we believe that our business model mitigates risk by creating multiple opportunities for commercial success.
- *Further expand our broad patent portfolio.* We have made a significant investment in the development of our patent portfolio to protect our technologies and programs, and will continue to do so. We own a total of 21 issued or allowed patents and 51 pending patent applications in the United States, 83 issued or allowed patents and 93 pending patent applications in commercially significant foreign markets, and we also hold worldwide exclusive licenses to two pending United States patent applications, an issued foreign patent and two pending foreign patent applications. Our patent portfolio for our PharmacoSurgery platform is directed to locally delivered compositions and treatment methods using agents selected from broad therapeutic classes such as pain and inflammation inhibitory agents, spasm inhibitory agents, restenosis inhibitory agents, tumor cell adhesion inhibitory agents, mydriatic agents and agents that reduce intraocular pressure. We intend to continue to maintain an aggressive intellectual property strategy in the United States and other commercially significant markets and plan to seek additional patent protection for our existing programs as they advance, for our new inventions and for new products that we develop or acquire.
- *Manage our business with continued efficiency and discipline.* We have efficiently utilized our capital and human resources to develop and acquire our product candidates and programs, build a modern research facility and vivarium and create a broad intellectual property portfolio. We operate cross-functionally and are led by an experienced management team with backgrounds in developing and commercializing product candidates. We use rigorous project management techniques to assist us in making disciplined strategic program decisions and to limit the risk profile of our product pipeline.

In addition, we plan to continue to seek and access external sources of grant funding to support the development of our pipeline programs. We will continue to evaluate opportunities and, as appropriate, acquire technologies that meet our business objectives. We successfully implemented this strategy with our acquisition of nura in 2006, which expanded and diversified our CNS pipeline and strengthened our discovery research capabilities. In addition, we will also consider strategic partnerships to maximize commercial opportunities for our product candidates.

Inflammation Programs

PharmacoSurgery Platform

OMS103HP — Arthroscopy

Background. OMS103HP, our lead PharmacoSurgery product candidate, is in two clinical programs. The first is a Phase 3 program evaluating OMS103HP's safety and ability to improve postoperative joint function and reduce pain following ACL reconstruction surgery. The second program is evaluating OMS103HP's safety and ability to reduce pain and improve postoperative joint function following arthroscopic meniscectomy surgery. We expect to complete the Phase 3 clinical program for ACL reconstruction surgery and, assuming positive results, intend to submit an NDA to the FDA under the Section 505(b)(2) NDA process during the second half of 2010. In the second half of 2009, we expect to review the data from our first Phase 2 clinical trial in patients undergoing meniscectomy surgery.

Arthroscopy is a surgical procedure in which a miniature camera lens is inserted into an anatomic joint, such as the knee, through a small incision in the skin. Through similar incisions, surgical instruments are also introduced and manipulated within the joint. During any arthroscopic procedure, an irrigation solution, such as lactated Ringer's solution or saline solution, is flushed through the joint to distend the joint capsule, allowing better visualization with the arthroscope, and to remove debris resulting from the operation.

One of the major challenges facing orthopedic surgeons in performing arthroscopic procedures is adequately controlling the local inflammatory response to surgical trauma, particularly the pain, swelling, and functional loss. The inflammation associated with arthroscopic surgery, or any other procedure resulting in tissue trauma, is a complex reaction to tissue injury with multiple pathways, mechanisms and pro-inflammatory mediators, such as PGE₂, involving three major components:

- alterations in vascular caliber, or vasodilation, that lead to an increase in blood flow;
- structural changes in the microvasculature that permit plasma proteins to leave the circulation, or plasma extravasation; and
- white cell migration from the microcirculation to the site of tissue injury.

The key cellular events involved in these components include the synthesis and release of multiple pro-inflammatory mediators. Consequently, multiple pharmacologic actions are required to manage the complexity and inherent redundancy of the inflammatory cascade.

Added to standard irrigation solutions, OMS103HP is delivered directly to the joint throughout arthroscopy, and is designed to act simultaneously at multiple distinct targets to preemptively block the inflammatory cascade induced by arthroscopic surgery. OMS103HP contains the following three active pharmaceutical ingredients, or APIs, each of which are known to interact with different, discrete molecular targets that are involved in the acute inflammatory and pain response:

- *Ketoprofen*, a non-steroidal anti-inflammatory drug, or NSAID, is a non-selective inhibitor of the pro-inflammatory mediators COX-1 and COX-2, with potent anti-inflammatory and analgesic actions that result from inhibiting the synthesis of the pro-inflammatory mediator PGE₂, and antagonizing the effects of bradykinin, another inflammatory mediator;

- *Amitriptyline* is a compound with analgesic activity that inhibits the pro-inflammatory actions of histamine and serotonin released locally at the site of tissue trauma; and
- *Oxymetazoline* is a vasoconstrictor and also activates serotonin receptors, located on a group of nerve fibers called primary afferents, that can inhibit the release of pro-inflammatory mediators such as substance P and calcitonin gene-related peptide, or CGRP.

In combination, these APIs inhibit PGE₂ production, decrease inflammation-induced vasodilation and prevent increased vascular permeability, as well as block the release of pro-inflammatory mediators from primary afferent nerve endings, or neurogenic inflammation, at the site of surgical trauma. Using an in vivo joint model of acute inflammation-induced plasma extravasation, preclinical studies showed that the combined activity of all three APIs in OMS103HP produced significant inhibition of plasma extravasation and was more effective than any of the two-API combinations or any single API administered alone, demonstrating that each API contributed to the effect of OMS103HP.

Each of the APIs in OMS103HP are components of generic, FDA-approved drugs that have been marketed in the United States as over-the-counter, or OTC, or prescription drug products for over 15 years and have established and well-characterized safety profiles. Ketoprofen is available as oral OTC and prescription medications, amitriptyline is available as prescription oral and intramuscular medications and oxymetazoline is available as OTC nasal sprays and ophthalmic solutions.

Market Opportunity. According to SOR Consulting, approximately a total of 4.0 million arthroscopic operations were performed in the United States in 2006, including 2.6 million knee arthroscopy operations. Based on a report that we commissioned from TRG, we believe that OMS103HP will be favorably reimbursed both to the surgical facility for its utilization and to the surgeon for its administration and delivery. We believe that OMS103HP will, if approved, be the first commercially available drug product for the improvement of function following arthroscopic surgery. Also, use of OMS103HP does not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of OMS103HP could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration.

Shortcomings of Current Treatments. There is no drug product currently approved to improve postoperative function following arthroscopic surgery. There are numerous pre- and postoperative approaches to reduce postoperative pain and inflammation such as systemically or intra-articularly delivered NSAIDs, opioids, local anesthetics and steroids. Current pre-operative treatments are not optimally effective because the administration of standard irrigation solution during the surgical procedure washes out pre-operatively delivered drugs. Intra-articular injections of local anesthetics at the concentrations routinely used, while reducing intra- and immediate postoperative pain, have minimal effect on the local inflammatory cascade. In addition, current postoperative therapies are not optimally effective because the cascade and resultant inflammation, pain, loss of function and other problems have already begun and are difficult to reverse and manage after surgical trauma has occurred. Also, drugs that currently are systemically delivered, such as by oral or intravenous administration, to target these problems are frequently associated with adverse side effects. For example, despite the fact that both COX-1 and COX-2 are drivers of acute inflammation, non-selective COX-1/COX-2 inhibitors are infrequently delivered systemically in the perioperative setting due to risk of increased bleeding associated with COX-1 inhibition.

Advantages of OMS103HP. We developed OMS103HP to improve postoperative joint function following arthroscopic surgery by reducing postoperative inflammation and pain. We

believe that OMS103HP will provide a number of advantages over current treatments, including:

- If approved, OMS103HP will be the first commercially available drug product for the improvement of function following arthroscopic surgery.
- OMS103HP will provide additional postoperative clinical benefits, including improved range of motion, reduced pain and earlier return to work.
- OMS103HP selectively targets multiple and discrete pro-inflammatory mediators and pathways within the inflammatory and pain cascade.
- By delivering OMS103HP to the joint at the initiation of surgical trauma, the inflammatory and pain cascade will be preemptively inhibited.
- Intra-operative delivery to the joint creates a constant concentration of OMS103HP, bathing and replenishing the joint with drug throughout the duration of the surgical procedure.
- Because OMS103HP is delivered locally to, and acts directly at, the site of tissue injury, it can be delivered in low concentration, and will not be subject to the substantial interpatient variability in metabolism that is associated with systemic delivery.
- By delivering low-concentration OMS103HP locally and only during the arthroscopic procedure, systemic absorption of the APIs will be minimized or avoided, thereby reducing the risk of adverse side effects.

Development Plan. We are conducting a Phase 3 clinical program evaluating the efficacy and safety of OMS103HP in patients undergoing arthroscopic ACL reconstruction surgery. The Phase 3 program consists of three multi-center trials, two evaluating efficacy and safety and a third evaluating safety only. Two trials, each evaluating efficacy and safety of OMS103HP, are being conducted in patients receiving grafts from cadavers or their own tissue, respectively. The safety trial includes patients receiving either graft type. Efficacy endpoints include assessments of postoperative knee function and range of motion, pain reduction and return to work. We expect to complete the Phase 3 clinical trials in patients undergoing ACL reconstruction surgery and, assuming positive results, intend to submit an NDA to the FDA under the Section 505(b)(2) process during the second half of 2010.

In our second OMS103HP clinical program, we are conducting a Phase 2 clinical trial to evaluate the safety of OMS103HP in patients undergoing arthroscopic meniscectomy surgery, with exploratory efficacy endpoints focused on the reduction of postoperative pain and improvement in postoperative joint function. Given that there were no serious adverse events considered to be drug-related, enrollment in this trial was discontinued in the first quarter of 2009 to facilitate the design of one or more planned follow-on Phase 3 clinical trials for this program. In the second half of 2009, we expect to review the data from this Phase 2 clinical trial.

By concurrently conducting these two clinical programs for OMS103HP, both evaluating function and pain, with one in patients undergoing arthroscopic ACL reconstruction surgery and the other in patients undergoing arthroscopic meniscectomy surgery, we believe that we are reducing the overall risk profile of the OMS103HP clinical program.

Clinical Trial Results. We conducted a double-blind, vehicle-controlled, parallel-group, randomized Phase 1/Phase 2 clinical trial of OMS103HP in a total of 35 patients undergoing arthroscopic cadaveric, or allograft, ACL reconstruction surgery. 34 patients comprised the intent-to-treat population, 18 patients in the OMS103HP group and 16 patients in the vehicle group. 30 patients, 14 OMS103HP and 16 vehicle patients, were included in the efficacy evaluable population. The intent-to-treat population consisted of all patients who were randomized into the study, received OMS103HP or vehicle control, and had at least one recovery room evaluation. The OMS103HP and vehicle groups showed no significant differences in demographics, or pre- or intra-operative findings. Patients were adults scheduled to undergo primary ACL reconstruction

surgery, using patellar tendon-bone or Achilles tendon allografts, for an ACL tear occurring from two weeks to one year prior to the day of arthroscopic surgery. Patients were followed for 30 postoperative days and instructed to complete a patient diary each day.

Efficacy endpoints included assessments of range of motion, knee function, pain management, quadriceps and hamstring muscle strength, and return to work. Assessments were collected during clinic and rehabilitation visits and in the patient diary. At each clinic visit, a Visual Analog Scale, or VAS, pain score was obtained and passive range of motion measurements were taken. At the end of the 30-day evaluation period, physical and orthopedic examinations were also performed and quadriceps and hamstring strength testing was conducted. At each study rehabilitation visit, knee function and range of motion were assessed.

Patients treated with OMS103HP demonstrated statistically significant: (1) improvement in postoperative knee range of motion, (2) improvement in postoperative knee function, (3) better pain management and (4) earlier return to work. Although these positive results are encouraging, there can be no assurance that they will be predictive of the results obtained from later trials.

The results of this Phase 1/Phase 2 clinical program were published in a peer-reviewed article titled "Novel Drug Product to Improve Joint Motion and Function and Reduce Pain After Arthroscopic Anterior Cruciate Ligament Reconstruction" that appeared in the June 2008 issue of *Arthroscopy: The Journal of Arthroscopic and Related Surgery* (Vol. 24, No. 6: pp. 625-636).

Clinical Trial Results — Efficacy. Key results in the efficacy evaluable population of the Phase 1/Phase 2 clinical trial are as follows:

Figure 1: OMS103HP-Treated Patients Required Fewer Median Number of Days to Maximum Passive Flexion ³ 90° without Pain

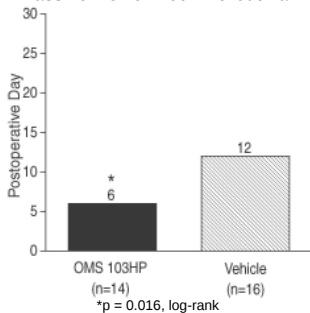


Figure 1 depicts the median number of days to maximum passive flexion ³ 90° without pain, which is a knee range of motion test, as measured in the clinic.†

Figure 2: Median Last Day of Continuous Passive Motion Machine Use was Earlier for OMS103HP-Treated Patients

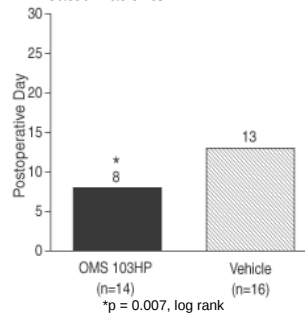


Figure 2 depicts the number of days until the continuous passive motion, or CPM, machine was discontinued. CPM machines are often used postoperatively to move the knee through a range of motion. CPM usage, recorded in the patient diary, was discontinued at the direction of either the surgeon or rehabilitation therapist based on the patient's progress, usually at the time the patient reproducibly attained at least 90° of flexion of the operated knee. CPM machine usage was significantly less for OMS103HP.†

† As published in *Arthroscopy: The Journal of Arthroscopic and Related Surgery*, Vol. 24, No. 6 (June), 2008: pp. 625-636.

Figure 3: OMS103HP-Treated Patients Demonstrated Better Quadriceps Strength Testing at Day 30

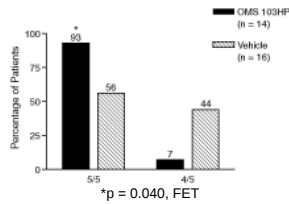
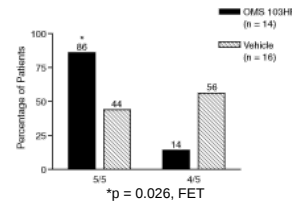


Figure 4: OMS103HP-Treated Patients Demonstrated Better Hamstring Strength Testing at Day 30



Figures 3 and 4 depict the strength of the quadriceps and hamstring muscle groups of the operated leg as evaluated by the surgeon at the end of the 30-day evaluation period. Quadriceps and hamstring strength testing was evaluated on a scale of 0/5 (no contraction) to 5/5 (normal strength). This was a qualitative clinical evaluation of muscle function and strength. Pre-operative quadriceps and hamstring muscle strength ratings were similar for both patient groups.†

Figure 5: A Greater Percentage of OMS103HP-Treated Patients Demonstrated Successful Recovery of Knee Function as Defined by Knee Function Composite

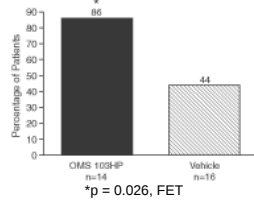
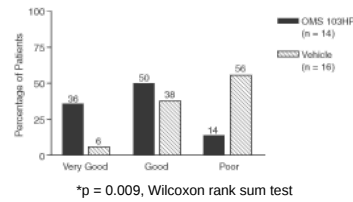


Figure 5 depicts the study's primary endpoint, the Knee Function Composite, or KFC. The KFC is composed of the straight-leg raise, one-leg stance, shuttle press, and two-leg squat. Each test is a direct measure of knee function, and all four are routinely used by orthopedic surgeons and rehabilitation therapists to measure improvement in knee function during the early postoperative period following ACL reconstruction surgery. Success on the KFC requires success on all four of the component tests by the end of the 30-day evaluation period.†

Figure 6: A Greater Percentage of OMS103HP-Treated Patients Demonstrated Very Good and Good Ratings on the Knee Function Composite—Straight-Leg Raise



Very Good: Achievement of the KFC by the end of the 30-day evaluation period and achievement of the highest level of straight-leg raise, or SLR, by the 13th day after surgery
Good: Achievement of the KFC by the end of the 30-day evaluation period without achievement of the highest level of SLR by the 13th day after surgery
Poor: Failure to achieve the KFC by the end of the 30-day evaluation period
 Figure 6 depicts the Knee Function Composite—Straight-Leg Raise, or KFC-SLR, which combines the successful achievement of the KFC with a second key rehabilitation milestone, the ability to perform the highest level of the straight-leg raise by the 13th day after surgery following ACL reconstruction surgery. While the KFC accurately assesses knee function throughout the first 30-day period of postoperative rehabilitation therapy, an evaluation of postoperative function within the first two weeks also is important because early functional return is considered a key driver in successful post-arthroscopy outcomes. Of the four tests comprising the KFC, the straight-leg raise is the most important in the first two weeks following ACL reconstruction because it is used to determine the pace to progress exercises.†

(† As published in *Arthroscopy: The Journal of Arthroscopic and Related Surgery*, Vol. 24, No. 6 (June), 2008: pp. 625-636.

Figure 7: A Greater Percentage of OMS103HP-Treated Patients Achieved Successful Pain Management at Postoperative Week 1

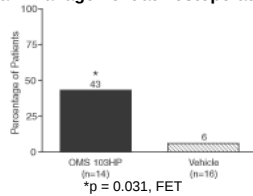


Figure 7 depicts the percentage of patients achieving Successful Pain Management, or SPM, which is a composite of pain assessment and narcotic usage based on data from clinic visits and the patient diary. The SPM composite sets two criteria that the patient must meet in order to be considered a responder. During the first postoperative week, at all clinic visits, the VAS pain score must be not greater than 20 mm with the operated knee at rest. A maximum of two narcotic tablets could be self-administered on each day during the first postoperative week. VAS pain scores of 20 mm or less are considered to be indicative of good to excellent pain control not requiring analgesic medication. The SPM allows pain assessments and narcotic use to be evaluated together, and provides a more complete evaluation of pain management than either VAS pain scores or narcotic usage considered individually because a low VAS pain score recorded by a patient taking high doses of opioid pain medications does not reflect the same level of pain management as that same low VAS pain score recorded in the absence of narcotic pain medications.†

Figure 8: OMS103HP-Treated Patients Demonstrated a Lower Median Number of Days to Return to Work

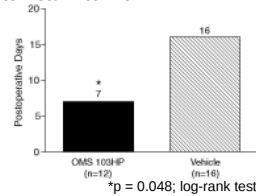


Figure 8 depicts results related to patients' ability to return to work following ACL reconstruction surgery. Patients were considered to have returned to work if they reported in the patient diary that they had gone to work outside of the home on two consecutive work days excluding weekends and holidays. Return to work was considered to have begun on the first of the two consecutive days. Patients who were unemployed or not working for pay were excluded from the analysis.†

† As published in *Arthroscopy: The Journal of Arthroscopic and Related Surgery*, Vol. 24, No. 6 (June), 2008; pp. 625-636.

Clinical Trial Results — Safety. No adverse events were determined to be related to the delivery of OMS103HP and there was no evidence of OMS103HP having any detrimental effect with respect to healing, either in soft tissue or bone.

Intellectual Property Position. OMS103HP is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and vasoconstrictive agents, delivered locally and intra-operatively to the site of medical or surgical procedures, including arthroscopy. We currently own four issued U.S. Patents, two pending U.S. Patent Applications, and 12 issued patents and nine pending patent applications in foreign markets (Australia, Brazil, Canada, China, Europe, Hong Kong, Japan, Mexico, Norway, Russia, Singapore and South Korea) that cover OMS103HP.

OMS302 — Ophthalmology

Background. OMS302 is our PharmacoSurgery product candidate being developed for use during ophthalmological procedures including cataract and other lens replacement surgery. OMS302 is a proprietary combination of an anti-inflammatory active pharmaceutical ingredient, or API, and an API that causes pupil dilation, or mydriasis, each with well-known safety and pharmacologic profiles. FDA-approved drugs containing each of these APIs have been used in ophthalmological

clinical practice for more than 15 years, and both APIs are contained in generic, FDA-approved drugs.

Cataract and other lens replacement surgery involves replacement of the original lens of the eye with an artificial intraocular lens. These procedures are typically performed to replace a lens opacified by a cataract or to correct a refractive error of the lens. Added to standard irrigation solution used in cataract and other lens replacement surgery, OMS302 is being developed for delivery into the anterior chamber of the eye, or intracameral delivery, to maintain mydriasis, to prevent surgically induced pupil constriction, or miosis, and to reduce postoperative pain and irritation. Mydriasis is an essential prerequisite for these procedures and, if not maintained throughout the surgical procedure or if miosis occurs, risk of damaging structures within the eye increases as does the operating time required to perform the procedure.

During lens replacement surgery, a small ultrasonic probe, or a phacoemulsifier, is typically used to help remove the lens. In these procedures, the surgeon first places a small incision at the edge of the cornea and then creates an opening in the membrane, or capsule, surrounding the damaged lens. Through the small corneal incision, the surgeon inserts the phacoemulsifier, breaking the lens into tiny fragments that are suctioned out of the capsule by the phacoemulsifier. After the lens fragments are removed, an artificial intraocular lens is implanted with a small injector that is inserted through the same corneal incision.

Market Opportunity. According to Thomson Healthcare, approximately a total of 2.9 million cataract operations were performed in the United States in 2006. Based on a report that we commissioned from TRG, we believe that OMS302 will be favorably reimbursed both to the surgical facility for its utilization and to the surgeon for its administration and delivery. Also, use of OMS302 does not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of OMS302 could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration. We also believe that use of OMS302 will increase the ease of the surgical procedure, thereby increasing patient throughput for both the surgeon and the surgical facility.

Shortcomings of Current Treatments. Anti-inflammatory topical drops containing NSAIDs, such as Acular-LS[®], Acular[®], Voltaren[®] and Xibrom[®], or steroids are routinely used postoperatively, and less frequently pre-operatively, to prevent or manage the intra- and postoperative pain and inflammation associated with lens replacement surgery. Pre-operatively, these topical drops are not optimally effective because the continuous administration of standard surgical irrigation solution washes out pre-operatively delivered drugs. Postoperatively, these anti-inflammatory topical drops typically cannot be delivered until at least 24 hours following surgery due to practical constraints and safety concerns. Further, surgical trauma results in the generation of prostaglandins, which cause miosis during lens replacement surgery. NSAIDs have an inhibitory effect on prostaglandin synthesis and, if this inhibitory effect is not present during the trauma of lens replacement surgery, the risk of miosis increases.

Cataract and other lens replacement surgery requires that the pupil be dilated for the surgeon to perform the procedure efficiently and safely. Topical mydriatic drops are usually delivered by surgical staff to the patient in a pre-operative holding area. If mydriasis is not maintained throughout the surgical procedure or if miosis occurs, risk of damaging structures within the eye increases as does the operating time required to perform the procedure. Further, many patients who undergo cataract surgery also take alpha adrenergic antagonists, such as FLOMAX[®], to reduce urinary frequency and other signs and symptoms associated with prostate enlargement. These patients often demonstrate a reduced response to topically applied mydriatic drops, causing the pupil to not fully dilate and leaving the iris, or the pigmented ring in the eye that surrounds the pupil, flaccid. Referred to as intra-operative

floppy iris syndrome, this complicates and decreases the safety of cataract surgery, and puts the iris at risk of surgical tear and other damage.

Advantages of OMS302. We developed OMS302 for use during cataract and other lens replacement surgery to maintain mydriasis, to prevent surgical miosis and to reduce postoperative pain and irritation. We believe that OMS302 will provide a number of advantages over current treatments, including:

- The anti-inflammatory API in OMS302 inhibits miosis by blocking the synthesis of prostaglandins caused by surgical trauma.
- By delivering OMS302 intra-operatively, inflammation and discomfort will be reduced during the first 24 hours following surgery, the time during which anti-inflammatory topical drops are not commonly administered, as well as after this initial postoperative period.
- Intra-operative delivery of the mydriatic API in OMS302 will maintain pupil dilation throughout the surgical procedure, decreasing the risk of surgical damage to structures within the eye.
- Because the mydriatic API in OMS302 maintains pupil dilation, OMS302 will increase the ease of the surgical procedure, thereby increasing patient throughput for both the surgeon and the surgical facility.
- The mydriatic API in OMS302 prevents intra-operative floppy iris syndrome in many patients taking alpha adrenergic antagonists, such as FLOMAX®.
- Because OMS302 is delivered intracamerally in standard irrigation solution at a constant, defined concentration, maintaining a more consistent local tissue exposure during the surgical procedure, it will provide superior efficacy relative to topical drug products containing either API.
- OMS302 is delivered locally to, and acts directly at, the site of tissue injury and, therefore, can be delivered in low concentrations, and will not be subject to the substantial interpatient variability in pharmacokinetics that is associated with systemic delivery.

Development Plan. We are conducting a Phase 2 concentration-ranging clinical trial to determine the optimal concentration of the mydriatic API contained in OMS302 in patients undergoing cataract surgery. This trial, along with our recently completed Phase 1/Phase 2 clinical trial of OMS302, will serve as the basis for additional trials intended to demonstrate the contribution to clinical benefit of each API and establish OMS302 as an effective and safe replacement for currently used ophthalmologic drugs. We expect to complete this Phase 2 clinical trial for OMS302 in the second quarter of 2009.

Clinical Trial Results. We conducted a Phase 1/Phase 2 clinical trial evaluating the efficacy and safety of OMS302 added to standard irrigation solution and delivered to patients undergoing cataract surgery. The purpose of the study was to demonstrate the proof of concept that a surgical irrigation solution containing a mydriatic API improves maintenance of mydriasis during cataract surgery and that a surgical irrigation solution containing an anti-inflammatory API improves pain control and lessens inflammation following surgery. In this study, 61 patients were randomized to receive one of three treatments: (1) OMS302, (2) the mydriatic API of OMS302 alone, or OMS302-mydriatic, and (3) vehicle control. For efficacy assessments, patients were monitored for pupil size during surgery and pain and inflammation for 14 days following the surgery.

Patients treated with OMS302 reported less postoperative pain than patients treated with either OMS302-mydriatic or vehicle control. Patients treated with either OMS302 or OMS302-

mydriatic demonstrated statistically significant improvement in maintenance of mydriasis compared to patients treated with vehicle control. Overall, this study suggests that OMS302 would be useful in helping maintain mydriasis during surgery and controlling pain immediately following surgery. The effects of OMS302 on direct measures of inflammation will be evaluated in additional planned studies.

Clinical Trial Results — Efficacy. Key results from the Phase 1/Phase 2 clinical trial are as follows:

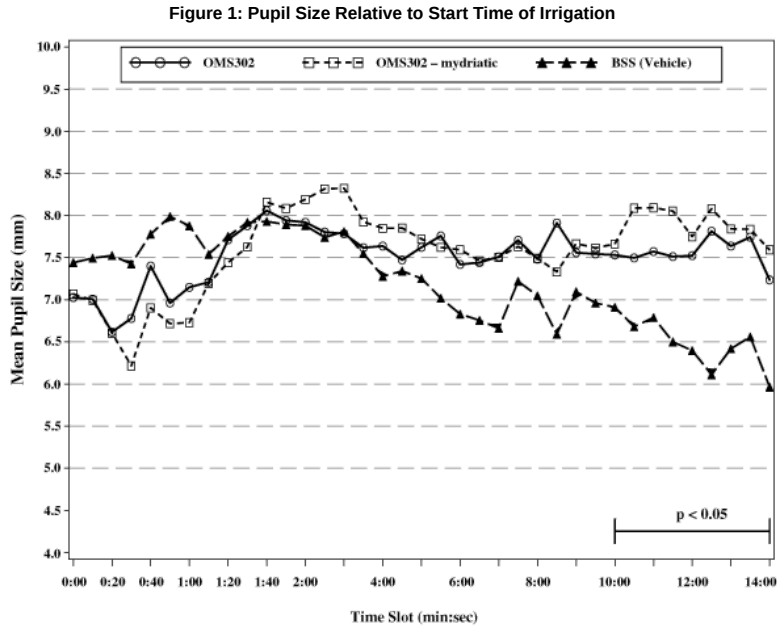


Figure 1 depicts that OMS302 and OMS302-mydratic were both better than vehicle control in measures of mydriasis during the surgery, evident after 5 minutes, and especially after 10 minutes, following the start of irrigation.

Figure 2: Proportion of Patients with No Ocular Pain Reported

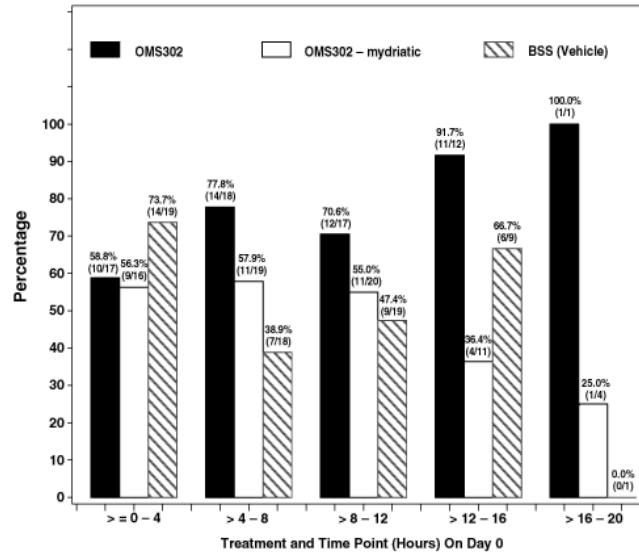


Figure 2 depicts patient-reported measures of pain following cataract surgery. Patients treated with OMS302 reported less pain than patients treated with either OMS302-mydratric or vehicle control over the first 16 hours immediately following surgery.

Clinical Trial Results — Safety. OMS302 was well tolerated with no serious adverse events and no discontinuations due to adverse events. The type and number of adverse events were similar across all three treatment groups. Three of the total 61 patients (two in the OMS302 group and one in the OMS302-mydratric group) reported mild to moderate eye pain judged by the investigator to be either possibly or probably treatment-related.

Intellectual Property. OMS302 is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents, mydratric agents and agents that reduce intraocular pressure, delivered locally and intra-operatively to the site of ophthalmological procedures, including cataract and lens replacement surgery. We currently own two pending U.S. Patent Applications and seven pending patent applications in foreign markets (Australia, Canada, China, Europe, Hong Kong and Japan) that cover OMS302.

OMS201 — Urology

Background. OMS201 is our PharmacoSurgery product candidate being developed for use during urological surgery, including uroendoscopic procedures. OMS201 is a proprietary combination of an anti-inflammatory active pharmaceutical ingredient, or API, and a smooth muscle relaxant API, and is intended for local delivery to the bladder, ureter, urethra, and other

urinary tract structures during urological procedures. Both of the APIs in OMS201 are contained in generic, FDA-approved drugs with well-known profiles of safety and pharmacologic activities, and each has been individually prescribed to manage the symptoms of ureteral and renal stones. Each of the APIs in OMS201 is contained in drugs that have been marketed in the United States for more than 15 years.

Added to standard irrigation solutions in urological surgery, OMS201 is being developed for delivery directly to the surgical site during uroendoscopic procedures, such as bladder endoscopy, or cystoscopy, minimally invasive prostate surgery and ureteroscopy, to inhibit surgically induced inflammation, pain and smooth muscle spasm, or excess contractility. Uroendoscopic procedures are performed within the urinary tract using a flexible camera device, or endoscope, and cause tissue injury that activates local mediators of pain and inflammation, which results in inflamed tissue, pain, smooth muscle spasm and lower urinary tract symptoms including frequency, urgency and painful urination, and can prolong recovery.

Ureteroscopy, or uroendoscopy of the ureter, is performed for a variety of indications including localizing the source of positive urine culture or cytology results, treating upper urinary tract tumors and obstructions, and removing ureteral and renal stones, particularly in those patients for whom non-surgical procedures are insufficient or unsuitable. Irrigation fluid is used continuously during the procedure. Because ureteroscopic trauma and inflammation can result in constrictive scar tissue, or stricture, and pain and occlusion due to smooth muscle spasm and swelling within the lumen of the ureter, most surgeons routinely place ureteral stents in patients following ureteroscopy to prevent ureteral strictures and occlusion. In addition, during ureteroscopy, many surgeons commonly place a ureteral access sheath, or UAS, which helps to protect the lining of the urethra and ureter while facilitating the passage of surgical instruments.

Market Opportunity. According to Thomson Healthcare, approximately a total of 4.3 million uroendoscopic operations were performed in the United States in 2006. Based on a report that we commissioned from TRG, we believe that OMS201 will be favorably reimbursed both to the surgical facility for its utilization and to the surgeon for its administration and delivery. Also, use of OMS201 does not require a surgeon to change his or her operating procedure. In addition to ease of use, we believe that the clinical benefits of OMS201 could provide surgeons a competitive marketing advantage and may facilitate third-party payor acceptance, all of which we expect will drive adoption and market penetration.

Shortcomings of Current Treatments. Standard irrigation solutions currently delivered during uroendoscopic procedures do not address problems resulting from surgically induced inflammation, pain and smooth muscle spasm, or excess contractility. In addition, routine use of stents following ureteroscopy to prevent ureteral strictures and occlusion adds to procedural costs, and is itself traumatic, increasing postoperative inflammation and ureteral spasm. Further, patients with stents resident within the ureter experience significantly more flank and bladder pain, increased lower urinary tract symptoms and increased narcotic usage.

In addition, during ureteroscopy, the selection of UAS size is based on the diameter and muscle tone of a patient's ureter. The benefits of UAS usage are in large part a direct function of increased UAS diameter; however, there are no routinely used intra-operative treatments to increase ureteral diameter or decrease ureteral muscle tone. Many patients are unable to accommodate a larger-sized UAS, requiring that the surgeon use a smaller-sized UAS or none at all, putting those patients at increased risk for intra- and postoperative problems.

Advantages of OMS201. We developed OMS201 for use during uroendoscopic procedures such as cystoscopy, minimally invasive prostate surgery and ureteroscopy, to

inhibit surgically induced inflammation, pain and smooth muscle spasm. We believe that OMS201 will provide a number of advantages over current treatments, including:

- By delivering OMS201 intra-operatively, it will reduce inflammation, pain, smooth muscle spasm and lower urinary tract symptoms including frequency, urgency and painful urination, and improve patient outcomes.
- OMS201 will save health care costs and increase patient comfort by reducing the incidence of ureteral occlusion and the routine need for ureteral stents.
- By targeting inflammation and smooth muscle spasm, OMS201 will permit surgeons to more frequently place a standard larger-sized UAS, decreasing intra-operative trauma and shortening operative time, thereby saving costs.
- OMS201 is delivered locally to, and acts directly at, the site of tissue injury and, therefore, can be delivered in low concentrations, and will not be subject to the substantial interpatient variability in pharmacokinetics that is associated with systemic delivery.
- By delivering OMS201 locally and only during the uroendoscopic procedure, systemic absorption of the APIs will be minimized or avoided, thereby reducing the risk of adverse side effects.

Development Plan. Based on our successfully completed Phase 1 clinical trial, we are now conducting a Phase 1/Phase 2 clinical trial evaluating the efficacy, safety and systemic absorption of potentially two sequentially higher concentrations of OMS201 added to standard irrigation solution and delivered to patients undergoing UAS-assisted ureteroscopy for removal of ureteral or renal stones. The primary objective of this clinical trial is to assess the pharmacokinetics and safety of higher concentrations of OMS201 than those evaluated in the Phase 1 trial. In addition, to assist in designing the Phase 2 clinical protocol, we are evaluating efficacy endpoints directed to ease of surgery, including the size of the UAS that can be used during the procedure, the time it takes to complete the procedure and the overall surgical outcome during the first postoperative week, as well as monitoring postoperative pain, pain medication usage and lower urinary tract symptoms. We expect to complete the Phase 1/Phase 2 clinical trial of OMS201 in the first half of 2010.

Clinical Trial Results. We conducted a randomized, double-blind, vehicle controlled and parallel-assigned Phase 1 clinical trial to evaluate the systemic absorption and safety of OMS201 in patients receiving primary treatment by endoscopic removal of urinary stones. The pharmacokinetic data from this study show that systemic plasma levels of the active agents of OMS201 in patients were minimal or below the level of quantification. There were no serious adverse events.

Intellectual Property. OMS201 is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and spasm inhibitory agents, delivered locally and intra-operatively to the site of medical or surgical procedures, including uroendoscopy. We currently own three issued U.S. Patents, two pending U.S. Patent Applications, and ten issued patents and 16 pending patent applications in foreign markets (Australia, Brazil, Canada, China, Europe, Hong Kong, India, Japan, Mexico, Norway, Russia, Singapore and South Korea) that cover OMS201.

MASP-2 Program

A discovery by researchers at the University of Leicester led to the identification of mannan-binding lectin-associated serine protease-2, or MASP-2, a novel pro-inflammatory protein target in the complement system. We hold worldwide exclusive licenses to rights related to MASP-2, the antibodies targeting MASP-2 and the therapeutic applications for those antibodies from the University of Leicester and from its collaborator, Medical Research Council at Oxford University. MASP-2 is a key protein involved in activation of the complement system, which is an important component of the immune system. The complement system plays a role in the inflammatory response and becomes activated as a result of tissue damage or trauma or microbial pathogen invasion. MASP-2 appears to be unique to, and required for the function of, one of the principal complement activation pathways, known as the lectin pathway. Importantly, inhibition of MASP-2 does not appear to interfere with the antibody-dependent classical complement activation pathway, which is a critical component of the acquired immune response to infection, and its abnormal function is associated with a wide range of autoimmune disorders.

In our MASP-2 program, we are developing MASP-2 antibody therapies to treat disorders caused by complement-activated inflammation. We have completed a series of in vivo studies using proprietary MASP-2 knock-out mice or MASP-2 antibodies in established models of disease previously linked to activation of the complement system. We evaluated the role of MASP-2 in wet age-related macular degeneration, or wet AMD, using a mouse model of laser-induced choroidal neovascularization, or CNV. CNV refers to the growth of blood vessels into the light-sensing cell layers of the eye and is a pathologic event underlying the severe vision loss associated with wet AMD. In comparison to isotype control antibodies, systemic administration of MASP-2 antibodies to mice produced a dose-dependent reduction with a maximal effect of approximately 50% inhibition in CNV. Our findings suggest that antibody-blockade of MASP-2 may have a preventive or therapeutic effect in the treatment of wet AMD.

Another set of studies evaluated the role of MASP-2 in ischemia-reperfusion injury. Ischemia is the interruption of blood flow to tissue, and reperfusion of the ischemic tissue results in inflammation and oxidative stress leading to tissue damage. Ischemia-reperfusion injury occurs, for example, following myocardial infarction, coronary artery bypass grafting, aortic aneurysm repair, stroke, organ transplantation or gastrointestinal vascular injury. In a mouse model of myocardial ischemia-reperfusion injury, we compared the outcomes of coronary artery occlusion followed by reperfusion in both MASP-2 knock-out mice and wild-type mice. The MASP-2 knock-out mice displayed a statistically significant reduction in myocardial tissue injury versus the wild-type mice, indicating a protective effect from myocardial ischemia-reperfusion damage in the MASP-2 knock-out mice in this model. An additional study in a model of renal ischemia-reperfusion injury also demonstrated a protective effect in MASP-2 knock-out mice. We are continuing to evaluate the role of MASP-2 in other complement-mediated disorders.

MASP-2 is generated by the liver and is then released into the circulation. Adult humans who are genetically deficient in one of the proteins that activate MASP-2 do not appear to be detrimentally affected by the deficiency. Therefore, we believe that it may be possible to deliver MASP-2 antibodies systemically. We have undertaken the development of MASP-2 antibodies with two independent antibody developers, Affitech AS and North Coast Biologics, and expect to select a clinical product candidate in mid-2009. Working with an external antibody development company under license for research use, we have generated several fully human MASP-2 antibody fragments, or Fab2s, that show high affinity for MASP-2. We demonstrated functional blockade of the lectin complement activation pathway in normal human serum by several of these human Fab2s with picomolar potency.

Figure 1: Effect of a Single Dose of Systemically Delivered MASP-2 Antibody on CNV in Mouse Model

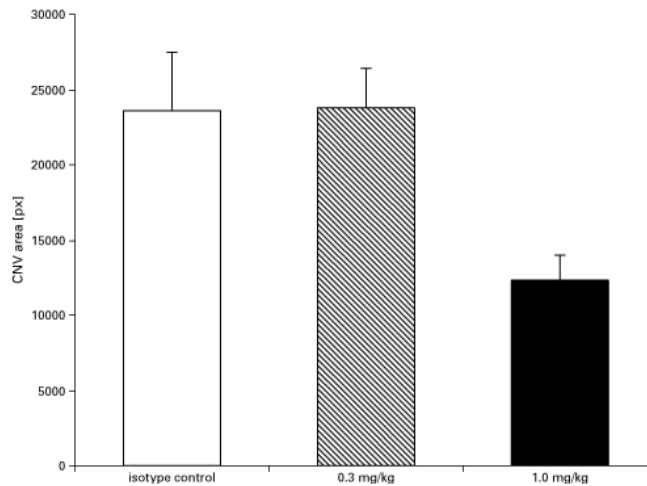


Figure 1 depicts that systemic administration of MASP-2 antibody produced an approximately 50% inhibition in the area of CNV, a significant pathological component of wet AMD, compared to isotype control antibody-treated mice seven days following laser-induced damage. The reduction in CNV with the MASP-2 antibody compared to isotype control antibody suggests that blockade of MASP-2 may have a preventive or therapeutic effect in the treatment of macular degeneration.

Under our exclusive license agreements with the University of Leicester and the Medical Research Council at Oxford University, or MRC, we have agreed to pay royalties to each of the University of Leicester and MRC based on a percentage of any proceeds we receive from the licensed technology during the terms of the agreements. We must pay low single-digit royalties with respect to proceeds that we receive from products incorporating the licensed technology that are used, manufactured, directly sold or directly distributed by us, and we must pay royalties, initially in the range of low single-digit to low double-digit and decreasing over time to low single-digit, with respect to proceeds we receive from sublicense royalties or fees that we receive from third parties to which we grant sublicenses to the licensed technology. We did not make any upfront payments for these exclusive licenses nor are there any milestone payments or reversion rights associated with these license agreements. We also agreed to sponsor research of MASP-2 at these institutions at pre-determined rates for maximum terms of approximately three years. If mutually agreed, we may sponsor additional research of MASP-2 at these institutions. We retain worldwide exclusive licenses from these institutions to develop and commercialize any intellectual property rights developed in the sponsored research. The term of each license agreement ends when there are no longer any pending patent applications, applications in preparation or unexpired issued patents related to any of the intellectual property rights we are licensing under the agreement. Both of these license agreements may be terminated prior to the end of their terms by us for convenience or by one party if the other party (1) breaches any material obligation under the agreement and does not cure such breach after notice and an opportunity to cure or (2) is declared or adjudged to be insolvent, bankrupt or in receivership and materially limited from performing its obligations under the agreement.

Central Nervous System Programs

Addiction Program

In our Addiction program, we are developing proprietary compositions that include peroxisome proliferator-activated receptor gamma, or PPAR γ , agonists for the treatment and prevention of addiction to substances of abuse, which may include opioids, nicotine, alcohol and amphetamines, as well as other compulsive behaviors. Based on the previously unknown link between PPAR γ and addictive disorders together with promising data from European pilot clinical studies and animal models of addiction, we have filed patent applications claiming the use of any PPAR γ agonist, alone or in combination with other agents, for the treatment or prevention of addiction and other compulsive behaviors. We have initiated additional preclinical studies evaluating PPAR γ agonists in combination with opioids for the prevention of addiction to opioid analgesics. There are currently no drugs approved for the prevention of addiction to opioids. We are also conducting and plan to initiate European pilot clinical studies evaluating the effects of a PPAR γ agonist, alone or in combination with another agent, on nicotine and alcohol addiction. We plan to submit an IND to the FDA in the second half of 2009 to evaluate a PPAR γ agonist-opioid agonist combination product candidate as an analgesic without the addictive potential of currently marketed opioids.

Figure 1: PPAR γ Agonist in Animal Model of Heroin Self-Administration

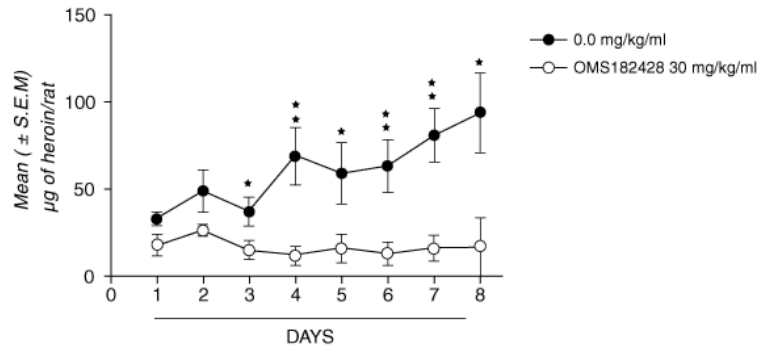
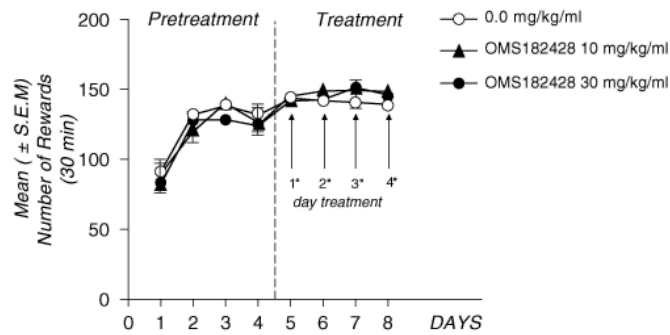


Figure 1 illustrates the effects of daily treatment with a representative PPAR γ agonist compared to a vehicle control on acquisition of addiction to the opioid agent, heroin, in an animal model of heroin self-administration. While the desire for and resulting self-administration of heroin by animals treated with the control progressively increased during the eight-day study, animals treated daily with the PPAR γ agonist demonstrated complete ablation of heroin acquisition.

Figure 2: PPARy Agonist in Animal Model of Food Self-Administration



The same animals tested in the heroin self-administration model were tested in a food self-administration model, providing a positive control. Figure 2 demonstrates that the representative PPARy agonist administered in both models did not affect the animals' food acquisition and that, therefore, the PPARy agonist effects in the heroin self-administration model were not due to cognitive, memory or functional impairment.

We acquired the patent applications and related intellectual property rights for our Addiction program in February 2009 from Roberto Ciccocioppo, Ph.D. of the Università di Camerino, Italy, pursuant to a Patent Assignment Agreement. Under this agreement, we have agreed to pay Dr. Ciccocioppo royalties in the low-single digits on net sales of any products that are covered by any patents that issue from the patent applications that we acquired from him. In addition, if we grant any third parties rights to manufacture, sell or distribute any such products, we must pay to Dr. Ciccocioppo a percentage of any associated fees we receive from such third parties in the range of low single-digits to low double-digits depending on stage of development at which such rights are granted. We have also agreed to make milestone payments to Dr. Ciccocioppo upon the occurrence of certain development events, such as patient enrollment in a Phase 1 clinical trial and receipt of marketing approval of a product covered by any patents that issue from the patent applications that we acquired from him. If we notify Dr. Ciccocioppo that we have abandoned all research and development and commercialization efforts related to the patent applications and intellectual property rights we acquired from him, Dr. Ciccocioppo has the right to repurchase those assets from us at a price equal to a double-digit percentage of our direct and indirect financial investments and expenditures in such assets. If he does not exercise his right to repurchase those assets within a limited period of time by paying the purchase price, we will have no further obligations to sell those assets to Dr. Ciccocioppo. The term of our agreement with Dr. Ciccocioppo ends when there are no longer any valid and enforceable patents related to the intellectual property rights we acquired from him, provided that either party may terminate the agreement earlier in case of an uncured breach by the other party. Under the terms of the agreement, we have agreed to pay a portion of the payments due to Dr. Ciccocioppo to the Università di Camerino without any increase to our payment obligations.

PDE10 Program

We are developing compounds that inhibit PDE10 for the treatment of schizophrenia. PDE10 is an enzyme that is expressed in areas of the brain strongly linked to schizophrenia and other psychotic disorders and has been recently identified as a target for the development of anti-psychotic therapeutics. In multiple animal models of psychotic behavior, PDE10

inhibitors have been shown to be as effective as current anti-psychotic drugs. In addition, results from preclinical studies suggest that PDE10 inhibitors may address the limitations of currently used anti-psychotic drugs by avoiding the associated weight gain, improving cognition and, potentially, reducing the risk of associated sudden cardiac death.

We obtained the PDE10 program as part of our nura acquisition in 2006, and we have synthesized a series of chemical classes yielding multiple proprietary compounds that demonstrate promising preclinical results in pharmacokinetic, pharmacodynamic and behavioral studies. We plan to select one or more clinical candidates in mid-2009 to advance into Good Laboratory Practices toxicology studies in preparation for clinical trials. Our preclinical development is supported by funds from The Stanley Medical Research Institute, or SMRI, a non-profit corporation that supports research on the causes and treatment of schizophrenia and bipolar disorder.

Under our funding agreement with SMRI, we may receive grant and equity funding upon achievement of product development milestones through Phase I clinical trials totaling \$9.0 million, subject to our mutual agreement with SMRI. As of April 30, 2009, we have received \$5.7 million from SMRI, \$3.2 million of which was characterized as grant funding and \$2.5 million of which was characterized as equity funding under the terms of the agreement. We have agreed to pay royalties to SMRI based on any net income we receive from sales of a PDE10 product until we have paid a maximum aggregate amount that is a low single-digit multiple of the amount of grant funding that we have received from SMRI. This multiple increases as time elapses from the date we received the grant funding. There are no minimum payment obligations under our agreement with SMRI. The funding agreement and our obligation to pay a royalty to SMRI terminate when we have repaid such amount in the form of royalties.

We previously utilized two contract research organizations to assist us in synthesizing compounds for our PDE10 program, ComGenex, Inc. (subsequently acquired by Albany Medical Research, Inc.) and Scottish Biomedical Research, Inc. If we select a clinical product candidate for our PDE10 program that is a compound synthesized by one of these contract research organizations, we may be required to make milestone payments to that organization upon the occurrence of certain development events, such as the filing of an IND, the initiation of clinical trials and receipt of marketing approval. In such a case, we would also be required to pay a royalty to the organization in the low single-digits with respect to any sales of a PDE10 inhibitor product that includes the organization's compound. We are no longer using either of these contract research organizations to synthesize or develop compounds and the terms of our agreements have ended. We and our other contract research organizations have also synthesized compounds for which we do not have any ongoing or future payment obligations. Due to the inherent uncertainties surrounding preclinical development, at this time we cannot determine whether we will use a compound that Scottish Biomedical or ComGenex synthesized for us, or whether we will use a compound that is not subject to any ongoing or future payment obligations.

Figure 1: Preclinical Efficacy Studies of one of our PDE10 Compounds in Mice

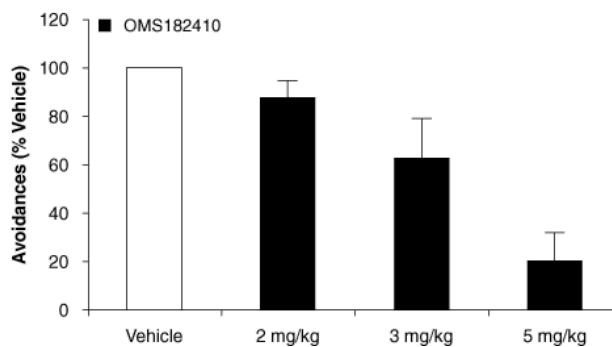


Figure 1 demonstrates that oral administration of one of our PDE10 inhibitors, OMS182410, in mice, improved the response in the conditioned avoidance response test, a commonly used assay that measures the avoidance response of a conditioned animal that has been trained to associate a visual cue (e.g., light) with an unpleasant experience (e.g., electric shock). Antipsychotics are known to reduce avoidance.

PDE7 Program

Our Phosphodiesterase 7, or PDE7, program is based on our demonstration of a previously unknown link between PDE7 and any movement disorder, such as Parkinson's disease, or PD, and Restless Legs Syndrome, or RLS. PDE7 is highly expressed in those regions of the brain associated with movement disorders. We believe that the mechanism of action for PDE7 inhibitors is different from that of all currently available drugs for PD and RLS, such as levodopamine, or L-DOPA, and related dopamine agonists, and therefore PDE7 inhibitors may avoid one or more of the debilitating side effects associated with these agents. We have filed patent applications claiming the use of any PDE7 inhibitor for treating any movement disorder.

Using an established model of PD, we investigated the effects of multiple PDE7 inhibitors in mice lesioned with the chemical MPTP. MPTP destroys dopaminergic neurons in specific regions of the brain, pathologically mimicking PD and resulting in reduced stride length, a common finding in PD patients. Administration of PDE7 inhibitors to MPTP-treated mice restored stride length to pre-lesioned levels within 30 minutes, and did so at doses 50- to 100-fold lower than that of equally effective doses of L-DOPA. Our data also shows that PDE7 inhibitors potentiate the activity of L-DOPA.

Figure 1: Efficacy in Animal Model of Parkinson's Disease of a PDE7 Inhibitor

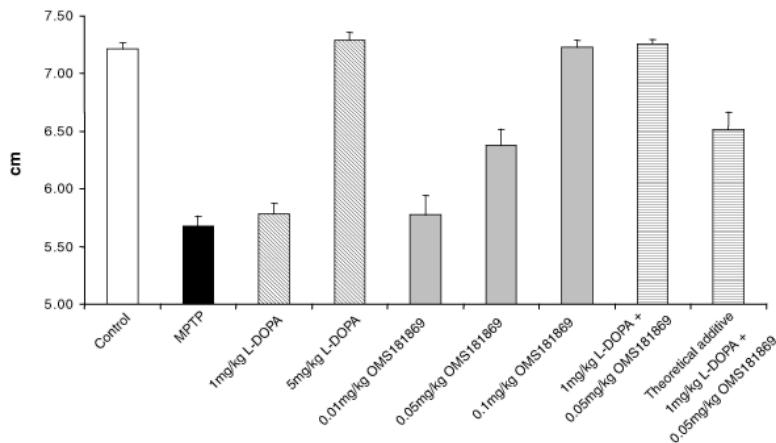


Figure 1 depicts that, in a mouse MPTP-stride length model of PD, a representative PDE7 inhibitor is equally effective to and greater than 50-fold more potent than L-DOPA. Subtherapeutic doses of both the PDE7 inhibitor and L-DOPA, in combination, resulted in efficacy greater than the expected sum of the effects of the individual agents, demonstrating the potentiation of L-DOPA's effect.

Based on our existing data, we believe that PDE7 inhibitors may provide an alternative to treatment with L-DOPA or related PD drugs, or could be used in conjunction with these agents at lower doses than they are currently used, potentially reducing side effects including hallucinations, somnolence, cognitive impairment and involuntary movements, or dyskinesias. Further, because L-DOPA and other related PD drugs are agonists, they are associated with the development of tolerance, which is not a problem commonly associated with inhibitors. We currently are conducting additional MPTP studies evaluating the effects of potential clinical candidates on the development of dyskinesias, a debilitating side effect of current therapies. Should that data be positive, we believe that PDE7 inhibitors could replace L-DOPA and other currently used PD drugs.

The Michael J. Fox Foundation, or MJFF, is providing grant funding for our additional MPTP studies to cover our actual costs incurred, up to a total of \$464,000. In consideration of MJFF's grant funding, we have agreed to provide MJFF limited rights to access the data from our studies. We are not obligated to pay MJFF any royalties or other consideration as a result of the grant funding.

GPCR Program

G protein-coupled receptors, or GPCRs, comprise one of the largest families of proteins in the genomes of multicellular organisms. According to Insight Pharma Reports, or IPR, there are over 1,000 GPCRs in the human genome, comprising three percent of all human proteins. GPCRs are cell surface membrane proteins involved in mediating both sensory and non-sensory functions. Sensory GPCRs are involved in the perception of light, odors, taste and sexual attractants. Non-sensory GPCRs are involved in metabolism, behavior, reproduction, development, hormonal homeostasis and regulation of the central nervous system. The vast majority of GPCR drug targets are non-sensory. Although GPCRs form a super-family of

receptors, individual GPCRs display a high degree of specificity and affinity for the molecules that bind to them, or their respective ligands. Ligands can either activate the receptor (agonists) or inhibit it (antagonists and inverse agonists). When activated by its ligand, the GPCR interacts with intracellular G proteins, resulting in a cascade of signaling events inside the cell that ultimately leads to the particular function linked to the receptor.

It is estimated that worldwide annual drug sales exceed \$700 billion, and the high degree of specificity and affinity associated with GPCRs has contributed to their becoming the largest family of drug targets for therapeutics against human diseases. According to IPR, 30% to 40% of all drugs sold worldwide target GPCRs. Based on available data, we believe that there are 363 human non-sensory GPCRs, of which 227 have known ligands, or non-orphan GPCRs, and 136 have no known ligands, or orphan GPCRs. Without a known ligand, there is no template from which medicinal chemistry efforts can be readily initiated nor a means to identify the GPCR's signaling pathway and, therefore, drugs cannot easily be developed against orphan GPCRs. According to IPR, 125 of the non-orphan GPCRs, or greater than 50% of all 227 non-orphans, are either targeted by marketed drugs or drugs that are in development. Applying that same percentage to the 136 orphan GPCRs, we believe that there may be greater than 65 new druggable targets among the orphan GPCRs. "Unlocking" these orphan GPCRs could lead to the development of drugs that act at these new targets. To our knowledge, despite efforts by others in the biopharmaceutical industry, there has previously been no commercially viable technology to de-orphanize orphan GPCRs in high throughput.

We have scientific expertise in the field of GPCRs and members of our scientific team were the first to identify and characterize all GPCRs common to mice and humans, with the exception of sensory GPCRs. Our work was published in a peer-reviewed article titled "The G protein-coupled receptor repertoires of human and mouse" that appeared in the April 2003 issue of *Proceedings of the National Academy of Sciences* (Vol. 100, No. 8: pp. 4903-4908). In addition, we hold an exclusive option from Patobios Limited to acquire all of its patent and other intellectual property rights to a cellular redistribution assay, or CRA, which we have tested and optimized and that we believe can be used in a high-throughput manner to identify molecules, including antagonists, agonists and inverse agonists, that bind to orphan GPCRs, or surrogate de-orphanization of orphan GPCRs. Surrogate de-orphanization is the identification of synthetic molecules, as opposed to endogenous or naturally occurring ligands, that bind to orphan GPCRs. We also have developed a proprietary rapid mouse gene knock-out platform technology, which is described in a peer-reviewed article titled "Large-scale, saturating insertional mutagenesis of the mouse genome" that appeared in the September 2007 issue of *Proceedings of the National Academy of Sciences* (Vol. 104, No. 36: pp. 14406-14411). We have used this platform to create 61 different GPCR-specific strains of knock-out mice, and we have established a battery of behavioral tests that allows us to characterize these knock-out mice and identify candidate drug targets. The genes disrupted in these strains of knock-out mice include those linked to orphan GPCRs. In addition, we have developed a platform technology to efficiently produce reversible and inducible mouse gene knockout and rescue, which allows the mouse to fully develop before knocking out the gene rather than creating the knockout in the mouse embryo. As a result, we can evaluate the function of a gene even when its mutation would cause compensation by other genes or death during embryonic or neonatal development. This platform technology is described in a peer-reviewed article titled "An Inducible and Reversible Mouse Genetic Rescue System" that appeared in the May 2008 issue of *PLoS Genetics* (Vol. 4, Issue. 5).

Using our expertise and these assets, we believe that we are the first to possess the capability to conduct high-throughput surrogate de-orphanization of orphan GPCRs, and that there is no other existing high-throughput technology able to "unlock" orphan GPCRs. Based on our ability to de-orphanize orphan GPCRs through the identification of multiple binding molecules, identify their respective signaling pathways and generate and characterize the

associated knock-out mice, we intend to seek strong and exclusive intellectual property positions around these de-orphanized GPCRs.

In addition to their importance in humans, GPCRs are also present in other multicellular organisms, including other animals, plants and disease pathogens. Many of these GPCRs are orphans and are amenable to our de-orphanization capabilities. We believe that our GPCR platform technology can allow the development of a new generation of safer and more effective insecticides and drugs selectively targeting the offending organisms' GPCRs for the prevention and treatment of tropical infections and diseases, including parasitic infections such as those caused by flatworms and vector-borne diseases such as malaria and Dengue fever, as well as pesticides for agricultural use and therapeutics for animal husbandry.

In addition to our plans to conduct surrogate de-orphanization, we have identified what we believe to be previously unknown links between specific GPCR targets in the brain and a series of CNS disorders, and plan to discover additional links between these and other GPCRs and a wide range of disorders, including behavioral, cardiac, endocrine, gastrointestinal, immunologic, metabolic, musculoskeletal, oncologic, renal and respiratory. We have filed, and plan to file, corresponding patent applications related to these previously unknown links, and are developing and plan to develop compounds to treat many of these disorders.

Figure 1: Our GPCR Discovery Platform

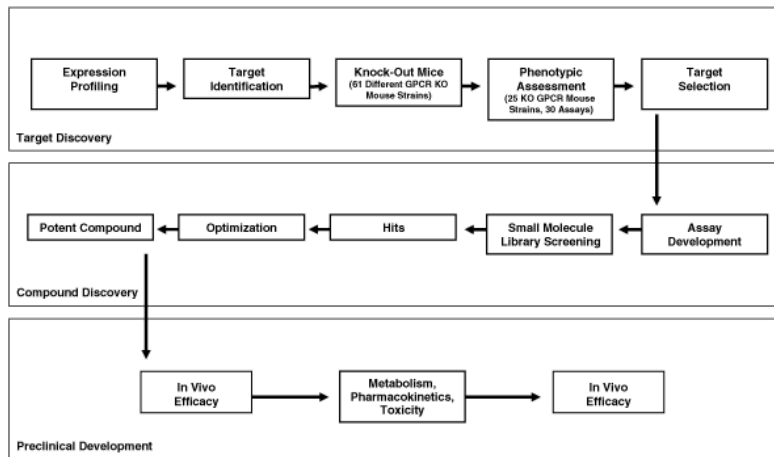


Figure 1 depicts our in-house discovery platform, which involves target discovery, compound discovery and preclinical development. We first identify those GPCRs with favorable profiles and eliminate the corresponding gene in mice. These knock-out mice are then evaluated through a battery of tests to identify GPCRs linked to CNS disorders. GPCRs of interest are subjected to assay development and high-throughput screening with small molecule libraries to identify compounds as potential clinical candidates. Identified compounds are then optimized in order to select clinical candidates.

Under the terms of our Exclusive Technology Option Agreement with Patobios Limited, we have the right to purchase Patobios' assets related to the CRA, including patents and other intellectual property rights, for approximately \$10.7 million CAD, of which \$7.7 million CAD is payable in cash and \$3.0 million CAD is payable in our common stock, subject to adjustment

as described below. Upon signing the agreement in September 2008 we paid Patobios a \$200,000 CAD cash option fee (\$188,000 USD) for the right to test and an exclusive option to purchase the assets during the nine-month period ending June 4, 2009. We have the option to extend this period for two consecutive six-month option periods ending December 4, 2009 and June 4, 2010 if, prior to each period, we pay a cash option fee of \$650,000 CAD. We currently intend to extend the option period to at least December 4, 2009. If during any option period we purchase these assets, the cash portion of the purchase price will be reduced by a portion of the related option fee we paid for such period based on the number of days remaining in the period. The purchase price and the option fee for the period ending December 4, 2009 are also subject to adjustments for any patent fees we pay on behalf of Patobios during the option period related to these assets. In addition, if during an option period we identify a set of ligands that bind to an orphan GPCR using the assay technology, Patobios will have the option to require us to purchase these assets for the same price we would be required to pay if we elected to purchase them. While we are currently evaluating the utility of these assets for our GPCR program, we are not required to and are not currently attempting to identify any ligands that bind to an orphan GPCR using the assay technology.

Acquisition of nura

We obtained our PDE10, PDE7 and GPCR programs in connection with our August 2006 acquisition of nura, inc., or nura, a private biotechnology company. We acquired all of the equity interests of nura through the issuance of 3.4 million shares of Series E convertible preferred stock and 36,246 shares of common stock to stockholders of nura, and we assumed a \$2.4 million promissory note, for a total purchase value of nura of \$14.4 million. The Series E convertible preferred stock issued in the nura acquisition included \$5.2 million of shares that we sold to certain nura institutional stockholders concurrent with the acquisition. We and the former stockholders of nura have no current continuing or contingent obligations to each other under the agreement pursuant to which we acquired nura.

Sales and Marketing

We have retained all marketing and distribution rights to our product candidates and programs, which provides us the opportunity to market and sell any of our product candidates independently, make arrangements with third parties to perform these services for us, or both. For the commercial launch of our lead product candidate, OMS103HP, we intend to build an internal sales and marketing organization to market OMS103HP in North America and rely on third parties to perform these services for us in markets outside of North America. Because OMS103HP, if approved, will be used principally by surgeons in hospital-based and free-standing ambulatory surgery centers, we believe that commercializing OMS103HP will only require a limited sales and marketing force.

We expect that an OMS103HP sales and marketing force is potentially scalable for both of our other PharmacoSurgery product candidates, OMS302 and OMS201. For the sales and marketing of other product candidates, we generally expect to retain marketing and distribution rights in those for which we believe that it will be possible to access markets through an internal sales and marketing force. If we do not believe that we can cost-effectively access markets for any approved product candidate through an internal sales and marketing force, we expect that we will make arrangements with third parties to perform these services for us.

Manufacturing

We have laboratories in-house for analytical method development, bioanalytical testing, formulation, stability testing and small-scale compounding of laboratory supplies of product candidates, which need not be manufactured in compliance with current Good Manufacturing

Practices, or cGMPs. We utilize outside contract manufacturers to produce sufficient quantities of product candidates for use in preclinical studies.

We rely on third-party manufacturers to produce, store and distribute our product candidates for clinical use and currently do not own or operate manufacturing facilities. We require that these manufacturers produce active pharmaceutical ingredients, or APIs, and finished drug products in accordance with cGMPs and all other applicable laws and regulations. We anticipate that we will rely on contract manufacturers to develop and manufacture our products for commercial sale. We maintain agreements with potential and existing manufacturers that include confidentiality and intellectual property provisions to protect our proprietary rights related to our product candidates.

We contracted with Catalent Pharma Solutions, Inc. to manufacture three registration batches of OMS103HP in freeze-dried, or lyophilized, form. Ongoing stability programs for these batches will be used to support the planned filing of a New Drug Application, or NDA, for OMS103HP. Pursuant to our stability study agreements with Catalent, we have agreed to pay Catalent for its performance of stability studies of three lots of lyophilized OMS103HP in accordance with cGMPs. These agreements terminate upon completion of the stability studies, provided that we may terminate these agreements at any time upon notice to Catalent. Sufficient quantities of lyophilized OMS103HP have been manufactured to support the ongoing Phase 3 clinical program through completion. We have received guidance from the FDA that submission of three months of stability data from one registration batch of lyophilized OMS103HP would be sufficient to qualify any other facility for commercial manufacturing purposes.

We have also formulated OMS103HP as a liquid solution to take advantage of the reduced cost of goods for manufacturing a liquid as compared to a lyophilized drug product and, if approved for marketing, intend to launch OMS103HP as a liquid solution. Although we do not believe that the inactive ingredients in liquid OMS103HP, which are included in the FDA's Inactive Ingredient Guide due to being present in drug products previously approved for parenteral use, impact its safety or effectiveness, the FDA will require us to provide comparative information and complete a stability study and may require us to conduct additional studies, which we expect would be non-clinical, to demonstrate that liquid OMS103HP is as safe and effective as lyophilized OMS103HP. We have entered into agreements with Hospira Worldwide, Inc., pursuant to which Hospira has manufactured registration batches of liquid OMS103HP at its facility in McPherson, Kansas, and agreed to manufacture and supply commercial supplies of liquid OMS103HP, if approved for marketing. Pursuant to our commercial supply agreement with Hospira, Hospira has agreed to supply, and we have agreed to purchase, a minimum quantity of our commercial supply needs of OMS103HP at a price based on the volume of our purchases. If Hospira is unable to supply a minimum quantity of our commercial supply needs, we have the right to reduce our minimum purchase commitment or, in some cases, terminate the agreement. We are obligated to provide Hospira with the APIs necessary to manufacture OMS103HP as a liquid solution. The term of the commercial supply agreement continues past the commercial launch of OMS103HP for a five-year period that automatically extends for up to two additional one-year periods unless a party gives notice that it intends to terminate the agreement at least two years prior to the beginning of an extension period. The commercial supply agreement may be terminated at any time prior to the end of its term by a party if the other party (1) materially breaches the agreement and does not cure such breach after notice and an opportunity to cure or (2) goes into liquidation, seeks the benefit of any bankruptcy or insolvency act, or a receiver or trustee is appointed for its property or estate, or it makes an assignment for the benefit of creditors, and such procedures are not terminated within ninety days. We also have the unilateral right to terminate the agreement in whole or in part at any time prior to the end of its term upon the occurrence of specified events such as a regulatory or development set back to OMS103HP that may prevent us from marketing OMS103HP or if we reasonably determine that OMS103HP

will not be commercially viable or profitable. The manufacturing facilities of Hospira have been inspected and approved by the FDA for the commercial manufacture of several third-party drug products.

We utilized three suppliers for the three APIs used in our clinical supplies of OMS103HP, sufficient quantities of which have been manufactured to support the ongoing Phase 3 clinical program through completion. We have not yet signed commercial agreements with any suppliers for the supply of commercial quantities of these APIs, although we intend to do so prior to the commercial launch of OMS103HP. Given the large amount of these APIs manufactured annually by these and other suppliers, we anticipate that we will be capable of attaining our commercial API supply needs for OMS103HP.

We have contracted with Althea Technologies, Inc. for the manufacture, release testing, and stability testing of clinical supplies of OMS302 and OMS201 at negotiated prices. These agreements end one year following Althea's manufacture of all of the clinical supplies required under the agreements, although we may terminate the agreements at any time upon notice to Althea. The APIs included in OMS302 and OMS201 are available from commercial suppliers.

We have undertaken the development of MASP-2 antibodies with two independent antibody developers, Affitech AS and North Coast Biologics, LLC. Our antibody development agreements with each of these developers require us to make royalty payments on net sales of any product containing an antibody developed for us in the low single-digits and milestone payments. The milestone payments are payable upon the occurrence of certain development events, such as the delivery of a product candidate meeting certain criteria, initiation of clinical trials and receipt of marketing approval. The terms of these agreements continue until all of the services called for in the applicable agreement have been provided by the antibody developer and there are no pending patent applications or valid and enforceable claims included with any patent related to MASP-2 antibodies developed by such developer under the agreement, except that our agreement with North Coast may not terminate earlier than October 31, 2020. These agreements may be terminated prior to the end of their terms upon the occurrence of certain events such as breach of contract or if it is determined that further development efforts are futile. In addition, under our North Coast antibody development agreement, North Coast has agreed to develop additional antibodies for us against targets that we select on or before October 31, 2020. If we do select additional targets, we may have to pay North Coast a technology access fee and we will have royalty and milestone payment obligations for any related antibodies that are similar to our obligations for any MASP-2 antibody developed by North Coast. We intend to enter into an agreement with a third-party contract manufacturer in 2009 for the scale-up and production of a MASP-2 monoclonal antibody product candidate for clinical testing and potentially commercial supply.

Competition

The pharmaceutical industry is highly competitive and characterized by a number of established, large pharmaceutical companies, as well as smaller companies like ours. If our competitors market products that are less expensive, safer or more effective than any future products developed from our product candidates, or that reach the market before our approved product candidates, we may not achieve commercial success. We are not aware of any products that directly compete with our PharmacoSurgery product candidates that are approved for intra-operative delivery in irrigation solutions during surgical procedures. If approved, we expect that the primary constraint to market acceptance of our PharmacoSurgery product candidates will be surgeons who continue with their respective current treatment practices and do not adopt the use of these product candidates. Adoption of our PharmacoSurgery product candidates, if approved, may reduce the use of current preoperative and postoperative treatments.

Our preclinical product candidates may face competing products. For example, we are developing PDE10 inhibitors for use in the treatment of schizophrenia. Other pharmaceutical companies, many with significantly greater resources than us, are also developing PDE10 inhibitors for the treatment of schizophrenia and these companies may be further along in development.

We expect to compete with other pharmaceutical and biotechnology companies, and our competitors may:

- develop and market products that are less expensive, more effective or safer than our future products;
- commercialize competing products before we can launch any products developed from our product candidates;
- operate larger research and development programs, possess greater manufacturing capabilities or have substantially greater financial resources than we do;
- initiate or withstand substantial price competition more successfully than we can;
- have greater success in recruiting skilled technical and scientific workers from the limited pool of available talent;
- more effectively negotiate third-party licenses and strategic relationships; and
- take advantage of acquisition or other opportunities more readily than we can.

We expect to compete for market share against large pharmaceutical and biotechnology companies, smaller companies that are collaborating with larger pharmaceutical companies, new companies, academic institutions, government agencies and other public and private research organizations. In addition, the pharmaceutical and biotechnology industry is characterized by rapid technological change. Because our research approach integrates many technologies, it may be difficult for us to remain current with the rapid changes in each technology. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Our competitors may render our technologies obsolete by advancing their existing technological approaches or developing new or different approaches.

Intellectual Property

We have made a significant investment in the development of a patent portfolio to protect our technologies and programs, and intend to continue to do so. We own a total of 21 issued or allowed patents and 51 pending patent applications in the United States and 83 issued or allowed patents and 93 pending patent applications in commercially significant foreign markets directed to therapeutic compositions and methods related to our PharmacoSurgery platform and preclinical development programs. We also hold worldwide exclusive licenses to two pending U.S. Patent applications, an issued foreign patent and two pending foreign patent applications. For each program, our decision to seek patent protection in specific foreign markets, in addition to the U.S., is based on many factors, including one or more of the following: our available resources, the size of the commercial market, the presence of a potential competitor or a contract manufacturer in the market and whether the legal authorities in the market effectively enforce patent rights.

Our patent portfolio for our PharmacoSurgery technology is directed to locally delivered compositions and treatment methods using agents selected from broad therapeutic classes. These patents cover combinations of agents, generic and/or proprietary to us or others, delivered locally and intra-operatively to the site of any medical or surgical procedure. Our patent portfolio includes 14 U.S. and 43 foreign issued or allowed patents, and 11 U.S. and 31 foreign pending patent applications, directed to our PharmacoSurgery product candidates and development programs. Our issued PharmacoSurgery patents have terms that will expire December 12, 2014 and, assuming issuance of currently pending patent applications, October 20, 2019 for OMS103HP, July 30, 2023 for OMS302 and March 17, 2026 for OMS201,

which potentially may be extended as a result of adjustment of patent terms resulting from USPTO delays. We will file additional patent applications directed to our specific drug products which, if issued, are expected to provide patent terms ending 2029 or later.

Our initial issued patents in our PharmacoSurgery portfolio are directed to combinations of agents, drawn from therapeutic classes such as pain and inflammation inhibitory agents, spasm inhibitory agents, restenosis inhibitory agents and tumor cell adhesion inhibitory agents. We expanded and further strengthened our initial patent position with a series of patent applications directed to what we believe are the key physiological and technical elements of selected surgical procedures, and to the therapeutic classes that provide opportunities to improve clinical benefit during and after these procedures. Accordingly, our pending PharmacoSurgery patent applications are directed to combinations of agents, drawn from therapeutic classes such as pain and inflammation inhibitory agents, spasm inhibitory agents, vasoconstrictive agents, mydriatic agents and agents that reduce intraocular pressure, that are preferred for use in arthroscopic procedures, ophthalmologic procedures including intraocular procedures, and urologic procedures including ureteroscopy, for OMS103HP, OMS302 and OMS201, respectively, as well as covering the specific combinations of agents included in each of these product candidates.

- *OMS103HP — Arthroscopy.* OMS103HP is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and vasoconstrictive agents, delivered locally and intra-operatively to the site of medical or surgical procedures, including arthroscopy. We currently own four issued U.S. Patents, two pending U.S. Patent Applications, and 12 issued patents and 9 pending patent applications in foreign markets (Australia, Brazil, Canada, China, Europe, Hong Kong, Japan, Mexico, Norway, Russia, Singapore and South Korea) that cover OMS103HP.
- *OMS302 — Ophthalmology.* OMS302 is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents, mydriatic agents and agents that reduce intraocular pressure, delivered locally and intra-operatively to the site of ophthalmological procedures, including cataract and lens replacement surgery. We currently own two pending U.S. Patent Applications and seven pending patent applications in foreign markets (Australia, Canada, China, Europe, Hong Kong and Japan) that cover OMS302.
- *OMS201 — Urology.* OMS201 is protected by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio cover combinations of agents, generic and/or proprietary to us or others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and spasm inhibitory agents, delivered locally and intra-operatively to the site of medical or surgical procedures, including uroendoscopy. We currently own three issued U.S. Patents, two pending U.S. Patent Applications, and an additional 10 issued patents and 16 pending patent applications in foreign markets (Australia, Brazil, Canada, China, Europe, Hong Kong, India, Japan, Mexico, Norway, Russia, Singapore and South Korea) that cover OMS201.
- *MASP-2 Program.* We hold worldwide exclusive licenses to rights in connection with MASP-2, the antibodies targeting MASP-2 and the therapeutic applications for those antibodies from the University of Leicester and from its collaborator, Medical Research Council at Oxford University. These licenses include what we believe to be each institution's joint ownership rights in patent applications and patents related to MASP-2 antibodies initially filed by researchers at Aarhus Universitet, Denmark. We currently exclusively control four pending U.S. Patent Applications and 21 pending patent applications in foreign markets (Australia, Brazil, Canada, China, Hong Kong, Europe,

India, Indonesia, Japan, Mexico, New Zealand, Russia and South Korea) related to our MASP-2 program.

- *Addiction Program.* We own three pending U.S. Patent Applications and a pending International Patent Cooperation Treaty, or PCT, Patent Application directed to the previously unknown link between PPAR γ and addictive disorders.
- *PDE10 Program.* Medicinal chemistry developments in our PDE10 program have resulted in five pending U.S. and a pending PCT Patent Application that claim what we believe to be novel chemical structures, as well as claiming the use of a broader set, or genus, of chemical structures as inhibitors of PDE10 for the treatment of schizophrenia and other psychotic disorders.
- *PDE7 Program.* We own two pending U.S. Patent Applications and a pending international PCT Patent Application directed to the previously unknown link between PDE7 and movement disorders.
- *GPCR Program.* We own one issued U.S. Patent, three pending U.S. Patent Applications, one international PCT Patent Application and an additional two issued patents and four pending patent applications in foreign markets (Australia, Canada, Europe and Japan), which are directed to previously unknown links between specific molecular targets in the brain and a series of CNS disorders, and to research tools that are used in our GPCR program.

All of our employees enter into our standard Employee Proprietary Information and Inventions Agreement, which includes confidentiality provisions and provides us ownership of all inventions and other intellectual property made by our employees that pertain to our business or that relate to our employees' work for us or result from the use of our resources. Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of the use, formulation and structure of our product candidates, and the methods used to manufacture them, as well as successfully defending these patents against third-party challenges. Our ability to protect our product candidates from unauthorized making, using, selling, offering to sell or importing by third parties is dependent on the extent to which we have rights under valid and enforceable patents that cover these activities.

The patent positions of pharmaceutical, biotechnology and other life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the United States, and tests used for determining the patentability of patent claims in all technologies are in flux. The pharmaceutical, biotechnology and other life sciences patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in the patents that we own or have licensed or in third-party patents.

We have retained all manufacturing, marketing and distribution rights for each of our product candidates and programs. Some of our product candidates and programs are based on inventions and other intellectual property rights that we acquired through assignments, exclusive licenses or our acquisition of nura, inc. in August 2006.

- *PharmacoSurgery Platform.* Our scientific co-founders, Gregory A. Demopoulos, M.D. and Pamela Pierce Palmer, M.D., Ph.D., conceived the initial invention underlying our PharmacoSurgery platform and transferred all of their related intellectual property rights to us in 1994. Other than their rights as shareholders, our co-founders have not retained any rights to our PharmacoSurgery platform, except that if we file for liquidation under Chapter 7 of the U.S. Bankruptcy Act or voluntarily liquidate or dissolve, other than in connection with a merger, reorganization, consolidation or sale of assets, our

co-founders have the right to repurchase the initial PharmacoSurgery intellectual property at the then-current fair market value. Subsequent developments of the PharmacoSurgery intellectual property were assigned to us by Dr. Demopoulos, Dr. Palmer and other of our employees and consultants, without restriction.

- *MASP-2 Program.* We hold worldwide exclusive licenses to rights related to MASP-2, the antibodies targeting MASP-2 and the therapeutic applications for the antibodies from the University of Leicester and from its collaborator, Medical Research Council at Oxford University, or MRC. Concurrent with execution of the license agreement with the University of Leicester, two provisional US Patent Applications directed to methods of treating conditions associated with complement activation by inhibiting MASP-2 or a related protein, and a British application directed to MASP-2 knock-out mice, were filed. Exclusive licenses to these three initial patent applications were conveyed to us by the University of Leicester license agreement. Under the terms of the University of Leicester and MRC license agreements, we have agreed to pay royalties to each of the University of Leicester and MRC based on any proceeds we receive from the licensed technology during the terms of the agreements. We must pay low single-digit royalties with respect to proceeds that we receive from products incorporating the licensed technology that are used, manufactured, directly sold or directly distributed by us, and we must pay royalties, initially in the range of low single-digit to low double-digit and decreasing over time to low single-digit, with respect to proceeds we receive from sublicense royalties or fees that we receive from third parties to which we grant sublicenses to the licensed technology. We may also sponsor research of MASP-2 by these institutions and retain worldwide exclusive licenses from these institutions to develop and commercialize any intellectual property rights developed in the sponsored research. The term of each license agreement ends when there are no longer any pending patent applications, applications in preparation or unexpired issued patents related to any of the intellectual property rights we are licensing under the agreement. Both of these license agreements may be terminated prior to the end of their terms by us for convenience or by a party if the other party (1) breaches any material obligation under the agreement and does not cure such breach after notice and an opportunity to cure or (2) is declared or adjudged to be insolvent, bankrupt or in receivership and materially limited from performing its obligations under the agreement.
- *Addiction Program.* We acquired the patent applications and related intellectual property rights for our Addiction program in 2009 from Roberto Ciccocioppo, Ph.D. of the Università di Camerino, Italy, pursuant to a Patent Assignment Agreement. We have agreed to pay Dr. Ciccocioppo royalties and milestone payments related to any products that are covered by the patents we acquired from him. For a more detailed description of this agreement, see "Business — Our Product Candidates and Development Programs — Addiction Program."
- *PDE10, PDE7 and GPCR Programs.* We acquired our PDE10, PDE7 and GPCR programs and some of our related patents and other intellectual property rights as a result of our acquisition of nura, inc. in August 2006 for an aggregate purchase price of \$14.4 million. We hold an exclusive option to purchase the CRA for our GPCR program from Patobios Limited for approximately \$10.7 million CAD. Our exclusive option with Patobios ends on June 4, 2009, provided that we have the right to extend our option for up to two additional six-month periods by paying Patobios \$650,000 CAD for each additional period. We currently intend to extend the option period to at least December 4, 2009.

Government Regulation

Government authorities in the United States and other countries extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion,

advertising, distribution, marketing, and export and import of drug products such as those we are developing. Failure to comply with applicable requirements, both before and after approval, may subject us, our third-party manufacturers, and other partners to administrative and judicial sanctions, such as a delay in approving or refusal to approve pending applications, warning letters, product recalls, product seizures, civil and other monetary penalties, total or partial suspension of production or distribution, injunctions, and/or criminal prosecutions.

In the United States, our products are regulated by the FDA as drugs under the Federal Food, Drug, and Cosmetic Act, or the FDCA, and implementing regulations. Before our drug products may be marketed in the United States, each must be approved by the FDA. Our product candidates are in various stages of testing and none have been approved.

The steps required before a drug product may be approved by the FDA generally include the following:

- preclinical laboratory and animal tests, and formulation studies;
- submission to the FDA of an Investigational New Drug Application, or IND, for human clinical testing, which must become effective before human clinical trials may begin in the United States;
- adequate and well-controlled human clinical trials to establish the efficacy and safety of the product candidate for each indication for which approval is sought;
- submission to the FDA of a New Drug Application, or NDA;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with cGMP; and
- FDA review and approval of an NDA.

Preclinical Tests. Preclinical tests include laboratory evaluations of product chemistry, toxicity, formulation, and stability, as well as animal studies to assess the potential efficacy and safety of the product candidate. The results of the preclinical tests, together with manufacturing information, analytical data, and other available information are submitted to the FDA as part of an IND.

The IND Process. An IND must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions and imposes a clinical hold. In such a case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. There can be no assurance that submission of an IND will result in FDA authorization to commence clinical trials. Once an IND is in effect, the protocol for each clinical trial to be conducted under the IND must be submitted to the FDA, which may or may not allow the trial to proceed.

Clinical Trials. Clinical trials involve the administration of the investigational drug to human subjects under the supervision of qualified personnel. Clinical trials are conducted under protocols detailing, for example, the parameters to be used in monitoring patient safety, and the efficacy criteria, or end points, to be evaluated. Each trial must be reviewed and approved by an independent Institutional Review Board or Ethics Committee before it can begin. Clinical trials are typically conducted in three defined phases, but the phases may overlap or be combined:

- Phase 1 usually involves the initial administration of the investigational drug product to human subjects to evaluate its safety, dosage tolerance, pharmacodynamics and, if possible, to gain an early indication of its effectiveness.
- Phase 2 usually involves trials in a limited patient population, with the disease or condition for which the product candidate is being developed, to evaluate dosage

tolerance and appropriate dosage, identify possible adverse side effects and safety risks, and preliminarily evaluate the effectiveness of the drug for specific indications.

- Phase 3 trials usually further evaluate effectiveness and test further for safety by administering the drug in its final form in an expanded patient population.

We, our product development partners, or the FDA may suspend clinical trials at any time on various grounds, including a belief that the subjects are being exposed to an unacceptable health risk.

The NDA Process. If the necessary clinical trials are successfully completed, the results of the preclinical trials and the clinical trials, together with other detailed information, including information on the manufacture and composition of the product, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. Before approving an NDA, the FDA usually will inspect the facility(ies) at which the product is manufactured, and will not approve the product unless it finds that cGMP compliance is satisfactory. If the FDA determines the NDA is not acceptable, the FDA may outline the deficiencies in the NDA and often will request additional information. Notwithstanding the submission of any requested additional testing or information, the FDA ultimately may decide that the application does not satisfy the criteria for approval. After approval, certain changes to the approved product, such as adding new indications, manufacturing changes, or additional labeling claims will require submittal of a new NDA or, in some instances, an NDA supplement, for further FDA review and approval. Post-approval marketing of products in larger patient populations than were studied during development can lead to new findings about the safety or efficacy of the products. This information can lead to a product sponsor's requesting approval for and/or the FDA requiring changes in the labeling of the product or even the withdrawal of the product from the market. The testing and approval process requires substantial time, effort, and financial resources, and we cannot be sure that any approval will be granted on a timely basis, if at all.

Some of our drug products may be eligible for submission of applications for approval under the Section 505(b)(2) process. Section 505(b)(2) applications may be submitted for drug products that represent a modification, such as a new indication or new dosage form, of a previously approved drug. Section 505(b)(2) applications may rely on the FDA's previous findings for the safety and effectiveness of the previously approved drug as well as information obtained by the 505(b)(2) applicant to support the modification of the previously approved drug. Preparing Section 505(b)(2) applications may be less-costly and time-consuming than preparing an NDA based entirely on new data and information.

The FDA regulates certain of our candidate products as combination drugs under its Combination Drug Policy because they are comprised of two or more active ingredients. The FDA's Combination Drug Policy requires that we demonstrate that each active ingredient in a drug product contributes to the product's effectiveness.

In addition, we, our suppliers, and our contract manufacturers are required to comply with extensive FDA requirements both before and after approval. For example, we are required to report certain adverse reactions and production problems, if any, to the FDA, and to comply with certain requirements concerning advertising and promotion for our products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval, and the FDA periodically inspects manufacturing facilities to assess compliance with cGMP. Accordingly, manufacturers must continue to expend time, money, and effort in all areas of regulatory compliance, including production and quality control to comply with cGMP. In addition, discovery of problems such as safety problems may result in changes in labeling or restrictions on a product manufacturer or NDA holder, including removal of the product from the market.

Outside of the United States, our ability to market our products will also depend on receiving marketing authorizations from the appropriate regulatory authorities. The foreign

regulatory approval process includes similar requirements and many of the risks associated with the FDA approval process described above. The requirements governing marketing authorization and the conduct of clinical trials vary widely from country to country.

Research and Development

We have built a research and development organization that includes expertise in discovery research, preclinical development, product formulation, analytical and medicinal chemistry, manufacturing, clinical development and regulatory and quality assurance. We operate cross-functionally and are led by an experienced research and development management team. We use rigorous project management techniques to assist us in making disciplined strategic research and development program decisions and to limit the risk profile of our product pipeline. We also access relevant market information and key opinion leaders in creating target product profiles and, when appropriate, as we advance our programs to commercialization. We engage third parties on a limited basis to conduct portions of our preclinical research; however, we are not substantially dependent upon any third parties for our preclinical research nor do any of these third parties conduct a major portion of our preclinical research. In addition, we engage multiple clinical sites to conduct our clinical trials; however we are not substantially dependent upon any one of these sites for our clinical trials nor do any of them conduct a major portion of our clinical trials. Research and development expenses were \$17.9 million, \$15.9 million, and \$9.6 million in 2008, 2007, and 2006, respectively.

Employees

As of April 30, 2009, we had 68 full-time employees, 56 of whom are in research and development and 12 of whom are in finance, legal, and administration, including four with M.D.s and 19 with Ph.D.s. None of our employees is represented by a labor union and we consider our employee relations to be good.

Facilities

We lease approximately 17,000 square feet for our principal administrative facility under leases that expire August 31, 2011, and we lease approximately 25,300 square feet for our research and development facility, which includes a modern vivarium, under a lease that expires September 30, 2011. Our two facilities are located in separate buildings in Seattle, Washington. The annual lease payments for these facilities, including common area maintenance and related operating expenses, are approximately \$2.1 million.

Legal Proceedings

On September 29, 2008 we filed a complaint, now pending in U.S. District Court for the Western District of Washington, against Scottish Biomedical, Ltd., a United Kingdom private limited company, related to contract laboratory services provided by Scottish Biomedical for our PDE10 and PDE7 programs. In our complaint, we allege that Scottish Biomedical breached our contract laboratory services agreement, committed fraud and misrepresentations and fraudulent concealment and violated the Washington Consumer Protection Act. Our complaint seeks unspecified damages resulting from our having to re-perform certain services provided by Scottish Biomedical and for losses we suffered as a result of delays to the advancement of our programs.

MANAGEMENT

Executive Officers, Key Employees and Directors

The following table provides information regarding our current executive officers, key employees and directors:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
<i>Executive Officers:</i>		
Gregory A. Demopoulos, M.D.	50	President, Chief Executive Officer, Chief Medical Officer and Chairman of the Board of Directors and, in an interim capacity, Chief Financial Officer and Treasurer
Marcia S. Kelbon, Esq.	49	Vice President, Patent and General Counsel and Secretary
<i>Key Employees:</i>		
George A. Gaitanaris, M.D., Ph.D.	52	Vice President, Science
Wayne R. Gombotz, Ph.D.	50	Vice President, Pharmaceutical Operations
Stephen R. Murray, M.D., Ph.D.	46	Vice President, Clinical Development
J. Greg Perkins, Ph.D.	64	Vice President, Regulatory Affairs and Quality Systems
Clark E. Tedford, Ph.D.	50	Vice President, Research
<i>Directors:</i>		
Ray Aspiri (2)	72	Director
Thomas J. Cable (1)(2)	69	Director
Peter A. Demopoulos, M.D., FACC	55	Director
Leroy E. Hood, M.D, Ph.D.	70	Director
Jean-Philippe Tripet (1)	46	Director

(1) Member of our audit committee.

(2) Member of our compensation committee.

(3) Member of our nominating and corporate governance committee.

Gregory A. Demopoulos, M.D. is one of our founders and has served as our president, chief executive officer, chief medical officer and chairman of the board of directors since June 1994 and, in an interim capacity, as our chief financial officer and treasurer since January 2009. Prior to founding Omeros, Dr. Demopoulos completed his residency in orthopedic surgery at Stanford University and his fellowship training at Duke University. Dr. Demopoulos is a named inventor on 19 issued and allowed U.S. patents and 79 issued and allowed foreign patents. Dr. Demopoulos currently serves on the board of directors of Onconome, Inc., a privately held company developing biomarkers for early cancer detection. Dr. Demopoulos received his M.D. from the Stanford University School of Medicine and his B.S. from Stanford University.

Marcia S. Kelbon, Esq. has served as our vice president, patent and general counsel since October 2001 and as our secretary since September 2007. Prior to joining us, Ms. Kelbon was a partner with the firm of Christensen O'Connor Johnson & Kindness, PLLC, where she specialized in U.S. and international intellectual property procurement, management, licensing and enforcement issues. Ms. Kelbon received her J.D. and her M.S. in chemical engineering from the University of Washington and her B.S. from The Pennsylvania State University.

George A. Gaitanaris, M.D., Ph.D. has served as our vice president, science since August 2006. From August 2003 to our acquisition of nura, inc. in August 2006, Dr. Gaitanaris served as the chief scientific officer of nura, a company that he co-founded and that developed treatments for central nervous system disorders. From 2000 to 2003, Dr. Gaitanaris served as president and chief scientific officer of Primal, Inc., a biotechnology company that was acquired by nura in 2003. Prior to co-founding Primal, Dr. Gaitanaris served as staff scientist at the National Cancer Institute. Dr. Gaitanaris received his Ph.D. in cellular, molecular and

biophysical studies and his M.Ph. and M.A. from Columbia University in New York and his M.D. from the Aristotelian University of Greece.

Wayne R. Gombotz, Ph.D. has served as our vice president, pharmaceutical operations since March 2005. From 2002 to 2005, Dr. Gombotz served as vice president, process science and pharmaceutical development at Corixa Corporation, a company that developed immunotherapeutic products and which was acquired by GlaxoSmithKline plc in July 2005. From 1995 to 2002, Dr. Gombotz served as senior director, analytical chemistry and formulation at Immunex Corporation, a company that developed immunotherapeutic products and was acquired by Amgen, Inc. in July 2002. Dr. Gombotz received his Ph.D. and M.S. in bioengineering from the University of Washington and his B.A. from Colby College.

Stephen R. Murray, M.D., Ph.D. has served as our vice president, clinical development since April 2009. From 2006 to 2009, Dr. Murray served in various positions, most recently as Chief Medical Officer, at Memory Pharmaceuticals, Inc., a biopharmaceutical company that developed treatments for central nervous system disorders, which was acquired by Hoffman-La Roche Inc. in January 2009. From 2005 to 2006, Dr. Murray served at Pfizer Global Pharmaceuticals as a senior medical director and therapeutic team leader for schizophrenia, bipolar disorder and cognition, and from 2004 to 2005 he served as senior medical director and worldwide medical team leader, schizophrenia and as full development team leader, ziprasidone. Prior to 2004, Dr. Murray served as a medical director at Pfizer Pharmaceuticals Group and as an assistant medical director at Janssen Pharmaceuticals. Dr. Murray received his training in psychiatry at the University of California, San Francisco, his M.D. and Ph.D. in molecular and cellular biology from the Medical University of South Carolina and his B.S. from the University of South Carolina.

J. Greg Perkins, Ph.D. has served as our vice president, regulatory affairs and quality systems since April 2006. From 2004 to 2005, Dr. Perkins served as president of Bioderm Sciences, Inc., a company engaged in the development of wound management, first aid and sports medicine products. From 1994 to 2004, Dr. Perkins served in various positions at Solvay Pharmaceuticals, Inc., a pharmaceutical company, most recently as senior vice president, global scientific affairs and milestone review. Dr. Perkins received his Ph.D. in biochemistry and B.S. from Indiana University and completed a postdoctoral fellowship in neurochemistry at the University of Iowa.

Clark E. Tedford, Ph.D. has served as our vice president, research since July 2003. From 2002 to 2003, Dr. Tedford served as president and chief executive officer of Solentix, Inc., a company that developed treatments for disorders of the central nervous system and inflammatory diseases. From 1993 to 2003, Dr. Tedford worked for Gliatech Inc., a company that developed biosurgery and pharmaceutical products, most recently as executive vice president, research and development. Prior to Gliatech, Dr. Tedford served in various positions at Schering Plough. Dr. Tedford received his Ph.D. in pharmacology and his B.A. from the University of Iowa and completed his post-doctoral work in the Department of Pharmacology at the Loyola University Medical School.

Ray Aspiri has served on our board of directors since January 1995 and as our treasurer from January 1999 to September 2007. Mr. Aspiri is the chairman of the board of Tempress Technologies, Inc., a research and development company specializing in high-pressure fluid dynamics for the oil and gas industry, which he joined in 1997. From 1980 to 1997, Mr. Aspiri served as the chairman of the board and chief executive officer of Tempress, Inc., a company specializing in products for the truck, marine and sporting goods industries.

Thomas J. Cable has served on our board of directors since January 1995. Mr. Cable is the chairman of the board of the Washington Research Foundation, a technology transfer and early stage venture capital organization affiliated with the University of Washington, which he co-founded in 1980. Mr. Cable also founded Cable & Howse Ventures, a venture capital firm, and Cable, Howse & Ragen, an investment banking firm. Mr. Cable also co-founded

Montgomery Securities, an investment banking firm acquired by Bank of America. A former U.S. Navy submarine officer, Mr. Cable received his M.B.A. from the Stanford Graduate School of Business and his B.A. from Harvard University.

Peter A. Demopolos, M.D., FACC has served on our board of directors since January 1995. Dr. Demopolos is a board certified cardiologist and the Medical Director at Seattle Cardiology, a cardiology clinic he joined in 2005. From 1989 to 2005, Dr. Demopolos practiced cardiology at Minor & James Medical PLLC. Dr. Demopolos is also a clinical assistant professor of cardiology at the University of Washington School of Medicine, a position that he has held since 1989, and he participates as an investigator in clinical trials evaluating interventional cardiology devices and drug therapies at Seattle Cardiovascular Research and Swedish Cardiovascular Research. Dr. Demopolos received his M.D. from the Stanford University School of Medicine and his B.S. from Stanford University.

Leroy E. Hood, M.D., Ph.D. has served on our board of directors since March 2001. Dr. Hood is the president of the Institute for Systems Biology, a non-profit research institute dedicated to the study and application of systems biology, which he co-founded in 2000. Previously, Dr. Hood was founder and chairman of the Department of Molecular Biotechnology at the University of Washington School of Medicine. Dr. Hood also co-founded Amgen, Inc., Applied Biosystems, Inc., Darwin Molecular Technologies, Inc., Rosetta Inpharmatics, Inc. and SyStemix, Inc. Dr. Hood is a member of the National Academy of Sciences, the American Philosophical Society, the American Association of Arts and Sciences, the Institute of Medicine and the National Academy of Engineering. Dr. Hood received his Ph.D. and B.S. from the California Institute of Technology and his M.D. from The John Hopkins School of Medicine.

Jean-Philippe Tripet has served on our board of directors since September 2006. Mr. Tripet served on the board of directors of nura, inc. from September 2003 to August 2006. Mr. Tripet is the chairman and managing partner of Aravis Venture, a venture capital firm that he founded in 2001. Previously, Mr. Tripet served as executive vice president of Lombard Odier & Cie, a commercial bank, where he co-founded and headed the Lombard Odier Immunology Fund, and as vice president equity research of Union Bank of Switzerland. Mr. Tripet received his degree in business administration from the University of Geneva.

Board of Directors

Our business and affairs are organized under the direction of our board of directors, which currently consists of six members. The primary responsibilities of our board of directors are to provide oversight, strategic guidance, counseling and direction to our management. Our board of directors meets on a regular basis and additionally as required. Our board of directors has determined that Mr. Aspiri, Mr. Cable, Dr. Hood and Mr. Tripet each meet NASDAQ requirements for independence.

Effective upon the completion of this offering, our articles of incorporation will provide for a classified board of directors consisting of three classes of directors, each serving staggered three-year terms, as follows:

- Class I, which will consist of Ray Aspiri and Jean-Philippe Tripet, and whose term will expire at our first annual meeting of shareholders to be held following the completion of this offering;
- Class II, which will consist of Thomas J. Cable and Peter A. Demopolos, M.D., and whose term will expire at our second annual meeting of shareholders to be held following the completion of this offering; and
- Class III, which will consist of Gregory A. Demopolos, M.D. and Leroy E. Hood, M.D., Ph.D., and whose term will expire at our third annual meeting of shareholders to be held following the completion of this offering.

At each annual shareholders meeting to be held after the initial classification, the successors to directors whose terms then expire will serve until the third annual meeting following their election and until their successors are duly elected and qualified.

The authorized size of our board is currently nine members. The authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed between the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in our control or management.

Peter A. Demopulos, M.D., FACC and Gregory A. Demopulos, M.D. are brothers. There are no other family relationships among any of our directors or executive officers.

Committees of the Board of Directors

Our board of directors has an audit committee, a compensation committee and a nominating and governance committee, each of which has the composition and responsibilities described below as of the completion of this offering.

Audit Committee

The members of our audit committee are Mr. Cable, Mr. Tripet and . Mr. Cable is the chairman of our audit committee. Our board has determined that each member of our audit committee meets current SEC and NASDAQ requirements for independence. Our board of directors has also determined that is an "audit committee financial expert" as defined in SEC rules. The audit committee is responsible for, among other things:

- selecting and hiring our independent auditors, and approving the audit and non-audit services to be performed by our independent registered public accounting firm;
- evaluating the qualifications, performance and independence of our independent registered public accounting firm;
- monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing with our independent registered public accounting firm and management significant issues that arise regarding accounting principles and financial statement presentation, and matters concerning the scope, adequacy and effectiveness of our financial controls;
- reviewing the adequacy and effectiveness of our internal control policies and procedures;
- establishing procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters;
- reviewing and approving in advance any proposed related-party transactions and monitoring compliance with our code of business conduct and ethics; and
- preparing the audit committee report that the SEC requires in our annual proxy statement.

Compensation Committee

The members of our compensation committee are Ray Aspiri and Thomas J. Cable. Mr. Aspiri is the chairman of our compensation committee. Our board has determined that

each member of our compensation committee meets current NASDAQ requirements for independence. The compensation committee is responsible for, among other things:

- evaluating and recommending to our board of directors the compensation and other terms of employment of our executive officers and reviewing and approving corporate performance goals and objectives relevant to such compensation;
- evaluating and recommending to our board of directors the type and amount of compensation to be paid or awarded to board members;
- evaluating and recommending to our board of directors the equity incentive plans, compensation plans and similar programs advisable for us;
- administering our equity incentive plans;
- reviewing and approving the terms of any employment agreements, severance arrangements, change in control protections and any other compensatory arrangements for our executive officers; and
- preparing the compensation committee report that the SEC requires in our annual proxy statement.

Nominating and Governance Committee

The members of our nominating and governance committee are , and . Mr. is the chairman of our nominating and governance committee. Our board has determined that each member of our nominating and governance committee meets current NASDAQ requirements for independence. The nominating and governance committee is responsible for, among other things:

- assisting the board in identifying prospective director nominees and recommending director nominees to our board for each annual meeting of shareholders;
- evaluating nominations by shareholders of candidates for election to our board;
- recommending governance principles to our board;
- overseeing the evaluation of our board of directors and management;
- reviewing shareholder proposals for our annual meetings;
- evaluating proposed changes to our charter documents and board committee charters;
- reviewing and assessing our senior management succession plan; and
- recommending to our board the members for each board committee.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is an officer or employee of our company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Non-Employee Director Compensation

In the past, we have granted option awards to our non-employee directors in consideration for serving on our board of directors. We have not provided cash compensation to any directors for serving on our board of director or committees of our board of directors. We have reimbursed and will continue to reimburse our non-employee directors for their reasonable expenses incurred in attending meetings of our board of directors and committees of our board of directors.

The following table sets forth summary information concerning the type and total compensation paid or accrued for services rendered to us in all capacities to our non-employee directors for the fiscal year ended December 31, 2008.

2008 Director Compensation

Name	Option Awards (\$(1) (2)(3))	Total (\$)
Ray Aspiri	—	—
Thomas J. Cable	—	—
Peter A. Demopoulos, M.D.	—	—
Leroy E. Hood, M.D, Ph.D.	—	—
David A. Mann	45,599	45,599
Jean-Philippe Tripet	—	—

- (1) Our directors did not receive any cash compensation during 2008. Amounts shown in this column represent the compensation cost for the year ended December 31, 2008 of option awards granted to each of our non-employee directors as determined in accordance with Statement of Financial Accounting Standards No. 123(revised), or SFAS 123R, using the Black-Scholes option valuation model. The assumptions used to calculate the value of option awards are set forth in Note 11 to our consolidated financial statements included elsewhere in this prospectus. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeiture related to service-based vesting conditions.
- (2) As of December 31, 2008, Mr. Mann held an option award to purchase 25,000 shares of our common stock with an exercise price of \$1.25 per share that vested over a three-year period in equal annual installments. Mr. Mann exercised this option award for 8,333 shares of our common stock in January 2009. Mr. Mann resigned from our board of directors in March 2009.
- (3) As of December 31, 2008, Mr. Aspiri, Mr. Cable and Dr. Hood held option awards to purchase 30,000, 45,000 and 50,000 shares of our common stock, respectively. All of these option awards were fully vested and exercisable as of December 31, 2008.

Following the completion of this offering, all of our directors will be eligible to participate in our 2008 Equity Incentive Plan. For a more detailed description of these plans, see "Management — Executive Compensation — Employee Benefit Plans."

Executive Compensation

Compensation Discussion and Analysis

The compensation committee of our board of directors is responsible for establishing and implementing our compensation philosophy and programs for executive officers. The objectives of our executive compensation program are to attract and retain individuals with the skills necessary to help us achieve our business goals, to reward those individuals who help us achieve those goals and to align their interests with those of our shareholders by tying a portion of executive compensation to shareholder value creation. Executive compensation is comprised of the following elements: base salary, annual merit increases, discretionary cash bonuses, stock option awards, severance and change of control benefits, and general benefits that are available to all full-time employees. We do not have any policies for allocating compensation among the elements of our executive compensation program, nor is the level of one element of compensation substantially dependent on the level of any other element of compensation. However, while we must offer base salaries at competitive rates to attract and retain individuals with the skills necessary to achieve our business goals, we believe that stock option awards are more effective than base salaries at aligning the interests of our executive officers with those of our shareholders. Our goal in setting executive compensation is to motivate our executive officers to achieve our business objectives and, as a result, stock option awards are an important component of an executive's overall compensation.

In the past, we have determined the level for each element of compensation based on the contributions that each executive officer has made to our success, their respective positions and responsibilities, the experience and knowledge of our management and members of our compensation committee, the relative compensation paid to other members of our senior management, general economic factors and executive compensation surveys that provided summary compensation data of, and public disclosures made by, biotechnology and pharmaceutical companies that we believe are comparable to us based on their location, number of employees, stage of development and resources. Because we have not generally reviewed the compensation of each of our executive officers at the same time, the data we reviewed varied from period to period and from executive to executive. Except for one option award we granted in 2007 to our former chief financial officer, we have not historically established specific individual or corporate performance objectives in setting compensation levels regarding the various components of our compensation package. In the past, our compensation committee has conducted periodic reviews of the compensation of our executive officers. Upon completion of this offering, our compensation committee intends to perform at least annually a review of our executive officers' compensation to determine whether it meets the objectives of our executive compensation program.

The compensation of Gregory A. Demopoulos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors, has been determined by our compensation committee. Dr. Demopoulos does not participate in the deliberations of the compensation committee regarding his compensation, although he does participate in negotiations with members of the compensation committee regarding his compensation. The compensation of our other executive officers has been determined by Dr. Demopoulos in consultation with our compensation committee, provided that our compensation committee approves all stock option awards granted to executive officers. We have not engaged third-party consultants with respect to executive compensation matters but expect to do so in the future.

Upon completion of this offering, our compensation committee will determine and review the compensation of our executive officers with the input and advice of our chief executive officer and other members of management; however, an executive officer will not be present during portions of meetings of the compensation committee at which his or her compensation is discussed and approved. In addition, our compensation committee will have the authority to engage third-party consultants to assist it in determining the elements and levels of our executive compensation program, including any individual and corporate performance objectives.

Base Salary. We fix the base salaries of our executive officers at levels that we believe enable us to attract and retain individuals with the skills necessary to achieve our business goals and that we believe are competitive with the base salaries paid by comparable pharmaceutical and biotechnology companies.

The annual base salaries of Dr. Demopoulos and Marcia S. Kelbon, our vice president, patent and general counsel are currently \$475,000 and \$285,000, respectively. The annual base salary of Richard J. Klein, our former chief financial officer and treasurer, was \$250,000 when his employment terminated with us in January 2009. We believe that these base salaries are competitive with the base salaries paid by comparable pharmaceutical and biotechnology companies to executive officers with similar positions and experience.

Discretionary Cash Bonuses. We have from time to time paid cash bonuses to reward performance achievements, but we have not implemented any plan or policy for awarding cash bonuses to our executive officers. In order to preserve capital, we did not award any cash bonuses to our executive officers in 2008.

Option Awards. We grant option awards to our executive officers as a means of aligning their interests with shareholder value creation and to reward long-term performance. In determining the size of grants of option awards to executive officers, our compensation

committee considers the current equity ownership position of the executive officer, if any, the option awards granted to other senior managers in comparable positions both within our company and at comparable pharmaceutical and biotechnology companies, and the expected impact that the executive officer will have on meeting our business goals and increasing shareholder value. Our option awards to new employees vest over a four-year period beginning on an employee's start date, with 1/4th of the shares vesting on the one-year anniversary of his or her start date and 1/48th of the total shares subject to the option award vesting each month thereafter. In addition to option awards for new employees, we typically grant additional options after an employee has fully vested in all of his or her previously granted option awards that generally vest ratably over 48 months beginning on or near the last vesting date of any previously granted option awards. We have also granted an option award to our former chief financial officer with vesting tied to the achievement of defined business goals.

Because we grant option awards to our executive officers with exercise prices equal to the fair market value of our common stock on the date of grant, our option awards are only valuable to our executive officers if the price of our common stock increases after the date of grant. Our board of directors has historically determined the value of our common stock based on the consideration of several factors applicable to common stock of privately held companies including, among other things, the prices of our convertible preferred stock sold to outside investors, the rights of our convertible preferred stock relative to those of our common stock, our financial position, the status of our research and development efforts, our stage of development and business strategy, the composition of our management team, the market value of similar companies, the lack of liquidity of our common stock and our likelihood of achieving a liquidity event given prevailing market conditions. We do not have any program, plan or obligation that requires us to grant equity compensation on specified dates and, because we have not been a public company, we have not made equity grants in connection with the release or withholding of material non-public information. As a public company, we intend to grant equity awards at the closing public trading price of our common stock on the date of the grant.

To date, a substantial majority of our outstanding option awards have been granted under our Second Amended and Restated 1998 Stock Option Plan, which expired in February 2008, and the nura, inc. 2003 Stock Option Plan. Beginning in March 2008, we only grant option awards under our 2008 Equity Incentive Plan. Please see "Management — Executive Compensation — Employee Benefit Plans" for a description of these plans. The 2008 Equity Incentive Plan affords us greater flexibility in granting to our executive officers and other employees a wide variety of equity and equity-related awards, including option awards, stock appreciation rights, restricted stock awards, restricted stock units and performance units and shares. We did not grant any option awards to our executive officers in 2008.

Severance and Change of Control Benefits. We have entered into an employment agreement with Dr. Demopolos that provides him severance benefits if we terminate his employment without cause or if he terminates his employment with us for good reason. In addition, pursuant to the terms of our Second Amended and Restated 1998 Stock Option Plan, all option awards granted under that plan to our executive officers will accelerate as to 50% of the unvested shares upon a change of control and 100% of the unvested shares if the acquirer does not assume or replace an executive officer's option awards or if, within one year of the change of control, an executive officer is terminated without cause or constructively terminated. See "Management — Executive Compensation — Potential Payment upon Termination or Change in Control" below for a more detailed description and quantification of all of these severance benefits.

We believe that the severance and change of control benefits we provide to Dr. Demopolos are competitive with the benefits offered by comparable pharmaceutical and biotechnology companies to chief executive officers and founders with Dr. Demopolos' tenure, experience and performance. In addition, we believe that these benefits help us to retain Dr. Demopolos

because they mitigate some of the risks associated with working at a smaller company like ours versus other less risky and better cash remunerated job alternatives that Dr. Demopoulos may have. In addition, because of the significant acquisition activity among pharmaceutical and biotechnology companies of our size, the critical role that executive officers play in the successful closing of an acquisition and the risk that an executive officer's employment will be terminated as part of the acquisition, we believe that the change of control benefits that we provide to our executive officers under our Second Amended and Restated 1998 Stock Option Plan are necessary to attract and retain qualified individuals to serve as executive officers and to provide an incentive to contribute to the successful completion of an acquisition.

General Benefits. Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, vision, life and disability insurance and our 401(k) plan, in each case on the same basis as other employees, subject to applicable law. We also provide vacation and other paid holidays to all employees, including our executive officers, which are comparable to those provided at peer companies.

Summary Compensation Table

The following table shows all of the compensation awarded to, earned by, or paid to our principal executive officer, principal financial officer and our other executive officer for the year ended December 31, 2008. The officers listed in the table below are referred to in this prospectus as the "named executive officers."

2008 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Option Awards (\$) (1)	All Other Compensation (\$)	Total (\$)
Gregory A. Demopoulos, M.D. President, Chief Executive Officer, Chief Medical Officer and Chairman of the Board of Directors	2008	475,000	594,203	25,225 (2)	1,094,428
Marcia S. Kelbon, Esq. Vice President, Patent and General Counsel and Secretary	2008	285,000	67,706	3,049	355,755
Richard J. Klein (3) Chief Financial Officer and Treasurer	2008	250,000	202,577	4,092	456,669

(1) Amounts shown do not reflect compensation actually received by the named executive officers. Instead, the dollar amounts shown in this column represent the compensation cost for the year ended December 31, 2008 of option awards granted to each of our named executive officers as determined pursuant to SFAS 123R using the Black-Scholes option valuation model. The assumptions used to calculate the value of option awards are set forth in Note 11 to our consolidated financial statements included elsewhere in this prospectus. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeiture related to service-based vesting conditions.

(2) Represents \$25,088 in perquisites and other personal benefits, which included payments for medical malpractice insurance, parking expenses, legal fees, medical practice fees and travel expenses, and \$137 in life insurance premiums.

(3) Mr. Klein's employment with us ended in January 2009.

Executive Employment Agreements

Gregory A. Demopoulos, M.D. We have entered into an employment agreement with Dr. Demopoulos dated as of December 30, 2007. Pursuant to the terms of his employment agreement, Dr. Demopoulos is an at-will employee and is entitled to receive an annual base salary of \$475,000, which our compensation committee will review at least annually. We may not reduce Dr. Demopoulos' annual base salary without his consent, except for a reduction that is consistent with an across-the-board reduction in base compensation payable to other

employees with the title of director or higher. See "Management — Executive Compensation — Outstanding Equity Awards at Fiscal Year-End" below for a description of the outstanding equity awards held by Dr. Demopolos.

Dr. Demopolos is entitled to participate in any bonus and incentive plans or programs that we may establish from time to time for our employees and is eligible to participate in any employee benefit and fringe plans that we make available to our employees with the title of director or higher, such as participation in our 401(k) plan, life insurance and company-paid health insurance. We have also agreed to allow Dr. Demopolos to maintain his status as a board-eligible orthopedic and hand and microvascular surgeon, which includes his performance of surgical procedures on a limited basis, and have agreed to pay related malpractice insurance and professional fees, which were \$18,057 in 2008.

The employment agreement prohibits Dr. Demopolos from competing with us, directly or indirectly, or soliciting our employees to terminate their employment with us or to work with one of our competitors during his employment and for a period of up to two years following termination of his employment. In addition, the employment agreement prohibits him from soliciting or attempting to influence any of our customers or clients to purchase products from our competitors rather than our products.

We have agreed to enter into a new employment agreement with Dr. Demopolos by May 1, 2009. Although we have not yet entered into a new employment agreement with Dr. Demopolos, we and Dr. Demopolos intend to do so. If we are unable to enter into a new agreement with Dr. Demopolos because of our actions or omissions, he could claim that we are in material breach of his current employment agreement, which may entitle Dr. Demopolos to termination benefits. For a description of the termination provisions of Dr. Demopolos' employment agreement, see "Management — Executive Compensation — Potential Payment upon Termination or Change in Control" below.

Marcia S. Kelbon, Esq. We have not entered into an employment agreement with Ms. Kelbon, and she is an at-will employee. Pursuant to the terms of her employment offer letter, Ms. Kelbon received an initial annual base salary of \$188,300, was granted one option award to purchase 210,000 shares of our common stock with an exercise price of \$0.265 per share and is eligible to participate in our employee benefit plans. This option award vested over a four-year period beginning on October 1, 2001. As of December 31, 2008, Ms. Kelbon's annual base salary was \$285,000. See "Management — Executive Compensation — Outstanding Equity Awards at Fiscal Year-End" below for a description of the outstanding equity awards held by Ms. Kelbon.

Richard J. Klein. We did not enter into an employment agreement with Mr. Klein, and he was an at-will employee. Pursuant to the terms of his employment offer letter, Mr. Klein received an annual base salary of \$250,000, was eligible to participate in our employee benefit plans and was granted one option award to purchase 250,000 shares of our common stock, or the base award, and another option award to purchase 25,000 shares of our common stock, or the performance award, each with an exercise price of \$1.00 per share. The base award vested over a four-year period beginning May 14, 2007 as follows: 1/4th of the shares subject to the base award vested on May 14, 2008 and 1/48th of the shares subject to the base award vested each month thereafter. The performance award was not eligible to commence vesting unless by May 14, 2008, the one-year anniversary of Mr. Klein's start date, we closed a public or private equity financing (1) in which the number of shares of stock sold in the financing represented no more than 20% of the shares of our stock outstanding, on an as-converted basis, as of the date immediately following the closing of the financing, in each case excluding any shares of stock sold in an initial public offering to underwriters to cover any over-allotments or (2) which met other parameters associated with such financing determined by our board of directors. Because we did not meet at least one of those targets by May 14, 2008,

the performance award automatically cancelled. In addition, vesting under the base award stopped when Mr. Klein's employment with us ended in January 2009.

Prior to the end of his employment with us, Mr. Klein had the right to exercise these option awards for shares that he was not vested in, provided that if Mr. Klein's employment with us terminated for any reason prior to him vesting into any of shares that he exercised, we have the right, but not the obligation, to repurchase at the original purchase price any shares that Mr. Klein exercised and that he was not vested in as of the date of his termination. As of December 31, 2008, Mr. Klein had exercised a portion of the base award by purchasing 150,000 shares of our common stock at a purchase price of \$150,000. When Mr. Klein's employment with us ended in January 2009, he had vested in 104,166 of the shares subject to the base award, giving us a right to repurchase 45,834 shares that he had exercised but not vested in as of the date of his termination at a cost of \$1.00 per share. Our right to repurchase the unvested shares ends in July 2009. See "Management — Executive Compensation — Outstanding Equity Awards at Fiscal Year-End" below for a description of the outstanding equity awards held by Mr. Klein as of December 31, 2008.

Potential Payments upon Termination or Change in Control

We have entered into an employment agreement with Dr. Demopolos that requires us to make payments to him upon termination of his employment in the circumstances described below. In addition, under the terms of our Second Amended and Restated 1998 Stock Option Plan, all of our named executive officers are entitled to acceleration of vesting of their option awards upon our change in control. These arrangements are discussed below.

Employment Agreement with Gregory A. Demopolos, M.D.

The compensation due to Dr. Demopolos pursuant to his employment agreement in the event of the termination of his employment with us varies depending upon the nature of the termination.

Termination Without Cause or for Good Reason. Dr. Demopolos' employment agreement provides that if we terminate him without "cause," as defined below, or if he terminates his employment with us for "good reason," as defined below, then until the earlier of (1) two years from the date of his termination and (2) his start date with a new employer that pays him an annual base salary at least equal to the annual base salary we paid to him prior to his termination (provided that if he terminates his employment for good reason because of a reduction in his annual base salary, then the annual base salary that will be measured will be the annual base salary we paid him prior to such reduction), we will be obligated to pay him on our regularly scheduled payroll dates on an annualized basis:

- the annual base salary he was receiving as of his termination, provided that if he terminates his employment for good reason because of a reduction in his annual base salary, then the annual base salary we will be obligated to pay him will be his annual base salary in effect prior to such reduction; plus
- the greater of (1) the average annual bonus he received in the preceding two calendar years and (2) any bonus he would have been entitled to in the year of his termination as determined by our board of directors in good faith.

In addition, if we terminate Dr. Demopolos without cause or if he terminates his employment with us for good reason, all of his unvested option awards will immediately vest and become exercisable until the maximum term of the respective option awards and all unvested restricted shares he holds will immediately vest. Dr. Demopolos and his eligible dependents may also continue to participate in all health plans we provide to our employees on the same terms as our employees, unless his new employer provides comparable coverage.

"Cause" is defined under Dr. Demopolos' employment agreement to mean:

- his willful misconduct or gross negligence in performance of his duties, including his refusal to comply in any material respect with the legal directives of our board of directors so long as such directives are not inconsistent with his position and duties, and such refusal to comply is not remedied within ten working days after written notice from the board of directors;
- dishonest or fraudulent conduct that materially discredits us, a deliberate attempt to do an injury to us, or conduct that materially discredits us or is materially detrimental to the reputation of us, including conviction of a felony; or
- his material breach, if incurable, of any element of his confidential information and invention assignment agreement with us, including without limitation, his theft or other misappropriation of our proprietary information.

Dr. Demopolos may terminate his employment for "good reason" if he terminates his employment with us within 120 days of the occurrence of any of the following events:

- any material diminution in his authority, duties or responsibilities;
- any material diminution in his base salary;
- we relocate his principal work location to a place that is more than 50 miles from our current location; or
- we materially breach his employment agreement, which may include, for example, our failure to enter into a new employment agreement by May 1, 2009 because of our actions or omissions.

If any of the above events have occurred as a result of our action, we will have 30 days from notice of such event from Dr. Demopolos to remedy the situation, in which case Dr. Demopolos will not be entitled to terminate his employment for good reason related to the event.

If Dr. Demopolos had been terminated without cause or if he had terminated his employment with good reason on December 31, 2008, Dr. Demopolos would have been entitled to receive an annual base salary of \$475,000 and an annual bonus amount of \$241,889, payable on a bi-monthly basis over a period of up to two years from the date of termination. In addition, option awards with a value of \$ would automatically vest upon his termination, which is the difference between the exercise price of the option awards held by Dr. Demopolos and the assumed initial public offering price of \$ (the mid-point of the range set forth on the cover page of this prospectus), multiplied by the number of shares that would have vested on December 31, 2008 as the result of his termination. Dr. Demopolos and his eligible dependents would also be entitled to participate in the health plans we provide to our employees for a period of up to two years from the date of his termination at a cost to us of approximately \$10,100.

Termination for Cause, Voluntary Termination, Death or Disability. If we terminate Dr. Demopolos for cause, if other than for good reason he voluntarily terminates his employment or if his employment is terminated as a result of his death or "disability," as defined below, Dr. Demopolos will be entitled to receive payments for all earned but unpaid salary bonuses and vacation time, but he will not be entitled to any severance benefits.

"Disability" is defined under his employment agreement as his inability to perform his duties as the result of his incapacity due to physical or mental illness, and such inability, which continues for at least 120 consecutive calendar days or 150 calendar days during any consecutive twelve-month period, if shorter, after its commencement, is determined to be total and permanent by a physician selected by us and our insurers and acceptable to Dr. Demopolos.

Second Amended and Restated 1998 Stock Option Plan

Pursuant to our Second Amended and Restated 1998 Stock Option Plan, or 1998 Stock Plan, in the event of a "change in control," as defined below, the vesting of option awards issued pursuant to the 1998 Stock Plan and held by our then-current employees, including those held by Dr. Demopoulos and Ms. Kelbon, will be accelerated to the extent of 50% of the remaining unvested shares. If there is no assumption or substitution of outstanding option awards by the successor corporation in the change in control, the option awards will become fully vested and exercisable immediately prior to the change in control. In addition, pursuant to the terms of the 1998 Stock Plan, if within 12 months following a change in control Dr. Demopoulos or Ms. Kelbon is terminated without "cause" or as a result of a "constructive termination," as such terms are defined below, any outstanding option awards held by him or her that we issued pursuant to the 1998 Stock Plan will become fully vested and exercisable.

The following terms have the following definitions under the 1998 Stock Plan:

- a "change in control" means proposed sale of all or substantially all of the assets of us, or the merger of us with or into another corporation, or other change in control;
- a termination for "cause" means a termination of an employee for any of the following reasons: (1) his or her willful failure to substantially perform his or her duties and responsibilities to us or a deliberate violation of a company policy; (2) his or her commission of any act of fraud, embezzlement, dishonesty or any other willful misconduct that has caused or is reasonably expected to result in material injury to us; (3) unauthorized use or disclosure by him or her of any proprietary information or trade secrets of ours or any other party to whom he or she owes an obligation of nondisclosure as a result of his or her relationship with us; or (4) his or her willful breach of any of his or her obligations under any written agreement or covenant with us; and
- a "constructive termination" means the occurrence of any of the following events: (1) there is a material adverse change in an employee's position causing such position to be of materially reduced stature or responsibility; (2) a reduction of more than 30% of an employee's base compensation unless in connection with similar decreases of other similarly situated employees; or (3) an employee's refusal to comply with our request to relocate to a facility or location more than 50 miles from our current location; provided that in order for an employee to be constructively terminated, he or she must voluntarily terminate his or her employment within 30 days of the applicable material change or reduction.

The following table summarizes the benefits that Dr. Demopoulos, Ms. Kelbon and Mr. Klein would have been entitled to receive pursuant to the terms of the 1998 Stock Plan had a change in control occurred on December 31, 2008. The amounts below represent the difference between the exercise price of the option awards issued under the 1998 Stock Plan and held by these employees and the assumed initial public offering price of \$ (the mid-point of the range set forth on the cover page of this prospectus), multiplied by the number of shares that would have vested on December 31, 2008 upon the occurrence of each of the events identified in the table below.

Name	Successor in Change in Control Assumes or Replaces Option Awards (\$)	Successor in Change in Control does not Assume or Replace Option Awards (\$)	Employee is Terminated Without Cause or Constructively Terminated within Twelve Months of Change in Control (\$)
Gregory A. Demopoulos, M.D.			
Marcia S. Kelbon, Esq.			
Richard J. Klein			

Employee Benefit Plans

Second Amended and Restated 1998 Stock Option Plan

Our board of directors adopted our 1998 Stock Plan in February 1998 and our shareholders approved it in February 1998. Our 1998 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code of 1986, or the Code, to our employees, and for the grant of nonstatutory stock options to our employees, directors and consultants.

Share Reserve. We have reserved a total of 8,311,516 shares of our common stock for issuance pursuant to our 1998 Stock Plan. As of March 31, 2009, option awards to purchase 5,311,171 shares of common stock were outstanding, no shares were available for future grant under this plan and 2,391,326 shares had been issued upon the exercise of option awards granted pursuant to this plan. We will not grant any additional option awards under our 1998 Stock Plan. However, the 1998 Stock Plan will continue to govern the terms and conditions of the outstanding awards previously granted thereunder.

Administration. Our board of directors or a committee appointed by our board of directors administers our 1998 Stock Plan. Our compensation committee will be responsible for administering all of our equity compensation plans upon the completion of this offering. Under our 1998 Stock Plan, the plan administrator has the power to determine the terms of the awards, including the employees and consultants who will receive awards, the exercise price of each award, the number of shares subject to each award, the vesting schedule and exercisability of each award and the form of consideration payable upon exercise.

Stock Options. The exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant, and their terms may not exceed ten years. The exercise price of nonstatutory stock options may be determined by the plan administrator provided that, if the grantee is our chief executive officer or one of our four most highly compensated executive officers other than our chief executive officer, the per share price may be no less than 100% of the fair market value. With respect to incentive stock options granted to any participant who owns 10% or more of the voting power of all classes of our outstanding stock as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date.

Effect of Termination of Service. Upon termination of a participant's service with us or with a subsidiary of ours, he or she may exercise his or her option award for the period of time stated in the option agreement, to the extent his or her option award is vested on the date of termination. In the absence of a stated period in the award agreement, if termination is due to disability, the option award will remain exercisable for up to twelve months following termination or, if termination is due to death or death occurs within 30 days of termination, the option award will remain exercisable for up to 12 months following the date of death. If termination is for cause, the option award will immediately terminate in its entirety. For all other terminations, unless otherwise stated in the award agreement, the option award will remain exercisable for 30 days. An option award may never be exercised after the expiration of its term.

Effect of a Change of Control. Our 1998 Stock Plan provides that, in the event of certain change of control transactions, including our merger with or into another corporation or the sale of all or substantially all of our assets, the vesting of the awards will be accelerated to the extent of 50% of the remaining unvested shares. If there is no assumption or substitution of outstanding awards by the successor corporation, the awards will become fully vested and exercisable immediately prior to the change in control unless otherwise determined by the plan administrator at the time of grant. Our 1998 Stock Plan provides that, for certain officers of the company who are terminated without cause or constructively terminated within the

twelve months after a change of control transaction, any outstanding award held by them will become fully vested and exercisable.

Transferability. Unless otherwise determined by the plan administrator, the 1998 Stock Plan generally does not allow for the sale or transfer of awards under the 1998 Stock Plan other than by will or the laws of descent and distribution, and may be exercised only during the lifetime of the participant and only by that participant.

Additional Provisions. Our board of directors has the authority to amend, suspend or terminate the 1998 Stock Plan provided that action does not impair the rights of any participant without the written consent of that participant.

Plan Amendments and Termination. Our 1998 Stock Plan automatically terminated in February 2008. However, the 1998 Stock Plan continues to govern the terms and conditions of outstanding awards previously granted thereunder. In addition, our board of directors has the authority to amend the 1998 Stock Plan provided that such action does not impair the rights of any participant.

nura, inc. 2003 Stock Option Plan

In connection with our acquisition of nura in August 2006, we assumed the nura, inc. 2003 Stock Option Plan, or 2003 Stock Plan, and all of the option awards issued pursuant to the 2003 Stock Plan that were outstanding as of the date of the acquisition. Our 2003 Stock Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees, and for the grant of nonstatutory stock options to our employees, directors and consultants. The 2003 Stock Plan also allows for the award of stock purchase rights.

Share Reserve. A total of 15,192 shares of our common stock are reserved for issuance pursuant to our 2003 Stock Plan. As of March 31, 2009, options to purchase 6,067 shares of common stock were outstanding. We will not grant any additional awards under our 2003 Stock Plan. However, the 2003 Stock Plan will continue to govern the terms and conditions of the outstanding awards previously granted thereunder.

Administration. Our board of directors or a committee appointed by our board of directors administers our 2003 Stock Plan. Our compensation committee will be responsible for administering all of our equity compensation plans upon the completion of this offering. Under the nura 2003 Stock Plan, the plan administrator has the power to determine the terms of the awards, including the employees and consultants who will receive awards, the exercise price of the award, the number of shares subject to each award, the vesting schedule and exercisability of each award and the form of consideration payable upon exercise.

Stock Options. The exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant, and their terms may not exceed ten years. The exercise price of nonstatutory stock options may be determined by the plan administrator. With respect to incentive stock options granted to any participant who owns 10% or more of the voting power of all classes of our outstanding stock as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date.

Effect of Termination of Service. Upon termination of a participant's service with us or with a subsidiary of ours, he or she may exercise his or her option award for the period of time stated in the option agreement, to the extent his or her option award is vested on the date of termination. In the absence of a stated period in the award agreement, if termination is due to death or disability, the option award will remain exercisable for up to twelve months. For all other terminations, unless otherwise stated in the award agreement, the option award

will remain exercisable for three months. An option award may never be exercised after the expiration of its term.

Effect of a Change of Control. Our 2003 Stock Plan provides that in the event of our merger with or into another corporation or our "change in control," the successor corporation will assume or substitute an equivalent award for each outstanding award under the plan. If there is no assumption, substitution or replacement of outstanding awards, such awards will become fully vested and exercisable immediately prior to the merger or change in control, and the administrator will provide notice to the recipient that he or she has the right to exercise such outstanding awards for a period of 15 days from the date of the notice. The awards will terminate upon the expiration of the 15-day period.

Transferability. Unless otherwise determined by the plan administrator, the 2003 Stock Plan generally does not allow for the sale or transfer of awards under the 2003 Stock Plan other than by will or the laws of descent and distribution, and may be exercised only during the lifetime of the participant and only by that participant.

Additional Provisions. Our board of directors has the authority to amend, suspend or terminate the 2003 Stock Plan without the written consent of a participant, provided that the action does not impair the rights of that participant.

Plan Amendments and Termination. Our 2003 Stock Plan will automatically terminate in 2013, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2003 Stock Plan provided such action does not impair the rights of any participant. We will not grant any additional awards under our 2003 Stock Plan and this plan will be terminated upon the completion of this offering but will continue to govern the terms and conditions of outstanding awards previously granted thereunder.

2008 Equity Incentive Plan

Our board of directors adopted our 2008 Equity Incentive Plan in February 2008, and our shareholders approved the 2008 Equity Incentive Plan in March 2008. Our 2008 Equity Incentive Plan provides for the grant of incentive stock options, within the meaning of Section 422 of the Code, to our employees and any parent and subsidiary corporations' employees, and for the grant of nonstatutory stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance shares to our employees, directors and consultants and our parent and subsidiary corporations' employees and consultants.

Share Reserve. Upon adoption of the 2008 Equity Incentive Plan, we reserved a total of 1,750,000 shares of our common stock for issuance thereunder plus any shares returned to the 1998 Stock Plan as a result of termination of options or repurchase of shares issued pursuant to such plan, with the maximum number of shares returned equal to 6,046,303 shares. As of March 31, 2009, 2,187,555 shares of common stock were reserved for issuance pursuant to our 2008 Equity Incentive Plan and options to purchase 65,700 shares of common stock were outstanding.

In addition, our 2008 Equity Incentive Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with our 2010 fiscal year, equal to the least of:

- five percent of the outstanding shares of our common stock on the last day of the immediately preceding fiscal year;
- 3,500,000 shares; and
- such other amount as our board of directors may determine.

Administration. Our board of directors or a committee of our board administers our 2008 Equity Incentive Plan. Our compensation committee will be responsible for administering all of

our equity compensation plans upon the completion of this offering. In the case of option awards intended to qualify as "performance based compensation" within the meaning of Section 162(m) of the Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The administrator has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each such award, the exercisability of the awards and the form of consideration payable upon exercise. The administrator also has the authority to institute an exchange program whereby the exercise prices of outstanding awards may be reduced, outstanding awards may be surrendered in exchange for awards with a higher or lower exercise price and/or cash, or outstanding awards may be transferred to a third party.

Option Awards. The exercise price of option awards granted under our 2008 Equity Incentive Plan must generally at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any participant who owns more than 10% of the voting power of all classes of our outstanding stock as of the grant date, the term must not exceed five years and the exercise price must equal at least 110% of the fair market value on the grant date. In addition, the term of an option granted to a resident of California prior to the effective date of the registration statement to which this prospectus is a part may not exceed ten years. The administrator determines the term of all other option awards.

After termination of an employee, director or consultant, he or she may exercise his or her option award for the period of time stated in the option agreement. Generally, if termination is due to death or disability, the option will remain exercisable for twelve months. In all other cases, the option will generally remain exercisable for three months. However, an option may not be exercised later than the expiration of its term.

Stock Appreciation Rights. Stock appreciation rights may be granted under our 2008 Equity Incentive Plan. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the exercise date and the date of grant. The administrator determines the terms of stock appreciation rights, including when such rights become exercisable and whether to pay the increased appreciation in cash or with shares of our common stock, or a combination thereof. Stock appreciation rights expire under the same rules that apply to stock options.

Restricted Stock Awards. Restricted stock may be granted under our 2008 Equity Incentive Plan. Restricted stock awards are shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator will determine the number of shares of restricted stock granted to any employee. The administrator may impose whatever conditions to vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units. Restricted stock units may be granted under our 2008 Equity Incentive Plan. Restricted stock units are awards of restricted stock, performance shares or performance units that are paid out in installments or on a deferred basis. The administrator determines the terms and conditions of restricted stock units including the vesting criteria and the form and timing of payment.

Performance Units and Shares. Performance units and performance shares may be granted under our 2008 Equity Incentive Plan. Performance units and performance shares are awards that will result in a payment to a participant only if performance goals established by the administrator are achieved or the awards otherwise vest. The administrator will establish organizational or individual performance goals in its discretion, which, depending on the extent to which they are met, will determine the number and/or the value of performance units and performance shares to be paid out to participants. Performance units shall have an initial dollar

value established by the administrator prior to the grant date. Performance shares will have an initial value equal to the fair market value of our common stock on the grant date. Payment for performance units and performance shares may be made in cash or in shares of our common stock with equivalent value, or in some combination, as determined by the administrator.

Transferability of Awards. Unless the administrator provides otherwise, our 2008 Equity Incentive Plan does not allow for the transfer of awards and only the recipient of an award may exercise an award during his or her lifetime.

Change in Control Transactions. Our 2008 Equity Incentive Plan provides that in the event of our "change in control," the successor corporation or its parent or subsidiary will assume or substitute an equivalent award for each outstanding award or replace each outstanding award with a comparable cash incentive program of the successor corporation or its parent or subsidiary based on the award value at the time of the transaction. If awards are assumed, substituted or replaced as described above, options and stock appreciation rights will vest as to 50% of their unvested shares, restriction on restricted stock and restricted stock units will lapse with respect to 50% of shares subject to such restrictions and with respect to performance-based awards, all performance goals or other vesting criteria will be deemed achieved at 100% of the target levels and all other terms and conditions will be deemed met with respect to 50% of the shares subject to such terms and conditions. If there is no assumption or substitution of outstanding awards and no replacement of outstanding awards with such cash incentive program, the awards will fully vest, all restrictions will lapse and become fully exercisable. The administrator will provide notice to the recipient that he or she has the right to exercise the option and stock appreciation right as to all of the shares subject to the award, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved, and all other terms and conditions met. The option or stock appreciation right will terminate upon the expiration of the period of time the administrator provides in the notice. In the event the service of an outside director is terminated on or following a change in control, other than pursuant to a voluntary resignation, his or her options and stock appreciation rights will fully vest and become immediately exercisable, all restrictions on restricted stock will lapse, and all performance goals or other vesting requirements for performance shares and units will be deemed achieved, and all other terms and conditions met.

Plan Amendments and Termination. Our 2008 Equity Incentive Plan will automatically terminate in 2018, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2008 Equity Incentive Plan provided such action does not impair the rights of any participant.

Individual Option Awards

On December 11, 2001 we granted individual option awards to purchase an aggregate of 148,906 shares of our common stock to two of our founders, including Gregory A. Demopoulos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors. These option awards were fully vested upon grant and are exercisable until December 11, 2011. As of March 31, 2009, option awards to purchase an aggregate of 58,806 shares of our common stock, with an exercise price of \$0.265 per share, were outstanding under these individual option awards.

401(k) Plan

We maintain a 401(k) Plan that is intended to be a tax-qualified retirement plan. The 401(k) Plan covers all of our employees who meet eligibility requirements. Currently, employees may elect to defer up to 75% of their compensation, or the statutorily prescribed limit, if less, to the 401(k) Plan. Under the 401(k) Plan, we may elect to make a discretionary contribution or match a discretionary percentage of employee contributions but we currently do not make any

contributions nor have we matched any employee contributions. The 401(k) Plan has a discretionary profit sharing component, which to date we have not implemented, whereby we can make a contribution in an amount to be determined annually by our board of directors. An employee's interests in his or her deferrals are 100% vested when contributed. The 401(k) Plan is intended to qualify under Sections 401(a) and 501(a) of the Code. As such, contributions to the 401(k) Plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) Plan, and all contributions are deductible by us when made.

Outstanding Equity Awards at Fiscal Year-End Table

The following table shows certain information regarding outstanding equity awards held by each of the named executive officers as of December 31, 2008.

2008 Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested \$(2)
Gregory A. Demopolos, M.D.	3,025	—	0.265	12/10/11	—	—
	766,666	33,334(3)	0.50	12/11/16	—	—
	1,150,000	50,000(3)	0.50	12/11/16	—	—
Marcia S. Kelbon, Esq.	50,000	150,000(4)	1.25	12/29/17	—	—
	300,833	79,167(5)	0.50	12/11/16	—	—
	2,500	7,500(4)	1.25	12/29/17	—	—
Richard J. Klein	100,000(6)	—	1.00	05/13/17	51,042(6)	—
	2,500	7,500(4)	1.25	12/29/17	—	—

- (1) These option awards were granted pursuant to the 1998 Stock Plan, which provides for the automatic vesting of at least a portion of any unvested options upon a change of control transaction as described under the section of this prospectus entitled "Management — Employee Benefit Plans — Second Amended and Restated 1998 Stock Option Plan."
- (2) The market value of shares of stock that have not vested has been calculated using the assumed initial public offering price of \$ per share (the mid-point of the range set forth on the cover page of this prospectus).
- (3) The shares subject to the option award vest on a monthly basis in equal amounts over a four-year period that began on February 28, 2005.
- (4) 1/4th of the shares subject to the option award vest on December 30, 2008 and 1/48th of the shares subject to the option award vest each month thereafter.
- (5) The shares subject to the option award vest on a monthly basis in equal amounts over a four-year period that began on October 1, 2005.
- (6) A total of 250,000 shares were subject to this option award. 1/4th of the shares subject to the option vested on May 14, 2008 and 1/48th of the shares vested each month thereafter. Pursuant to the terms of the option award, Mr. Klein had the right to purchase unvested shares, provided that if his employment terminated for any reason prior to him vesting into any shares that he exercised, we have the right, but not the obligation, to repurchase at the original purchase price any shares that he exercised and is not vested in as of the date of his termination. As of December 31, 2008, Mr. Klein had purchased 150,000 of these shares, 98,958 of which were vested. Mr. Klein's employment with us ended in January 2009, at which time 104,166 of these shares were vested. Our right to repurchase the unvested shares ends in July 2009.

Option Exercises and Stock Vested Table

The following table shows certain information regarding option exercises by each of the named executive officers during the year ended December 31, 2008.

2008 Option Exercises and Stock Vested

Name	Stock Vested	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (#)(1)
Gregory A. Demopoulos, M.D.	—	—
Marcia S. Kelbon, Esq.	—	—
Richard J. Klein	98,958	—

(1) The value realized on vesting has been calculated using the assumed initial public offering price of \$ per share (the mid-point of the range set forth on the cover page of this prospectus).

Pension Benefits

None of our named executive officers participates in or has account balances in qualified or non-qualified benefit plans sponsored by us.

Nonqualified Deferred Compensation

None of our named executive officers participates in or has account balances in nonqualified defined contribution plans or other deferred compensation plans maintained by us.

Limitation of Liability and Indemnification

Our articles of incorporation contain provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Washington law. Consequently, our directors will not be personally liable to us or our shareholders for monetary damages for any breach of fiduciary duties as directors, except liability for:

- acts or omissions that involve intentional misconduct or a knowing violation of law;
- unlawful distributions; or
- any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled.

Our articles of incorporation and our bylaws provide that we are required to indemnify our directors and officers, in each case to the fullest extent permitted by Washington law. Any repeal or modification to our articles of incorporation or bylaws may not adversely affect any right or protection of a director or officer for or with respect to any acts or omissions of such director or officer occurring prior to such amendment or repeal. Our bylaws will also provide that we shall advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Washington law.

We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by the board of directors. With certain exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts

incurred by any of these individuals in any action or proceeding. We believe that these charter provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions contained in our articles of incorporation and bylaws may discourage shareholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other shareholders. Further, a shareholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

CERTAIN RELATIONSHIPS AND RELATED-PARTY TRANSACTIONS

The following is a summary of transactions since January 1, 2006 to which we have been a party in which the amount involved exceeded \$120,000 and in which any of our executive officers, directors or beneficial holders of more than five percent of our capital stock had or will have a direct or indirect material interest, other than compensation arrangements which are described under the section of this prospectus entitled "Management—Non-Employee Director Compensation" and "Management — Executive Compensation."

Stock Issuances*Option Award Exercises*

Since January 1, 2006, Gregory A. Demopoulos, M.D., our president, chief executive officer, chief medical officer and chairman of the board of directors and holder of more than five percent of our capital stock, has purchased 20,000 and 259,917 shares of our common stock at prices of \$0.175 and \$0.2915 per share, respectively, by exercising option awards granted pursuant to our 1998 Stock Plan, resulting in an aggregate purchase price of \$79,266.

Since January 1, 2006, Marcia S. Kelbon, our vice president, patent and general counsel and secretary, has purchased 147,500 shares of our common stock at a price of \$0.265 per share by exercising an option award granted pursuant to our 1998 Stock Plan, resulting in an aggregate purchase price of \$39,088.

In June 2007, Richard J. Klein, our former chief financial officer and treasurer, purchased 150,000 shares of our common stock at a price of \$1.00 per share by exercising an option award granted pursuant to our 1998 Stock Plan, resulting in an aggregate purchase price of \$150,000. Pursuant to the terms of his option award, Mr. Klein had the right to exercise his option award for shares that he was not vested in. In January 2009 when his employment with us ended, Mr. Klein had vested in 104,166 of the 150,000 shares of common stock that he purchased by exercising his option award. Because Mr. Klein's employment ended before he fully vested in the shares that he purchased, we have the right, but not the obligation, to repurchase the 45,834 unvested shares at a price of \$1.00 per share. Our right to repurchase the unvested shares initially ended in April 2009; however, on April 29, 2009, prior to the expiration of the repurchase period, we entered into an agreement with Mr. Klein to extend the repurchase period to July 28, 2009.

Common Stock Warrant Exercises

In December 2007, Thomas J. Cable, Gregory A. Demopoulos, M.D., Peter A. Demopoulos, M.D., FACC and Aspiri Enterprises, LLC, of which Ray Aspiri is the managing partner and a member, each purchased 17,857 shares of our common stock at a price of \$1.75 per share by exercising common stock warrants granted to them in December 1997 in connection with their agreements to guarantee a loan made to us by a third party that we have repaid.

Acquisition of nura, inc.

On August 11, 2006, we issued to the related persons named in the table below the following number of shares of our Series E convertible preferred stock and common stock in connection with our acquisition of nura, inc.

<u>Name</u>	<u>Series E Convertible Preferred Stock (#)</u>	<u>Common Stock (#)</u>
Aravis Venture I, L.P.(1)	559,551	6,925
Entities affiliated with ARCH Venture Partners (2)	839,326	7,741

(1) Jean-Philippe Tripet, a member of our board of directors, is managing partner of Aravis Venture I, L.P. Mr. Tripet holds the title of Director of Aravis General Partner Ltd., which serves as general partner of Aravis Venture I, L.P.

Mr. Tripet disclaims beneficial ownership of the shares held by Aravis Venture I, L.P., except to the extent of his proportionate pecuniary interest therein.

- (2) Represents (a) 833,787 and 7,690 shares of Series E convertible preferred stock and common stock, respectively, held by ARCH Venture Fund V, L.P. and (b) 5,539 and 51 shares of Series E convertible preferred stock and common stock, respectively, held by ARCH V Entrepreneurs Fund V, L.P. These two associated partnerships together hold more than five percent of our capital stock.

Private Placement of Series E Convertible Preferred Stock

On August 21, 2006, we issued and sold to the related persons named in the table below the following number of shares of our Series E convertible preferred stock at a price of \$5.00 per share.

<u>Name</u>	<u>Series E Convertible Preferred Stock (#)</u>	<u>Aggregate Purchase Price (\$)</u>
Aravis Venture I, L.P.	400,000	2,000,000
Entities affiliated with ARCH Venture Partners (1)	600,000	3,000,000

(1) Represents 595,984 and 4,016 shares of Series E convertible preferred stock that we issued and sold to ARCH Venture Fund V, L.P. and ARCH V Entrepreneurs Fund V, L.P., respectively.

Agreement and Plan of Reorganization with nura, inc.

In connection with our acquisition of nura on August 11, 2006, we entered into an agreement and plan of reorganization with nura that provides for the issuance of our capital stock in exchange for all of the outstanding capital stock of nura. In connection with this agreement, 15% of the shares of Series E convertible preferred stock that we issued to the former holders of nura capital stock were placed into escrow until February 11, 2008 to secure claims we may bring for indemnification pursuant to the agreement, including 83,932, 125,068 and 830 shares issued to Aravis Venture I, L.P., ARCH Venture Fund V, L.P. and ARCH V Entrepreneurs Fund V, L.P., respectively. These shares of Series E convertible preferred stock were released from escrow in February 2008 and will automatically convert into an equivalent number of shares of common stock upon the completion of this offering. In addition, ARCH Venture Corporation, which is affiliated with ARCH Venture Partners, was named as the agent of the former stockholders of nura, inc. under the agreement and plan of reorganization.

Amended and Restated Investors' Rights Agreement

We have entered into an amended and restated investors' rights agreement with the purchasers of our convertible preferred stock and certain holders of our common stock, including entities affiliated with ARCH Venture Partners, Aravis Venture I, L.P., Aspiri Enterprises, LLC, Thomas J. Cable, Gregory A. Demopoulos, M.D., Peter A. Demopoulos, M.D., FACC and Leroy E. Hood, M.D., Ph.D. The holders of 26,527,802 shares of our common stock, including the shares of common stock issuable upon conversion of all outstanding shares of our convertible preferred stock, are entitled to registration rights with respect to these shares under the Securities Act of 1933, as amended. For a more detailed description of these registration rights, including the limitations on these rights related to this offering, see "Description of Capital Stock — Registration Rights."

Loans

On December 31, 2002, March 13, 2003, December 31, 2003 and December 31, 2005 we made loans to Gregory A. Demopoulos, M.D. with principal amounts of \$65,000, \$28,116, \$58,300 and \$87,450, respectively, that accrue interest on the principal amounts at annual rates of 4.5%, 4.5%, 3.0% and 6.25%, respectively. Dr. Demopoulos used the proceeds from these loans to exercise option awards that had terms of five years. Each of these loans was secured by our common stock held by Dr. Demopoulos. In December 2007, the full balance of \$278,011, including \$238,866 of principal and \$39,145 accrued interest, was repaid.

Technology Transfer Agreements

In June 1994, we entered into a technology transfer agreement with Gregory A. Demopoulos, M.D. pursuant to which he irrevocably transferred to us all of his intellectual property rights in our PharmacoSurgery platform. In December 2001, we entered into a second technology transfer agreement with Dr. Demopoulos pursuant to which he irrevocably transferred to us all of his intellectual property rights in our Chondroprotective program. Other than his rights as a shareholder, Dr. Demopoulos has not retained any rights to our PharmacoSurgery platform or Chondroprotective program, except that if we file for liquidation under Chapter 7 of the U.S. Bankruptcy Act or voluntarily liquidate or dissolve, other than in connection with a merger, reorganization, consolidation or sale of assets, Dr. Demopoulos and another one of our co-founders, Pamela Pierce Palmer, M.D., Ph.D., have the right to repurchase the initial PharmacoSurgery intellectual property at the then-current fair market value.

Policies and Procedures for Related-Party Transactions

We intend to adopt a formal policy that our executive officers, directors, and principal shareholders, including their immediate family members, are not permitted to enter into a related-party transaction with us without the approval of our audit committee. Any request for us to enter into a transaction with an executive officer, director, principal shareholder, or any of such persons' immediate family members, in which the amount involved exceeds \$120,000, other than transactions involving compensation for services provided to us as an executive officer or director, must be presented to our audit committee for review, consideration and approval. All of our directors and executive officers are required to report to our audit committee any such related-party transaction. In approving or rejecting the proposed related-party transaction, our audit committee shall consider the relevant facts and circumstances available and deemed relevant to the audit committee, including, whether the transaction is fair to us and whether the terms of the transaction would be similar if the transaction did not involve a related party, whether the transaction would impair the independence of a non-employee director, the materiality of the transaction and whether the transaction would present an improper conflict of interest between us and the related party. This policy will become effective upon completion of this offering and is intended to meet NASDAQ listing requirements. All of the transactions described above were entered into prior to the adoption of this policy.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock at March 31, 2009, as adjusted to reflect the sale of common stock offered by us in this offering, for:

- each person who we know beneficially owns more than five percent of our common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 28,355,306 shares of common stock outstanding at March 31, 2009. For purposes of the table below, we have assumed that _____ shares of common stock will be outstanding upon completion of this offering. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options, warrants or other convertible securities held by that person that are currently exercisable or exercisable within 60 days of March 31, 2009. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Omeros Corporation, 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
5% Shareholders:			
Entities affiliated with ARCH Venture Partners (1)	1,447,067	5.1%	
Directors and Executive Officers:			
Gregory A. Demopoulos, M.D. (2)	4,965,396	16.3%	
Marcia S. Kelbon, Esq. (3)	553,957	1.9%	
Richard J. Klein (4)	152,916	*	
Ray Aspiri (5)	317,857	1.1%	
Thomas J. Cable (6)	194,163	*	
Peter A. Demopoulos, M.D., FACC (7)	517,045	1.8%	
Leroy E. Hood, M.D., Ph.D. (8)	106,603	*	
Jean-Philippe Tripet (9)	966,476	3.4%	
All executive officers and directors as a group (8 persons) (10)	7,774,413	25.2%	

* Less than one percent

(1) Represents (a) 1,437,461 shares of common stock held by ARCH Venture Fund V, L.P. and (b) 9,606 shares of common stock held by ARCH V Entrepreneurs Fund, L.P.

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- (2) Includes 2,073,858 shares of common stock that Dr. Demopulos has the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards.
- (3) Includes 343,957 shares of common stock that Ms. Kelbon has the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards.
- (4) Represents (a) 150,000 shares of common stock that Mr. Klein acquired from us pursuant to the exercise of an option award and (b) 2,916 shares of common stock that Mr. Klein had the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards. Pursuant to the terms of one of his option awards, Mr. Klein had the right to exercise that option award for shares that he was not vested in. When Mr. Klein's employment with us ended in January 2009, he held 150,000 shares of common stock that he purchased by exercising that option award, 104,166 shares of which were vested. Pursuant to the term of the option award, we have the right, but not the obligation, to repurchase the 45,834 shares that he had exercised but not vested in as of the date of his termination at a cost of \$1.00 per share. Our right to repurchase the unvested shares ends in July 2009. See "Management — Executive Compensation — Executive Employment Agreements — Richard J. Klein" for a description of the vesting terms of Mr. Klein's option awards.
- (5) Represents (a) 30,000 shares of common stock that Mr. Aspiri has the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards and (b) 287,857 shares of common stock held by Aspiri Enterprises LLC. Mr. Aspiri is the managing partner and a member of Aspiri Enterprises LLC.
- (6) Includes 45,000 shares of common stock that Mr. Cable has the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards.
- (7) Includes 322,188 shares of common stock held by the Demopulos Family Trust, of which Dr. Peter A. Demopulos is the trustee and a beneficiary along with his mother and sister. Dr. Peter A. Demopulos disclaims beneficial ownership of the shares held by the Demopulos Family Trust except to the extent of his pecuniary interest therein.
- (8) Includes 50,000 shares of common stock that Dr. Hood has the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards.
- (9) Represents 966,476 shares of common stock held by Aravis Venture I, L.P. Mr. Tripet holds the title of director of Aravis General Partner Ltd., which serves as general partner of Aravis Venture I, L.P. Mr. Tripet disclaims beneficial ownership of the shares held by Aravis Venture I, L.P., except to the extent of his proportionate pecuniary interest therein.
- (10) Includes 2,545,731 shares of common stock that our executive officers and directors have the right to acquire from us within 60 days of March 31, 2009 pursuant to the exercise of option awards.

DESCRIPTION OF CAPITAL STOCK

General

The following is a summary of the rights of our common stock and preferred stock and related provisions of our articles of incorporation and bylaws, as they will be in effect upon completion of this offering. For more detailed information, please see our articles of incorporation and bylaws, which are filed as exhibits to the registration statement of which this prospectus is part.

Immediately following the completion of this offering, our authorized capital stock will consist of 170,000,000 shares, each with a par value of \$0.01 per share, of which:

- 150,000,000 shares will be designated as common stock; and
- 20,000,000 shares will be designated as preferred stock.

As of March 31, 2009, assuming the conversion of all outstanding shares of our convertible preferred stock into common stock, we had outstanding 28,355,306 shares of common stock. All of our outstanding shares of convertible preferred stock will automatically convert into common stock upon completion of this offering.

Common Stock

The holders of our common stock are entitled to one vote per share on all matters to be voted on by the shareholders. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available therefor. In the event we liquidate, dissolve or wind up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock have no preemptive, conversion or subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are, and all shares of common stock to be outstanding upon completion of this offering will be, fully paid and nonassessable.

Preferred Stock

Our board of directors has the authority, without further action by the shareholders, to issue from time to time the preferred stock in one or more series, to fix the number of shares of any such series and the designation thereof and to fix the rights, preferences, privileges and restrictions granted to or imposed upon such preferred stock, including dividend rights, dividend rates, conversion rights, voting rights, rights and terms of redemption, redemption prices, liquidation preference and sinking fund terms, any or all of which may be greater than or senior to the rights of the common stock. The issuance of preferred stock could adversely affect the voting power of holders of common stock and reduce the likelihood that such holders will receive dividend payments and payments upon liquidation. Such issuance could have the effect of decreasing the market price of the common stock. The issuance of preferred stock or even the ability to issue preferred stock could have the effect of delaying, deterring or preventing a change in control. We have no present plans to issue any shares of preferred stock.

Warrants

As of March 31, 2009, we had warrants outstanding to purchase an aggregate of 459,059 shares of our common stock, assuming the conversion of our convertible preferred stock into common stock, as follows:

- A warrant that we assumed in connection with our acquisition of nura on August 11, 2006 to purchase 22,613 shares of our common stock with an exercise price of \$4.66 per share. This warrant will terminate upon the earlier of (a) April 26, 2015 and (b) certain acquisitions of us as described in the warrant.
- Warrants issued on March 29, 2007 to purchase an aggregate of 387,030 shares of our common stock with an exercise price of \$6.25 per share. If not exercised, these warrants will terminate on the earlier of (a) completion of this offering, (b) a change of control as defined in the warrants and (c) March 28, 2012.
- Warrants that we issued on September 12, 2008 to purchase up to an aggregate of 58,136 shares of our common stock with an exercise price of \$6.88 per share in connection with loans we received from BlueCrest Venture Finance Master Fund Limited. As of March 31, 2009, 49,416 shares of common stock subject to these warrants were vested and the remaining 8,720 shares were not vested. The 8,720 shares of common stock would have vested only if we borrowed additional amounts from Blue Crest on or before March 31, 2009. Because we did not borrow those additional amounts on or before March 31, 2009, these 8,720 shares will not vest. If not exercised, the warrants will terminate on the earlier of (a) completion of this offering, (b) a change of control as defined in the warrants and (c) September 12, 2018.

The Stanley Medical Research Institute

Pursuant to our funding agreement with The Stanley Medical Research Institute, or SMRI, if we meet the defined clinical milestone set forth in the funding agreement, we have agreed to meet with SMRI to discuss whether SMRI will make, and whether we will accept, a further equity investment of up to \$600,000 together with grant funding of up to \$2.7 million from SMRI. This additional equity investment and grant are subject to our negotiation of mutually agreeable terms, including the price per share of the equity investment, with SMRI.

Registration Rights

The holders of an aggregate of 26,527,802 shares of our common stock, or their permitted transferees, are entitled to rights with respect to the registration of these shares under the Securities Act. These rights are provided pursuant to the terms of an amended and restated investors' rights agreement between us and the holders of these shares. Holders of an aggregate of 22,550,450 of these shares, or their permitted transferees, are entitled to demand registration rights, short-form registration rights and piggyback registration rights. Holders of the remaining 3,977,352 shares, or their permitted transferees, are entitled to only piggyback registration rights. All fees, costs and expenses of underwritten registrations will be borne by us and all selling expenses, including underwriting discounts and selling commissions, will be borne by the holders of the shares being registered. The holders of all of these shares are subject to lock-up agreements with us and/or the representative of the underwriters pursuant to which they have agreed not to sell these shares during the period ending at least 180 days after the date of this prospectus, see "Shares Eligible for Future Sale — Lock-Up Agreements."

Demand Registration Rights

We will be required, upon the written request of the holders of at least 30% of our shares of common stock issued upon conversion of our convertible preferred stock, to use our best

efforts to register all or a portion of these shares for public resale. The demand registration rights are subject to customary limitations, and we are required to effect only one demand registration pursuant to the amended and restated investors' rights agreement. We are not required to effect a demand registration prior to the expiration of the lock-up agreements with our underwriters, which continue for a period of at least 180 days after the effective date of the registration statement to which this prospectus is a part. For a description of these lock-up agreements, including the potential extension of the lock-up period for more than 180 days, please see "Shares Eligible for Future Sale — Lock-Up Agreements."

Short-Form Registration Rights

If we are eligible to file a registration statement on Form S-3, we will be required, upon the written request of the holders of at least 20% of these shares of our common stock, to have such shares registered by us at our expense provided that such requested registration has an anticipated aggregate offering price to the public of at least \$2.5 million and we have not already effected one short-form registration in the preceding twelve-month period.

Piggyback Registration Rights

If we register any of our securities either for our own account or for the account of other security holders, the holders of these shares are entitled to include their shares in the registration. Subject to certain exceptions, we and the underwriters may limit the number of shares included in the underwritten offering if the underwriters believe that including these shares would adversely affect the offering. These registration rights have been waived with respect to this offering.

Anti-Takeover Effects of Washington Law and our Articles of Incorporation and Bylaws

Certain provisions of Washington law, our articles of incorporation and our bylaws contain provisions that may delay, defer or discourage another party from acquiring control of us. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquiror outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

Undesignated Preferred Stock

As discussed above, our board of directors has the ability to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management.

Limits on Ability of Shareholders to act by Written Consent or call a Special Meeting

Washington law limits the ability of shareholders of public companies from acting by written consent by requiring unanimous written consent for a shareholder action to be effective. This limit on the ability of our shareholders to act by less than unanimous written consent may lengthen the amount of time required to take shareholder actions. As a result, a holder controlling a majority of our capital stock who is unable to obtain unanimous written consent from all of our shareholders would not be able to amend our bylaws or remove directors without holding a shareholders meeting.

In addition, our articles of incorporation provide that, unless otherwise required by law, special meetings of the shareholders may be called only by the chairman of the board, the chief executive officer, the president, or the board of directors acting pursuant to a resolution adopted by a majority of the board members. A shareholder may not call a special meeting, which may delay the ability of our shareholders to force consideration of a proposal or for holders controlling a majority of our capital stock to take any action, including the removal of directors.

Requirements for Advance Notification of Shareholder Nominations and Proposals

Our bylaws establish advance notice procedures with respect to shareholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors. The bylaws do not give the board of directors the power to approve or disapprove shareholder nominations of candidates or proposals regarding business to be conducted at a special or annual meeting of the shareholders. However, our bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed. These provisions may also discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of our company.

Board Vacancies Filled only by Directors then in Office

Vacancies and newly created seats on our board of directors may only be filled by our board of directors. Only our board of directors may determine the number of directors on our board. The inability of our shareholders to determine the number of directors or to fill vacancies or newly created seats on our board of directors makes it more difficult to change the composition of our board of directors, but these provisions may promote a continuity of existing management.

Directors may be Removed only for Cause

Our directors may be removed only for cause by the affirmative vote of the holders of at least two-thirds of our voting stock.

Board Classification

Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, one class being elected each year by our shareholders. For more information on our classified board, see "Management—Board of Directors." This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for shareholders to replace a majority of the directors.

No Cumulative Voting

Our articles of incorporation provide that shareholders are not entitled to cumulate votes in the election of directors.

Amendment of Bylaws

Our articles of incorporation and bylaws provide that shareholders can amend our bylaws only upon the affirmative vote of the holders of at least two-thirds of our voting stock.

Washington Anti-Takeover Statute

Washington law imposes restrictions on some transactions between a corporation and significant shareholders. Chapter 23B.19 of the Washington Business Corporation Act generally prohibits a target corporation from engaging in specified "significant business transactions" with an "acquiring person." This statute could prohibit or delay the accomplishment of mergers or other takeover or change in control attempts with respect to us and, accordingly, may discourage attempts to acquire us. An acquiring person is defined as a person or group of persons that beneficially owns 10% or more of the voting securities of the target corporation. The target corporation may not engage in significant business transactions for a period of five years after the date of the transaction in which the person became an acquiring person, unless the transaction or acquisition of shares is approved by a majority of the disinterested members of the target corporation's board of directors prior to the time of acquisition. Significant business transactions include, among other things:

- a merger or share exchange with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person;
- a termination of five percent or more of the employees of the target corporation as a result of the acquiring person's acquisition of 10% or more of the shares; or
- a transaction in which the acquiring person is allowed to receive a disproportionate benefit as a shareholder.

After the five-year period, a significant business transaction may occur, as long as it complies with fair price provisions specified in Chapter 23B.19 or is approved at a meeting of shareholders by a majority of the votes entitled to be counted within each voting group entitled to vote separately on the transaction, not counting the votes of shares as to which the acquiring person has beneficial ownership or voting control. A corporation may not "opt out" of this statute.

Listing

We have applied to have our common stock listed on the NASDAQ Global Market under the symbol "OMER."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Mellon Investor Services, LLC. The transfer agent's address is 480 Washington Blvd., Jersey City, NJ 07310 and its telephone number is 1-800-522-6645.

SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there has not been a public market for shares of our common stock. Future sales of substantial amounts of shares of our common stock, including shares issued upon the exercise of outstanding option awards, in the public market after this offering, or the possibility of these sales occurring, could cause the prevailing market price for our common stock to fall or impair our ability to raise equity capital in the future.

Upon the completion of this offering, a total of _____ shares of common stock will be outstanding, assuming (a) that there are no exercises of option awards after March 31, 2009, (b) no exercise of the underwriters' over-allotment option and (c) the issuance of _____ shares of common stock upon the cashless net exercise of warrants that will automatically terminate upon completion of this offering based on the assumed initial public offering price of \$ _____ per share (the mid-point of the range set forth on the cover page of this prospectus). Of these shares, all _____ shares of common stock sold in this offering by us will be freely tradable in the public market without restriction or further registration under the Securities Act, unless these shares are held by "affiliates," as that term is defined in Rule 144 under the Securities Act.

The remaining _____ shares of common stock will be "restricted securities," as that term is defined in Rule 144 under the Securities Act. These restricted securities are eligible for public sale only if they are registered under the Securities Act or if they qualify for an exemption from registration under Rules 144 or 701 under the Securities Act, which are summarized below.

Subject to the lock-up agreements described below and the provisions of Rules 144 and 701 under the Securities Act, these restricted securities will be available for sale in the public market as follows:

<u>Date</u>	<u>Number of Shares</u>
On the date of this prospectus	
Between 90 and 180 days after the date of this prospectus	
At various times beginning more than 180 days after the date of this prospectus	

In addition, as of March 31, 2009, a total of 5,441,744 shares of our common stock were subject to outstanding option awards, of which option awards to purchase _____ shares of common stock will be vested and eligible for sale 180 days after the date of this prospectus, and a total of 22,613 shares of our common stock were subject to an outstanding warrant that will be exercisable and eligible for sale 180 days after the date of this prospectus.

Rule 144

In general, under Rule 144, a person deemed to be one of our affiliates for purposes of the Securities Act and who owns shares that were acquired from us or an affiliate of us at least six months prior to the proposed sale is entitled to sell upon the expiration of the lock-up agreements described below, within any three-month period beginning 90 days after the date of this prospectus, a number of shares that does not exceed the greater of:

- one percent of the number of shares of common stock then outstanding, which will equal approximately _____ shares immediately after the offering; and
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

These sales are also subject to manner of sale provisions, notice requirements and the availability of current public information about us.

Under Rule 144, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell such shares without volume limitations, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year is entitled to sell those shares without regard to the provisions of Rule 144.

Rule 701

In general, under Rule 701 as currently in effect, any of our employees, consultants or advisors who purchase shares from us in connection with a compensatory stock or option plan or other written agreement in a transaction that was completed in reliance on Rule 701 and complied with the requirements of Rule 701 will be eligible to resell such shares 90 days after the effective date of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144.

Lock-Up Agreements

Each of our officers and directors, and certain of our existing shareholders and holders of options and warrants to purchase shares of our common stock, representing an aggregate of % of our outstanding shares prior to the offering, have agreed, subject to certain exceptions, not to offer, sell, contract to sell or otherwise dispose of, or enter into any transaction that is designed to, or could reasonably be expected to, result in the disposition of any shares of our common stock or other securities convertible into or exchangeable or exercisable for shares of our common stock or derivatives of our common stock owned by these persons prior to this offering or common stock issuable upon exercise of options or warrants held by these persons for a period of 180 days after the effective date of the registration statement of which this prospectus is a part without the prior written consent of Deutsche Bank Securities Inc. This consent may be given at any time without public notice. We have entered into a similar agreement with the representative of the underwriters, see "Underwriters." There are no agreements between the representative and any of our shareholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue an earnings release or material news, or a material event relating to us occurs; or
- prior to the expiration of the 180-day restricted period we announce that we will release earnings results during the 16-day period following the last day of the 180-day period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The lock-up restrictions will not apply to shares of common stock acquired in open-market transactions after the closing of the offering. The lock-up restrictions also will not apply to certain transfers not involving a disposition for value provided that the transferee agrees to be

bound by these lock-up restrictions and provided no filing by any person under the Exchange Act is required or will be voluntarily made and no person will be required by law to make or voluntarily make any public announcement of the transfer. In addition, our officers, directors and certain of our existing shareholders that purchase shares of common stock pursuant to the directed share program may transfer their directed shares provided no filing by any person under the Exchange Act is required or will be voluntarily made and no person will be required by law to make or voluntarily make any public announcement of the transfer.

Registration Statements

We intend to file a registration statement on Form S-8 under the Securities Act covering shares of common stock subject to options outstanding reserved for issuance under our stock plans. We expect to file this registration statement after this offering. However, none of the shares registered on Form S-8 will be eligible for resale until the expiration of the lock-up agreements to which they are subject.

UNDERWRITERS

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representative Deutsche Bank Securities Inc. have severally agreed to purchase from us the following respective number of shares of common stock at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

Underwriter	Number of Shares
Deutsche Bank Securities Inc.	
Wedbush Morgan Securities, Inc.	
Leerink Swann LLC	
Needham & Company, LLC	
Total	

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock offered hereby are subject to certain conditions precedent and that the underwriters will purchase all of the shares of common stock offered by this prospectus, other than those covered by the over-allotment option described below, if any of the shares are purchased.

We have been advised by the representative of the underwriters that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus and to dealers at a price that represents a concession not in excess of \$ per share under the public offering price. The underwriters may allow, and these dealers may re-allow, a concession of not more than \$ per share to other dealers. After the initial public offering, the representative of the underwriters may change the offering price and other selling terms.

We have granted to the underwriters an option, exercisable not later than 30 days after the date of this prospectus, to purchase up to additional shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the common stock offered by this prospectus. To the extent that the underwriters exercise this option, each of the underwriters will become obligated, subject to conditions, to purchase approximately the same percentage of these additional shares of common stock as the number of shares of common stock to be purchased by it in the above table bears to the total number of shares of common stock offered by this prospectus. We will be obligated, pursuant to the option, to sell these additional shares of common stock to the underwriters to the extent the option is exercised. If any additional shares of common stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

The underwriting discounts and commissions per share are equal to the public offering price per share of common stock less the amount paid by the underwriters to us per share of common stock. The underwriting discounts and commissions are % of the initial public offering price. We have agreed to pay the underwriters the following discounts and commissions, assuming either no exercise or full exercise by the underwriters of the underwriters' over-allotment option:

	Fee per share	Total Fees	
		Without Exercise of Over-Allotment Option	With Full Exercise of Over-Allotment Option
Discounts and commissions paid by us	\$	\$	\$

In addition, we estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$.

We have agreed to indemnify the underwriters against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

Each of our officers and directors, and certain of our existing shareholders and holders of options and warrants to purchase shares of our common stock, representing an aggregate of % of our outstanding shares prior to the offering, have agreed, subject to certain exceptions, not to offer, sell, contract to sell or otherwise dispose of, or enter into any transaction that is designed to, or could reasonably be expected to, result in the disposition of any shares of our common stock or other securities convertible into or exchangeable or exercisable for shares of our common stock or derivatives of our common stock owned by these persons prior to this offering or common stock issuable upon exercise of options or warrants held by these persons for a period of 180 days after the effective date of the registration statement of which this prospectus is a part without the prior written consent of Deutsche Bank Securities Inc. This consent may be given at any time without public notice. We have entered into a similar agreement with the representative of the underwriters except that without such consent we may grant options and sell shares pursuant to our 2008 Equity Incentive Plan, sell shares pursuant to the exercise of option awards granted pursuant to our other equity incentive plans, and we may issue a limited amount of shares of our common stock in connection with an acquisition, strategic partnership or joint venture or collaboration. There are no agreements between the representative and any of our shareholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue an earnings release or material news, or a material event relating to us occurs; or
- prior to the expiration of the 180-day restricted period we announce that we will release earnings results during the 16-day period following the last day of the 180-day period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

The lock-up restrictions will not apply to shares of common stock acquired in open-market transactions after the closing of the offering. The lock-up restrictions also will not apply to certain transfers not involving a disposition for value provided that the transferee agrees to be bound by these lock-up restrictions and provided no filing by any person under the Exchange Act is required or will be voluntarily made and no person will be required by law to make or voluntarily make any public announcement of the transfer. In addition, our officers, directors and certain of our existing shareholders that purchase shares of common stock pursuant to the directed share program may transfer their directed shares provided no filing by any person under the Exchange Act is required or will be voluntarily made and no person will be required by law to make or voluntarily make any public announcement of the transfer.

Listing

We have applied to list our common stock on the NASDAQ Global Market under the symbol "OMER."

Stabilization

In connection with this offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions.

Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares of common stock from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are any sales in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if underwriters are concerned that there may be downward pressure on the price of the shares in the open market prior to the completion of the offering.

Stabilizing transactions consist of various bids for or purchases of our common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the representative of the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of our common stock. Additionally, these purchases, along with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the NASDAQ Global Market or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, some underwriters may also engage in passive market making transactions in our common stock on the NASDAQ Global Market. Passive market making consists of displaying bids on the NASDAQ Global Market limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of our common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

The representative of the underwriters has informed us that the underwriters do not intend to make sales to discretionary accounts in excess of five percent of the total number of shares of common stock offered by them.

Directed Share Program

At our request, the underwriters have reserved for sale at the initial public offering price up to _____ shares of our common stock being sold in this offering for our directors, employees, family members of directors and employees and other third parties. The number of shares of our common stock available for the sale to the general public will be reduced to the extent these reserved shares are purchased. Any reserved shares not purchased by these persons will be offered by the underwriters to the general public on the same basis as the other shares in this offering.

Initial Public Offering Price

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price of our common stock will be determined by negotiation among us and the representative of the underwriters. Among the primary factors that will be considered in determining the public offering price are:

- prevailing market conditions;
- our results of operations in recent periods;
- the present stage of our development;
- the market capitalizations and stages of development of other companies that we and the representative of the underwriters believe to be comparable to our business; and
- estimates of our business potential.

There can be no assurance that the initial public offering price of our common stock will correspond to the price at which our common stock will trade in the public market subsequent to this offering or that an active public market for our common stock will develop and continue after this offering.

Other Relationships

From time to time in the ordinary course of their respective business, certain of the underwriters and their affiliates may in the future engage in commercial banking or investment banking transactions with us and our affiliates.

**MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS
FOR NON-UNITED STATES HOLDERS OF COMMON STOCK**

This section summarizes certain material U.S. federal income and estate tax considerations relating to the ownership and disposition of our common stock. This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based on provisions of the Code, and U.S. Treasury regulations promulgated thereunder, administrative rulings and judicial decisions currently in effect. These authorities may change at any time, possibly on a retroactive basis, or the Internal Revenue Service, or the IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of our common stock could differ from those described below. For purposes of this summary, a "non-United States holder" is any holder other than a citizen or resident of the United States, a corporation organized under the laws of the United States, or any state or the District of Columbia, a trust that is (a) subject to the primary supervision of a U.S. court and the control of one or more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person or an estate whose income is subject to U.S. federal income tax regardless of source.

If you are an individual, you may, in many cases, be deemed to be a resident of the United States, as opposed to a nonresident alien, by virtue of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For these purposes, all the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to U.S. federal income tax as if they were U.S. citizens. A resident alien is urged to consult his or her own tax advisor regarding the U.S. federal income tax consequences of the sale, exchange or other disposition of common stock. If a partnership or other flow-through entity is a beneficial owner of common stock, the tax treatment of a partner in the partnership or an owner of the entity will depend upon the status of the partner or other owner and the activities of the partnership or other entity. This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules, including if the holder is a U.S. expatriate, "controlled foreign corporation," "passive foreign investment company," corporation that accumulates earnings to avoid U.S. federal income tax financial institution, insurance company, broker, dealer or trader in securities, commodities or currencies, tax-exempt organization, tax-qualified retirement plan, person subject to the alternative minimum tax, or person holding our common stock as part of a hedging or conversion transaction or straddle, or a constructive sale, or other risk reduction strategy. Finally, this summary does not describe the effects of any applicable foreign, state or local tax laws, or, except to the extent discussed below, the effects of any applicable gift or estate tax laws.

INVESTORS CONSIDERING THE PURCHASE OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF FOREIGN, STATE OR LOCAL LAWS, AND TAX TREATIES.

Dividends

We have not paid, nor do we expect in the future to pay, dividends; however, any dividend paid to a non-United States holder on our common stock will generally be subject to U.S. federal withholding tax at a 30% rate. The withholding tax might not apply, however, or might apply at a reduced rate, under the terms of an applicable income tax treaty between the United States and the non-United States holder's country of residence. A non-United States holder must certify its entitlement to treaty benefits. A non-United States holder can meet this certification requirement by providing a Form W-8BEN or appropriate substitute form to us or

our paying agent prior to the payment of dividends and must be updated periodically. If the holder holds the stock through a financial institution or other agent acting on the holder's behalf, the holder will be required to provide appropriate documentation to the agent. The holder's agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. For payments made to a foreign partnership or other flow-through entity, the certification requirements generally apply to the partners or other owners rather than to the partnership or other entity, and the partnership or other entity must provide the partners' or other owners' documentation to us or our paying agent. Special rules, described below, apply if a dividend is effectively connected with a U.S. trade or business conducted by the non-United States holder.

Sale of Common Stock

Non-United States holders will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange or other disposition of common stock unless:

- the gain is effectively connected with the conduct by the non-United States holder of a U.S. trade or business (in which case the special rules described below apply);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition of our common stock, and certain other requirements are met;
- the non-United States holder was a citizen or resident of the United States and thus is subject to special rules that apply to expatriates; or
- the rules of the Foreign Investment in Real Property Tax Act, or FIRPTA, treat the gain as effectively connected with a U.S. trade or business.

The FIRPTA rules may apply to a sale, exchange or other disposition of common stock if we are, or were within five years before the transaction, a "U.S. real property holding corporation," or USRPHC. In general, we would be a USRPHC if our U.S. real property interests comprised at least half of our assets. We do not believe that we are a USRPHC or that we will become one in the future, although there can be no assurance that this conclusion is correct or might not change in the future based on changed circumstances.

Dividends or Gain Effectively Connected With a U.S. Trade or Business

If any dividend on common stock, or gain from the sale, exchange or other disposition of common stock, is effectively connected with a U.S. trade or business conducted by a non-United States holder, then the dividend or gain will generally be subject to U.S. federal income tax at the regular graduated rates. If the non-United States holder is eligible for the benefits of a tax treaty between the United States and the holder's country of residence, any "effectively connected" dividend or gain would generally be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the holder in the United States. Payments of dividends that are effectively connected with a U.S. trade or business, and therefore included in the gross income of a non-United States holder, will not be subject to the 30% withholding tax. To claim an exemption from withholding, the holder must certify its qualification, which can be done by filing a Form W-8ECI. If the non-United States holder is a corporation, under certain circumstances that portion of its earnings and profits that is effectively connected with its U.S. trade or business would generally be subject to a "branch profits tax." The branch profits tax rate is generally 30%, although an applicable income tax treaty might provide for a lower rate.

U.S. Federal Estate Tax

The estates of nonresident alien individuals are generally subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent. The U.S. federal estate tax liability of the estate of a nonresident alien may be affected by a tax treaty between the United States and the decedent's country of residence.

Backup Withholding and Information Reporting

The Code and the U.S. Treasury regulations require those who make specified payments to report the payments to the IRS. Among the specified payments are dividends and proceeds paid by brokers to their customers. The required information returns enable the IRS to determine whether the recipient properly included the payments in income. This reporting regime is reinforced by "backup withholding" rules. These rules require the payors to withhold tax from payments subject to information reporting if the recipient fails to cooperate with the reporting regime by failing to provide his taxpayer identification number to the payor, furnishing an incorrect identification number, or repeatedly failing to report interest or dividends on his returns. The backup withholding tax rate is currently 28%. The backup withholding rules generally do not apply to payments to corporations, whether domestic or foreign.

Payments of dividends on common stock to non-United States holders will generally not be subject to backup withholding, and payments of proceeds made to non-United States holders by a broker upon a sale of common stock will not be subject to information reporting or backup withholding, in each case so long as the non-United States holder certifies its nonresident status. The certification procedures to claim treaty benefits described under " — Dividends" will satisfy the certification requirements necessary to avoid the backup withholding tax as well. We must report annually to the IRS any dividends paid to each non-United States holder and the tax withheld, if any, with respect to those dividends. Copies of these reports may be made available to tax authorities in the country where the non-United States holder resides.

Any amounts withheld from a payment to a holder of common stock under the backup withholding rules can be credited against any U.S. federal income tax liability of the holder and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Seattle, Washington. Morrison & Foerster LLP, New York, New York, will act as counsel to the underwriters. A member of Wilson Sonsini Goodrich & Rosati beneficially holds an aggregate of 3,071 shares of our common stock, which represents less than one percent of our outstanding shares of common stock.

EXPERTS

The consolidated financial statements of Omeros Corporation (a development-stage company) at December 31, 2008 and 2007, and for each of the three years in the period ended December 31, 2008 and for the period from June 16, 1994 (inception) through December 31, 2008, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about Omeros Corporation's ability to continue as a going concern as described in Note 1 to the consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information about us and the common stock offered hereby, reference is made to the registration statement and the exhibits and schedules filed therewith. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. A copy of the registration statement and the exhibits and schedules filed therewith may be inspected without charge at the public reference room maintained by the SEC, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549, and copies of all or any part of the registration statement may be obtained from such offices upon the payment of the fees prescribed by the SEC. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC also maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of the site is www.sec.gov.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Omeros Corporation

We have audited the accompanying consolidated balance sheets of Omeros Corporation (a development stage company) as of December 31, 2008 and 2007, and the related statements of operations, convertible preferred stock and shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2008 and for the period from June 16, 1994 (inception) through December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omeros Corporation (a development stage company) at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 and for the period from June 16, 1994 (inception) through December 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has negative working capital, recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Seattle, Washington
May 8, 2009

OMEROS CORPORATION
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS
(In thousands)

Assets	March 31, 2009	December 31,	
	(unaudited)	2008	2007
Current assets:			
Cash and cash equivalents	\$ 9,899	\$12,726	\$ 5,925
Short-term investments	6,919	7,256	18,157
Grant and other receivables	235	207	190
Prepaid expenses and other current assets	436	289	189
Total current assets	17,489	20,478	24,461
Deferred offering costs	204	—	1,462
Property and equipment, net	830	918	839
Intangible assets, net	34	60	164
Restricted cash	193	193	209
Other assets	32	32	27
Total assets	<u>\$18,782</u>	<u>\$21,681</u>	<u>\$27,162</u>

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS—(Continued)
(In thousands, except share and per share data)

	March 31,	December 31,		Pro Forma
	2009	2008	2007	Shareholders' Equity at March 31, 2009
	(unaudited)			(Unaudited) (Note 1)
Liabilities, convertible preferred stock and shareholders' equity (deficit)				
Current liabilities:				
Accounts payable	\$ 1,153	\$ 1,229	\$ 2,567	
Accrued expenses	3,322	3,764	2,296	
Preferred stock warrant liability	1,720	1,780	1,562	—
Deferred revenue	1,317	232	500	
Current portion of notes payable	<u>16,238</u>	<u>16,556</u>	<u>1,010</u>	
Total current liabilities	23,750	23,561	7,935	
Notes payable, less current portion	106	<u>118</u>	—	
Commitments and contingencies				
Convertible preferred stock:				
Issued and outstanding shares—22,567,407 at March 31, 2009 (unaudited) and 22,327,407 at December 31, 2008 and 2007 (0 pro forma)				
Liquidation preference of \$93,279 at March 31, 2009 (unaudited) and \$92,079 at December 31, 2008 and 2007	91,019	89,168	89,168	—
Shareholders' equity (deficit):				
Preferred stock, par value \$0.01 per share:				
Authorized shares—26,314,511 at March 31, 2009 (unaudited) and December 31, 2008 and 2007 (20,000,000 pro forma)				
Designated convertible—26,314,511 at March 31, 2009 (unaudited) and December 31, 2008 and 2007 (0 pro forma)	—	—	—	—
Common stock, par value \$0.01:				
Authorized shares—40,000,000 at March 31, 2009 (unaudited) and December 31, 2008 and 2007 (150,000,000 pro forma); issued and outstanding shares—5,787,899, 5,784,631 and 5,648,319 at March 31, 2009 (unaudited) and December 31, 2008 and 2007, respectively (28,355,306 pro forma)				
Additional paid-in capital	6,586	6,123	3,439	\$ 99,098
Accumulated other comprehensive loss	(7)	(99)	(4)	(7)
Deferred stock-based compensation	—	—	(12)	—
Deficit accumulated during the development stage	<u>(102,729)</u>	<u>(97,247)</u>	<u>(73,420)</u>	<u>(102,729)</u>
Total shareholders' deficit	<u>(96,093)</u>	<u>(91,166)</u>	<u>(69,941)</u>	<u>\$ (3,354)</u>
Total liabilities, convertible preferred stock, and shareholders' equity (deficit)	<u>\$ 18,782</u>	<u>\$ 21,681</u>	<u>\$ 27,162</u>	

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share data)

	Year Ended December 31,			Period from
	2008	2007	2006	June 16, 1994 (Inception) through December 31, 2008
Grant revenue	\$ 1,170	\$ 1,923	\$ 200	\$ 3,393
Operating expenses:				
Research and development	17,850	15,922	9,637	62,234
Acquired in-process research and development	—	—	10,891	10,891
General and administrative	7,845	10,398	3,625	32,483
Total operating expenses	<u>25,695</u>	<u>26,320</u>	<u>24,153</u>	<u>105,608</u>
Loss from operations	(24,525)	(24,397)	(23,953)	(102,215)
Investment income	661	1,582	1,088	5,163
Interest expense	(335)	(151)	(91)	(629)
Other income (expense)	372	(125)	179	434
Net loss	<u>\$ (23,827)</u>	<u>\$ (23,091)</u>	<u>\$ (22,777)</u>	<u>\$ (97,247)</u>
Basic and diluted net loss per common share	<u>\$ (4.22)</u>	<u>\$ (5.44)</u>	<u>\$ (6.17)</u>	
Weighted-average shares used to compute basic and diluted net loss per common share	<u>5,651,583</u>	<u>4,248,212</u>	<u>3,694,388</u>	
Pro forma basic and diluted net loss per common share (unaudited)	<u>\$ (0.84)</u>			
Weighted-average pro forma shares used to compute pro forma basic and diluted net loss per share (unaudited)	<u>27,978,990</u>			

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS—(Continued)
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended March 31,		Period from
	2009	2008	June 16, 1994 (Inception) through March 31, 2009
Grant revenue	\$ 197	\$ 234	\$ 3,590
Operating expenses:			
Research and development	4,022	4,170	66,256
Acquired in-process research and development	—	—	10,891
General and administrative	1,410	1,596	33,893
Total operating expenses	5,432	5,766	111,040
Loss from operations	(5,235)	(5,532)	(107,450)
Investment income	81	279	5,244
Interest expense	(590)	(22)	(1,219)
Other income	262	172	696
Net loss	\$ (5,482)	\$ (5,103)	\$ (102,729)
Basic and diluted net loss per common share	\$ (0.95)	\$ (0.92)	
Weighted-average shares used to compute basic and diluted net loss per common share	5,740,914	5,522,711	
Pro forma basic and diluted net loss per common share	\$ (0.20)		
Weighted-average pro forma shares used to compute pro forma basic and diluted net loss per share	28,180,321		

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY (DEFICIT)
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at June 16, 1994	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of common stock to founders for \$0.01 per share	—	—	3,500,000	35	—	—	—	—	—	35
Issuance of Series A convertible preferred stock for \$1.00 per share and \$7 in financing costs	875,000	875	—	—	(7)	—	—	—	—	(7)
Net loss from inception to December 31, 1994	—	—	—	—	—	—	—	—	(140)	(140)
Balance at December 31, 1994	875,000	875	3,500,000	35	(7)	—	—	—	(140)	(112)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(327)	(327)
Balance at December 31, 1995	875,000	875	3,500,000	35	(7)	—	—	—	(467)	(439)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(495)	(495)
Balance at December 31, 1996	875,000	875	3,500,000	35	(7)	—	—	—	(962)	(934)
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	(787)	(787)
Balance at December 31, 1997	875,000	875	3,500,000	35	(7)	—	—	—	(1,749)	(1,721)
Issuance of Series B convertible preferred stock for \$1.75 per share and \$302 in financing costs	2,663,244	4,661	—	—	(302)	—	—	—	—	(302)
Stock-based compensation	—	—	—	—	6	—	—	—	—	6
Unrealized holding loss on available-for-sale securities for the year ended December 31, 1998	—	—	—	—	—	(22)	—	—	—	(22)
Net loss	—	—	—	—	—	—	—	—	(930)	(930)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(952)
Balance at December 31, 1998	3,538,244	\$5,536	3,500,000	\$35	\$(303)	\$(22)	\$—	\$—	\$(2,679)	\$(2,969)
Repurchase of common stock issued to founders	—	—	(371,875)	(4)	(61)	—	—	—	—	(65)
Issuance of common stock upon exercise of stock options for cash at \$0.18 per share	—	—	1,200	—	—	—	—	—	—	—
Issuance of common stock for services at \$0.18 per share	—	—	17,537	—	3	—	—	—	—	3
Stock-based compensation	—	—	—	—	4	—	—	—	—	4
Unrealized holding gain on available-for-sale securities for the year ended December 31, 1999	—	—	—	—	—	3	—	—	—	3
Net loss	—	—	—	—	—	—	—	—	(1,801)	(1,801)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(1,798)
Balance at December 31, 1999 (carried forward)	3,538,244	5,536	3,146,862	31	(357)	(19)	—	—	(4,480)	(4,825)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDERS' EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 1999 (brought forward)	3,538,244	5,536	3,146,862	31	(357)	(19)	—	—	(4,480)	(4,825)
Issuance of Series C convertible preferred stock for \$2.65 per share and \$262 in financing costs	2,825,291	7,487	—	—	(262)	—	—	—	—	(262)
Issuance of Series C convertible preferred stock warrants for services	—	12	—	—	—	—	—	—	—	—
Issuance of Series C convertible preferred stock upon exercise of warrants for \$2.65 purchase	9,433	25	—	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$0.27 per share	—	—	50,614	1	9	—	—	—	—	10
Issuance of common stock for services at \$0.18 per share	—	—	9,264	—	2	—	—	—	—	2
Stock-based compensation	—	—	—	—	8	—	—	—	—	8
Unrealized holding gain on available-for-sale securities for the year ended December 31, 2000	—	—	—	—	—	18	—	—	—	18
Net loss	—	—	—	—	—	—	—	—	(1,363)	(1,363)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(1,345)
Balance at December 31, 2000	6,372,968	13,060	3,206,740	32	(600)	(1)	—	—	(5,843)	(6,412)
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$0.27 per share	—	—	48,125	—	9	—	—	—	—	9
Issuance of common stock for services at \$0.27 per share	—	—	12,268	—	3	—	—	—	—	3
Stock-based compensation	—	—	—	—	20	—	—	—	—	20
Unrealized holding gain on available-for-sale securities for the year ended December 31, 2001	—	—	—	—	—	33	—	—	—	33
Net loss	—	—	—	—	—	—	—	—	(2,554)	(2,554)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(2,521)
Balance at December 31, 2001 (carried forward)	6,372,968	\$13,060	3,267,133	\$32	\$(568)	\$ 32	\$—	\$—	\$(8,397)	\$(8,901)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDERS' EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 2001 (brought forward)	6,372,968	\$13,060	3,267,133	\$32	\$ (568)	\$ 32	\$ —	\$ —	\$ (8,397)	\$ (8,901)
Issuance of Series D convertible preferred stock for \$3.97 per share and \$124 in financing costs	972,580	3,861	—	—	(124)	—	—	—	—	(124)
Issuance of common stock upon exercise of stock options for cash at \$0.19 to \$0.27 per share	—	—	423,660	4	84	—	—	—	—	88
Deferred stock-based compensation	—	—	—	—	9	—	(9)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	2	—	—	2
Stock-based compensation	—	—	—	—	121	—	—	(65)	—	56
Unrealized holding gain on available-for-sale securities for the year ended December 31, 2002	—	—	—	—	—	16	—	—	—	16
Net loss	—	—	—	—	—	—	—	—	(3,152)	(3,152)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(3,136)
Balance at December 31, 2002	7,345,548	16,921	3,690,793	36	(478)	48	(7)	(65)	(11,549)	(12,015)
Issuance of Series B convertible preferred stock upon exercise of warrants for \$1.75 per share	11,829	21	—	—	—	—	—	—	—	—
Repurchase of Series A convertible preferred stock	(100,000)	(100)	—	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$0.40 per share	—	—	349,058	4	91	—	—	—	—	95
Amortization of deferred stock-based compensation	—	—	—	—	—	—	4	—	—	4
Stock-based compensation	—	—	—	—	406	—	(9)	(86)	—	311
Unrealized holding loss on available-for-sale securities for the year ended December 31, 2003	—	—	—	—	—	(37)	—	—	—	(37)
Net loss	—	—	—	—	—	—	—	—	(4,060)	(4,060)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(4,097)
Balance at December 31, 2003	7,257,377	16,842	4,039,851	40	19	11	(12)	(151)	(15,609)	(15,702)
Issuance of Series E convertible preferred stock for \$5.00 per share and \$1,119 in financing costs	3,672,293	18,361	—	—	(1,119)	—	—	—	—	(1,119)
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$0.40 per share	—	—	55,687	1	10	—	—	—	—	11
Deferred stock-based compensation	—	—	—	—	77	—	(77)	—	—	—
Stock-based compensation	—	—	—	—	263	—	10	—	—	273
Unrealized holding gain on available-for-sale securities for the year ended December 31, 2004	—	—	—	—	—	1	—	—	—	1
Net loss	—	—	—	—	—	—	—	—	(4,578)	(4,578)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(4,577)
Balance at December 31, 2004 (carried forward)	10,929,670	\$35,203	4,095,538	\$41	\$ (750)	\$ 12	\$ (79)	\$ (151)	\$ (20,187)	\$ (21,114)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDERS' EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 2004 (brought forward)	10,929,670	\$35,203	4,095,538	\$41	\$ (750)	\$12	\$(79)	\$(151)	\$(20,187)	\$(21,114)
Issuance of Series E convertible preferred stock for \$5 per share and \$278 in financing costs	1,120,215	5,601	—	—	(278)	—	—	—	—	(278)
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$0.29 per share	—	—	387,100	4	102	—	—	—	—	106
Issuance of Series C convertible preferred stock upon exercise of warrants for \$2.65 per share	31,995	84	—	—	—	—	—	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	23	—	—	23
Stock-based compensation	—	—	—	—	(530)	—	—	(88)	—	(618)
Reclassification of preferred stock warrants to liabilities	—	—	—	—	(490)	—	—	—	—	(490)
Unrealized holding loss on available-for-sale securities for the year ended December 31, 2005	—	—	—	—	—	(6)	—	—	—	(6)
Net loss	—	—	—	—	—	—	—	—	(7,366)	(7,366)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(7,372)
Balance at December 31, 2005	12,081,880	40,888	4,482,638	45	(1,946)	6	(56)	(239)	(27,553)	(29,743)
Issuance of Series E convertible preferred stock for \$5.00 per share and \$1,821 in financing costs	6,156,700	30,784	—	—	(1,821)	—	—	—	—	(1,821)
Issuance of Series E preferred stock warrants to placement agents	—	—	—	—	(607)	—	—	—	—	(607)
Issuance of Series E convertible preferred stock and common stock for the acquisition of nura	3,398,445	14,070	36,246	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options for cash at \$0.18 to \$5.42 per share	—	—	453,716	5	121	—	—	—	—	126
Amortization of deferred stock-based compensation	—	—	—	—	—	—	23	—	—	23
Stock-based compensation	—	—	—	—	1,416	—	—	—	—	1,416
Unrealized holding gain on available-for-sale securities for the year ended December 31, 2006	—	—	—	—	—	20	—	—	—	20
Net loss	—	—	—	—	—	—	—	—	(22,777)	(22,777)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(22,757)
Balance at December 31, 2006 (carried forward)	21,637,025	\$85,742	4,972,600	\$50	\$(2,838)	\$26	\$(33)	\$(239)	\$(50,329)	\$(53,363)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDERS' EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 2006 (brought forward)	21,637,025	\$85,742	4,972,600	\$50	\$(2,838)	\$ 26	—	\$(239)	\$(50,329)	\$(53,363)
Issuance of Series D convertible preferred stock upon exercise of warrants for \$3.97 per share	24,382	96	—	—	—	—	—	—	—	—
Issuance of Series E convertible preferred stock for \$5.00 per share and \$90 in financing costs	666,000	3,330	—	—	(90)	—	—	—	—	(90)
Issuance of Series E Preferred stock Warrants to placement agents	—	—	—	—	(22)	—	—	—	—	(22)
Issuance of common stock upon exercise of common stock warrants	—	—	107,142	1	186	—	—	—	—	187
Issuance of common stock upon exercise of stock options for cash of \$0.18 to \$1.00 per share	—	—	408,857	5	168	—	—	—	—	173
Issuance of common stock in connection with early-exercise of stock options for cash of \$0.50 to \$1.00 per share	—	—	159,063	2	153	—	—	—	—	155
Early exercise of common stock subject to repurchase	—	—	—	(2)	(153)	—	—	—	—	(155)
Amortization of deferred stock-based compensation, net of cancellations	—	—	—	—	(4)	—	21	—	—	17
Stock-based compensation	—	—	657	—	6,039	—	—	—	—	6,039
Repayment of note receivable from related party	—	—	—	—	—	—	—	239	—	239
Unrealized holding loss on available-for-sale securities for the year ended December 31, 2007	—	—	—	—	—	(30)	—	—	—	(30)
Net loss	—	—	—	—	—	—	—	—	(23,091)	(23,091)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(23,121)
Balance at December 31, 2007 (Carried forward)	22,327,407	\$89,168	5,648,319	\$56	\$ 3,439	\$ (4)	\$(12)	\$ —	\$(73,420)	\$(69,941)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDER'S EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 2007 (brought forward)	22,327,407	\$89,168	5,648,319	\$56	\$3,439	\$ (4)	\$ (12)	\$—	\$(73,420)	\$(69,941)
Issuance of common stock upon exercise of stock options for cash of \$0.18 to \$1.25 per share	—	—	136,312	1	39	—	—	—	—	40
Issuance of common stock warrants in connection with notes payable	—	—	—	—	241	—	—	—	—	241
Vesting of early-exercised stock options	—	—	—	—	101	—	—	—	—	101
Stock-based compensation	—	—	—	—	2,303	—	—	—	—	2,303
Amortization of deferred stock-based compensation	—	—	—	—	—	—	12	—	—	12
Unrealized holding loss on available-for-sale securities for the year ended December 31, 2008	—	—	—	—	—	(95)	—	—	—	(95)
Net loss	—	—	—	—	—	—	—	—	(23,827)	(23,827)
Comprehensive loss	—	—	—	—	—	—	—	—	—	(23,922)
Balance at December 31, 2008	22,327,407	\$89,168	5,784,631	\$57	\$6,123	\$(99)	\$—	\$—	\$(97,247)	\$(91,166)

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)

**CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND
SHAREHOLDER'S EQUITY (DEFICIT)—(Continued)**
(In thousands, except share and per share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Stock-Based Compensation	Notes Receivable from Related Party	Deficit Accumulated During the Development Stage	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount						
Balance at December 31, 2008 (brought forward)	22,327,407	\$89,168	5,784,631	\$57	\$6,123	\$(99)	\$—	\$—	\$ (97,247)	(\$ 91,166)
Issuance of Series E convertible preferred stock for cash of \$7.71 per share in connection with research and development funding agreement (unaudited)	240,000	1,851	—	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options for cash of \$1.25 per share (unaudited)	—	—	8,333	—	10	—	—	—	—	10
Vesting of early-exercised stock options (unaudited)	—	—	—	—	5	—	—	—	—	5
Repurchase of early-exercised stock options (unaudited)	—	—	(5,065)	—	—	—	—	—	—	—
Stock-based compensation (unaudited)	—	—	—	—	448	—	—	—	—	448
Unrealized holding gain on available-for-sale securities (unaudited)	—	—	—	—	—	92	—	—	—	92
Net loss (unaudited)	—	—	—	—	—	—	—	—	(5,482)	(5,482)
Comprehensive loss (unaudited)	—	—	—	—	—	—	—	—	—	(5,390)
Balance at March 31, 2009 (unaudited)	<u>22,567,407</u>	<u>\$91,019</u>	<u>5,787,899</u>	<u>\$57</u>	<u>\$6,586</u>	<u>\$(7)</u>	<u>\$—</u>	<u>\$—</u>	<u>\$(102,729)</u>	<u>\$(96,093)</u>

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,			Period from June 16, 1994 (Inception) through December 31, 2008
	2008	2007	2006	2008
Operating activities				
Net loss	\$(23,827)	\$(23,091)	\$(22,777)	\$(97,247)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	434	375	232	1,551
Stock-based compensation expense	2,315	6,056	1,439	10,158
(Gain) loss on remeasurement of preferred stock warrant values	218	503	(117)	595
Non-cash interest expense	55	—	—	55
(Gain) loss on sale of investment securities	76	(145)	(145)	45
Write-off of deferred public offering costs	1,948	—	—	1,948
Acquired in-process research and development	—	—	10,891	10,891
Other than temporary impairment loss on investments	—	—	—	163
Changes in operating assets and liabilities, net of effect from nura acquisition in 2006:				
Grant and other receivables	(17)	1,110	—	1,093
Prepaid expenses and other current and noncurrent assets	19	(22)	150	(172)
Deferred public offering costs	(486)	(1,462)	—	(1,948)
Accounts payable and accrued expenses	(140)	3,162	155	4,658
Deferred revenue	(268)	(800)	—	(1,068)
Net cash used in operating activities	<u>(19,673)</u>	<u>(14,314)</u>	<u>(10,172)</u>	<u>(69,278)</u>
Investing activities				
Purchases of property and equipment	(164)	(534)	(166)	(1,793)
Purchases of investments	—	(30,562)	(9,541)	(83,897)
Proceeds from the sale of investments	5,572	11,450	2,007	32,671
Proceeds from the maturities of investments	5,158	13,555	7,333	43,664
Cash paid for acquisition of nura, net of cash acquired of \$87	—	—	(212)	(212)
Net cash provided by (used in) investing activities	<u>10,566</u>	<u>(6,091)</u>	<u>(579)</u>	<u>(9,567)</u>
Financing activities				
Proceeds from borrowings under note payable, net of loan origination costs	16,878	—	—	16,928
Payments on notes payable	(1,010)	(1,005)	(391)	(2,456)
Proceeds from issuance of common stock and exercise of stock options	40	360	126	642
Proceeds from the repayment of related party notes receivable	—	239	—	239
Proceeds from issuance of convertible preferred stock, net of issuance costs	—	3,336	28,963	71,183
Issuance of Series E convertible preferred stock for \$5.00 per share concurrent with acquisition of nura	—	—	5,200	5,200
Repurchase of Series A convertible preferred stock and common stock	—	—	—	(165)
Net cash provided by financing activities	<u>15,908</u>	<u>2,930</u>	<u>33,898</u>	<u>91,571</u>
Net increase (decrease) in cash and cash equivalents	6,801	(17,475)	23,147	12,726
Cash and cash equivalents at beginning of period	5,925	23,400	253	—
Cash and cash equivalents at end of period	<u>\$ 12,726</u>	<u>\$ 5,925</u>	<u>\$ 23,400</u>	<u>\$ 12,726</u>
Supplemental cash flow information				
Cash paid for interest	\$ 222	\$ 151	\$ 91	\$ 516
Purchase of equipment included in accounts payable and accrued expenses	\$ 52	\$ —	\$ —	\$ 52
Purchase of software financed with note payable	\$ 193	\$ —	\$ —	\$ 193
Vesting of early-exercised stock options	\$ 101	\$ —	\$ —	\$ 101
Issuance of common stock warrants in connection with notes payable	\$ 241	\$ —	\$ —	\$ 241
Issuance of common stock in exchange for note receivable from related party	\$ —	\$ —	\$ —	\$ 239
Preferred stock and common stock issued in connection with nura acquisition	\$ —	\$ —	\$ 14,070	\$ 14,070

See notes to consolidated financial statements

OMEROS CORPORATION
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(In thousands)
(unaudited)

	Three Months Ended March 31,		Period from June 16, 1994 (Inception) through March 31, 2009
	2009	2008	2009
Operating activities			
Net loss	\$ (5,482)	\$ (5,103)	\$ (102,729)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	122	98	1,673
Stock-based compensation expense	448	718	10,606
(Gain) loss on remeasurement of preferred stock warrant values	(60)	(56)	535
Non-cash interest expense	59	—	114
(Gain) loss on sale of investment securities	6	13	51
Write-off of deferred public offering costs	—	—	1,948
Acquired in-process research and development	—	—	10,891
Other than temporary impairment loss on investments	—	—	163
Changes in operating assets and liabilities, net of effect from nura acquisition in 2006:			
Grant and other receivables	(28)	94	1,065
Prepaid expenses and other current and noncurrent assets	(160)	7	(332)
Deferred public offering costs	(204)	(378)	(2,152)
Accounts payable and accrued expenses	(510)	(686)	4,148
Deferred revenue	1,085	(195)	17
Net cash used in operating activities	<u>(4,724)</u>	<u>(5,488)</u>	<u>(74,002)</u>
Investing activities			
Purchases of property and equipment	(8)	(30)	(1,801)
Purchases of investments	—	—	(83,897)
Proceeds from the sale of investments	—	—	32,671
Proceeds from the maturities of investments	423	2,083	44,087
Cash paid for acquisition of nura, net of cash acquired of \$87	—	—	(212)
Net cash provided by (used in) investing activities	<u>415</u>	<u>2,053</u>	<u>(9,152)</u>
Financing activities			
Proceeds from issuance of convertible preferred stock, net of issuance costs	1,851	—	73,034
Proceeds from borrowings under note payable, net of debt issuance costs	—	—	16,928
Payments on notes payable	(376)	(266)	(2,832)
Proceeds from issuance of common stock and exercise of stock options	10	37	652
Proceeds from the repayment of related party notes receivable	—	—	239
Issuance of Series E convertible preferred stock for \$5.00 per share concurrent with acquisition of nura	—	—	5,200
Repurchase of Series A convertible preferred stock and unvested common stock	(3)	—	(168)
Net cash provided by (used in) financing activities	<u>1,482</u>	<u>(229)</u>	<u>93,053</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,827)</u>	<u>(3,664)</u>	<u>9,899</u>
Cash and cash equivalents at beginning of period	<u>12,726</u>	<u>5,925</u>	<u>—</u>
Cash and cash equivalents at end of period	<u>\$ 9,899</u>	<u>\$ 2,261</u>	<u>\$ 9,899</u>
Supplemental cash flow information			
Cash paid for interest	<u>\$ 531</u>	<u>\$ 22</u>	<u>\$ 1,047</u>
Purchase of equipment included in accounts payable and accrued expenses	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22</u>
Purchase of software financed with note payable	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 166</u>
Vesting of early-exercised stock options	<u>\$ 5</u>	<u>\$ —</u>	<u>\$ 106</u>
Issuance of warrants in connection with notes payable	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 253</u>
Issuance of common stock in exchange for note receivable from related party	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 239</u>
Preferred stock and common stock issued in connection with nura acquisition	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,070</u>

See notes to consolidated financial statements

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies

Organization

Omeros Corporation (Omeros or the Company) is a biopharmaceutical company committed to discovering, developing and commercializing products focused on inflammation and disorders of the central nervous system. The Company's most clinically advanced product candidates are derived from its proprietary PharmacoSurgery™ platform designed to improve clinical outcomes of patients undergoing arthroscopic, ophthalmological, urological and other surgical and medical procedures. As substantially all efforts of the Company have been devoted to conducting research and development of its products, developing the Company's patent portfolio, and raising equity capital, the Company is considered to be in the development stage.

Basis of Presentation

The consolidated financial statements include the financial position and results of operations of Omeros and nura, inc. (nura), its wholly-owned subsidiary.

The acquisition of nura was accounted for as an asset purchase, and the results of nura have been included in the results of the Company since August 11, 2006. The inclusion of nura for a portion of 2006 impacts the comparability of the Company's 2006 financial information with the financial information for 2007 and 2008. See Note 6 related to the acquisition of nura.

Liquidity

The Company has incurred significant losses from operations since its inception and expects losses to continue for the foreseeable future. The Company's success depends primarily on the development and regulatory approval of its product candidates. From June 16, 1994 (inception) through December 31, 2008 and March 31, 2009, the Company has incurred cumulative net losses of \$97.2 million and \$102.7 million, respectively. Net losses may continue for at least the next several years as the Company proceeds with the development of its product candidates and programs. The size of these losses will depend on the receipt of revenue from its products candidates and programs, if any, and on the level of the Company's expenses. To achieve profitable operations, the Company must successfully identify, develop, partner and/or commercialize its product candidates and programs. Product candidates developed by the Company will require approval of the U.S. Food and Drug Administration (FDA) or a foreign regulatory authority prior to commercial sales. The regulatory approval process is expensive, time consuming and uncertain, and any denial or delay of approval could have a material adverse effect on the Company's ability to become profitable or continue operations. Even if approved, the Company's product candidates may not achieve market acceptance and could face competition.

The Company's cash, cash equivalents and short-term investments have decreased from \$20.0 million as of December 31, 2008 to \$16.8 million as of March 31, 2009. The Company will need to raise additional funds to support its operations through December 31, 2009. The Company's board of directors has approved the filing of a registration statement on Form S-1 with respect to a proposed initial public offering of its common stock. The Company may seek additional sources of financing through collaborations with third parties, or public or private debt or equity financings. If the Company requires additional financing, there can be no assurance that it will be available on satisfactory terms, or at all. If adequate funds are not

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

available, the Company may be required to significantly reduce expenses related to its operations and/or delay or reduce the scope of its development programs.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements for the year ended December 31, 2008 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

Financial Instruments and Concentration of Credit Risk

The fair values of cash and cash equivalents, receivables associated with grants, accounts payable, and accrued liabilities, which are recorded at cost, approximate fair value based on the short-term nature of these financial instruments. The fair value of short-term investments is based on quoted market prices.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, and short-term investments. Cash and cash equivalents are held by financial institutions and are federally insured up to certain limits. At times, the Company's cash and cash equivalents balance exceeds the federally insured limits. To limit the credit risk, the Company invests its excess cash primarily in high quality securities such as money market funds, certificates of deposit, commercial paper and mortgage-backed securities issued by, or fully collateralized by, the U.S. government or U.S. government-sponsored entities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Unaudited Pro Forma Shareholders' Equity

In December 2007, the Company's Board of Directors authorized the filing of a registration statement with the Securities and Exchange Commission (SEC) to sell shares of its common stock to the public in an initial public offering (the IPO). The Company filed its initial S-1 registration statement with the SEC on January 9, 2008, as well as subsequent amendments on April 1, 2008 and May 8, 2008. All of the Company's convertible preferred stock outstanding at March 31, 2009 will convert into 22,567,407 shares of common stock upon completion of the IPO, assuming a conversion ratio of one share of common stock for every one share of convertible preferred stock. Unaudited pro forma shareholders' equity assumes the conversion of all preferred stock into 22,567,407 shares of common stock and the conversion of all outstanding preferred stock warrants to purchase 409,578 shares to common stock warrants to purchase an equivalent number of shares, resulting in the preferred stock warrant liability being reclassified to additional paid-in capital. Certain of these warrants to purchase a total of

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

436,446 shares must be exercised prior to the closing of the IPO or they will expire. Warrants to purchase an additional 22,613 shares will survive the IPO.

Cash and Cash Equivalents, Short-Term Investments, and Restricted Cash

Cash and cash equivalents include highly liquid investments with a maturity of three months or less on the date of purchase.

Short-term investment securities are classified as available-for-sale and are carried at fair value. Unrealized gains and losses are reported as a separate component of shareholders' deficit. Amortization, accretion, interest and dividends, realized gains and losses, and declines in value judged to be other-than-temporary are included in investment income. The cost of securities sold is based on the specific-identification method. Investments in securities with maturities of less than one year, or those for which management intends to use the investments to fund current operations, are included in current assets.

The Company evaluates whether an investment is other-than-temporarily impaired. This evaluation is dependent on the specific facts and circumstances. Factors that are considered in determining whether an other-than-temporary decline in value has occurred include: the market value of the security in relation to its cost basis; the financial condition of the investee; and the intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment.

Restricted cash consists of cash equivalents, the use of which is restricted and serves as collateral securing a letter of credit under a facility operating lease.

Grant and Other Receivables

Grant and other receivables consisted of the following:

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u> <u>2007</u>	
		(in thousands)	
Grant revenue receivable	\$200	\$180	\$143
Sublease income receivable	24	27	9
Other receivables	<u>11</u>	<u>—</u>	<u>38</u>
Grant and other receivables	<u>\$235</u>	<u>\$207</u>	<u>\$190</u>

Deferred public offering costs

Deferred public offering costs totaled \$204,000, \$0, and \$1.5 million at March 31, 2009 and December 31, 2008 and 2007, respectively, and represent primarily legal, accounting and other direct costs related to the Company's efforts to raise capital through a public sale of the Company's common stock. Deferred public offering costs capitalized prior to 2009 were written-off to expense in 2008. The write-off of previously capitalized costs was based on the guidance provided in SEC Staff Accounting Bulletin (SAB) Topic 5A "Deferred Offering Costs." The amount written-off to expense totaled \$1.9 million for the year ended December 31, 2008. An additional \$70,000 in expense was incurred during 2008 for other public offering related expenses; however, the Company did not record these costs as deferred public offering costs.

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

Future costs related to the Company's IPO activities will be deferred until the completion of the IPO, at which time they will be reclassified to additional paid-in capital as a reduction of the IPO proceeds. If the Company terminates its plan for an IPO or delays such plan for more than 90 days, any costs deferred will be expensed immediately.

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful life of the assets, which is generally three to five years. Leasehold improvements are stated at cost and amortized using the straight-line method over the term of the lease or five years, whichever is shorter.

Intangible Assets

In August 2006, the Company acquired certain intangible assets related to the acquisition of nura (see Note 6). The Company assigned a value of \$310,000 to assembled and trained workforce with an amortizable life of three years. The accumulated amortization of the assembled workforce was \$276,000, \$250,000 and \$146,000 at March 31, 2009 and December 31, 2008 and 2007, respectively. The remaining unamortized balance of the assembled workforce of \$34,000 will be amortized to expense in 2009.

Impairment of Long-Lived Assets

The carrying amount of long-lived assets, including property and equipment and intangible assets, that are not considered to have an indefinite useful life are reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparing the carrying value to future undiscounted cash flows that the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment will be reflected in the result of operations in the period of impairment. No impairment existed as of March 31, 2009 or as of December 31, 2008 and 2007.

Accrued Expenses

Accrued expenses consisted of the following:

	<u>March 31,</u> <u>2009</u>	<u>December 31,</u>	
		<u>2008</u>	<u>2007</u>
		(in thousands)	
Clinical trials	\$1,559	\$1,644	\$ 906
Contract preclinical research	190	423	11
Employee compensation	339	319	463
Success fee liability related to notes payable	310	310	—
Other accruals	924	1,068	916
Accrued expenses	<u>\$3,322</u>	<u>\$3,764</u>	<u>\$2,296</u>

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

Deferred Rent

The Company recognizes rent expense on a straight-line basis over the noncancelable term of its operating lease and, accordingly, records the difference between cash rent payments and the recognition of rent expense as a deferred rent liability. The Company also records landlord-funded lease incentives, such as reimbursable leasehold improvements, as a deferred rent liability which is amortized as a reduction of rent expense over the noncancelable terms of its operating lease.

Preferred Stock Warrant Liability

Warrants to purchase the Company's convertible preferred stock are classified as liabilities and are recorded at fair value. At each reporting period, any change in fair value of the freestanding warrants is recorded as other expense or income.

For the three-month periods ended March 31, 2009 and 2008, the Company recorded (income) expense of \$(60,000) and \$(56,000), respectively, and for the years ended December 31, 2008, 2007 and 2006, the Company recorded (income) expense of \$218,000, \$503,000, and (\$117,000), respectively, to reflect the change in estimated fair value of the freestanding warrants.

Revenue

Revenue arrangements are accounted for in accordance with the provisions of SAB No. 104, "Revenue Recognition," and Emerging Issues Task Force (EITF) No. 00-21, "Revenue Arrangements with Multiple Deliverables." A variety of factors are considered in determining the appropriate method of revenue recognition under these arrangements, such as whether the various elements can be considered separate units of accounting, whether there is objective and reliable evidence of fair value for these elements and whether there is a separate earnings process associated with a particular element of an agreement.

The Company's revenue since inception relates to grant funding from third parties. The Company recognizes such funds as revenue when the related qualified research and development expenses are incurred up to the limit of the approved funding amounts. Funds received in advance are recorded as deferred revenue and recognized as revenue as research is performed.

The Company has received Small Business Innovative Research (SBIR) grants from the National Institutes of Health totaling \$2.5 million and \$2.3 million as of March 31, 2009 and December 31, 2008, respectively. The purpose of the grants is to support research for drug candidates being developed by the Company. For the three-month periods ended March 31, 2009 and 2008, the Company recorded revenue related to these grants of \$20,000 and \$39,000, respectively, and for the years ended December 31, 2008, 2007 and 2006, the Company recognized revenue related to these grants of \$670,000, \$1.1 million and \$200,000, respectively. As of March 31, 2009 and December 31, 2008, \$338,000 and \$210,000, respectively, of funding remained under these grants.

In December 2006, the Company entered into a funding agreement with The Stanley Medical Research Institute (SMRI) to develop a proprietary product candidate for the treatment

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

of schizophrenia. The funding is expected to advance the Company's schizophrenia program through the completion of Phase 1 clinical trials. Under the agreement, the Company may receive grant and equity funding up to \$9.0 million upon achievement of research milestones. The Company holds the exclusive rights to the technology. In consideration for SMRI's grant funding, the Company may become obligated to pay SMRI royalties based on net income, as defined under the agreement, from commercial sales of the schizophrenia product, not to exceed a set multiple of total grant funding received. If the product does not reach commercialization, the Company is not required to repay the grant funds. As of March 31, 2009 and December 31, 2008, the Company has received a total of \$5.7 million and \$2.6 million, respectively. As of March 31, 2009, amounts included in the accompanying balance sheet pertaining to this agreement included \$1.2 million in deferred revenue and \$3.2 million from the sale of 500,000 shares of Series E convertible preferred stock, which were recorded at their estimated fair value. For the three-month periods ending March 31, 2009 and 2008, the Company recognized revenue under this agreement of \$96,000 and \$195,000, respectively, and for the years ended December 31, 2008 and 2007, the Company recognized revenue of \$500,000 and \$800,000, respectively. No revenues were recognized under the agreement during the year ended December 31, 2006.

In November 2008, the Company entered into an agreement with The Michael J. Fox Foundation (MJFF) to provide funding for a study of PDE7 inhibitors for the treatment of Parkinson's disease. The agreement is for a one-year period and provides funding of actual costs incurred up to a total of \$464,000. In consideration of MJFF's grant funding, MJFF will receive access to the study data results, subject to certain restrictions on data sharing. The Company holds and will continue to hold the exclusive rights to the technology and has no future obligation to MJFF for royalties or other monetary consideration resulting from the ongoing development of the technology. The Company received an advance payment of \$232,000 in December 2008 which was recorded as deferred revenue at December 31, 2008. A final installment is due in June 2009, conditioned on the Company's satisfactory compliance with the terms of the agreement. The Company recognized revenue of \$81,000 for the three-month period ended March 31, 2009. No revenue was recognized under this agreement prior to 2009.

Research and Development

Research and development costs are comprised primarily of costs for personnel, including salaries and benefits; occupancy; clinical studies performed by third parties; materials and supplies to support the Company's clinical programs; contracted research; manufacturing; related consulting arrangements; and other expenses incurred to sustain the Company's overall research and development programs. Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed at the earlier of when the contracted work has been performed or as upfront and milestone payments are made. Clinical trial expenses require certain estimates. The Company estimates these costs based upon a cost per patient that varies depending on the site of the clinical trial.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

In-Process Research and Development

In connection with the acquisition of nura in August 2006, the Company recorded an expense of \$10.9 million for acquired in-process research and development. This amount represented the estimated fair value related to incomplete product candidate development projects for which, at the time of the acquisition, technological feasibility had not been established and there was no alternative future use.

Patents

The Company generally applies for patent protection on processes and products. Patent application costs are expensed as incurred as a component of general and administrative expense, as recoverability of such expenditures is uncertain.

Income Taxes

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 tax bases. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

Other Comprehensive Loss

Other comprehensive loss is comprised of net loss and certain changes in equity that are excluded from net loss. The Company's only component of other comprehensive loss is unrealized gains (losses) on available-for-sale securities. The components of other comprehensive loss are as follows:

	<u>Three Months Ended March 31,</u>		<u>Year Ended December 31,</u>		
	<u>2009</u>	<u>2008</u>	<u>2008</u>		<u>2006</u>
	(in thousands)				
Net loss	\$ (5,482)	\$ (5,103)	\$ (23,827)	\$ (23,091)	\$ (22,777)
Unrealized gain (loss) on available-for-sale securities	92	19	(95)	(30)	20
Other comprehensive loss	<u>\$ (5,390)</u>	<u>\$ (5,084)</u>	<u>\$ (23,922)</u>	<u>\$ (23,121)</u>	<u>\$ (22,757)</u>

Net Loss Per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, less weighted-average unvested common shares subject to repurchase and common shares subject to the shareholder note receivable. Diluted net loss per common share is computed by dividing the net loss applicable to common shareholders by the weighted-average number of unrestricted common shares and dilutive common share equivalents outstanding for the period, determined using the treasury-stock method and the as if-converted method.

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(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 1—Organization and Significant Accounting Policies—(Continued)

Net loss attributable to common shareholders for each period must be allocated to common stock and participating securities to the extent that the securities are required to share in the losses. The Company's convertible preferred stock do not have a contractual obligation to share in losses of the Company. As a result, basic net loss per common share is calculated by dividing net loss by the weighted-average shares of common stock outstanding during the period.

The following table presents the computation of basic and diluted net loss per common share (in thousands, except share and per share data):

	Three Months Ended March 31,		Year Ended December 31,		
	2009	2008	2008	2007	2006
Historical					
Numerator:					
Net loss	\$ (5,482)	\$ (5,103)	\$ (23,827)	\$ (23,091)	\$ (22,777)
Denominator:					
Weighted-average common shares outstanding	5,789,555	5,680,708	5,757,946	5,260,867	4,622,315
Less: Weighted-average unvested common shares subject to repurchase	(48,641)	(157,997)	(106,363)	(84,728)	—
Less: Common shares subject to shareholder note receivable	—	—	—	(927,927)	(927,927)
Denominator for basic and diluted net loss per common share	<u>5,790,914</u>	<u>5,522,711</u>	<u>5,651,583</u>	<u>4,248,212</u>	<u>3,694,388</u>
Basic and diluted net loss per common share	<u>\$ (0.95)</u>	<u>\$ (0.92)</u>	<u>\$ (4.22)</u>	<u>\$ (5.44)</u>	<u>\$ (6.17)</u>

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Note 1—Organization and Significant Accounting Policies—(Continued)

Historical outstanding dilutive securities not included in diluted loss per common share calculation:

	Three Months Ended March 31,		December 31,		
	2009	2008	2008	2007	2006
Convertible preferred stock	22,567,407	22,327,407	22,327,407	22,327,407	21,637,025
Outstanding options to purchase common stock	5,441,744	5,824,382	5,566,243	5,908,182	5,073,594
Common stock subject to shareholder note receivable	—	—	—	927,927	927,927
Warrants to purchase common stock and convertible preferred stock	459,059	409,643	459,059	409,643	550,981
Common stock subject to repurchase	45,833	157,730	56,373	158,530	—
Total	<u>28,514,043</u>	<u>28,719,162</u>	<u>28,409,082</u>	<u>29,731,689</u>	<u>28,189,527</u>

	Three Months Ended March 31, 2009	Year Ended December 31, 2008
Pro Forma (unaudited)		
Numerator:		
Net loss	\$ (5,482)	\$ (23,827)
Plus: other expense (income) attributable to the convertible preferred stock warrants assumed to have been converted to common stock warrants	(60)	218
Pro forma net loss	<u>\$ (5,542)</u>	<u>\$ (23,609)</u>
Denominator:		
Denominator for basic and diluted net loss per common share	5,740,914	5,651,583
Plus: weighted-average pro forma adjustments to reflect assumed conversion of convertible preferred stock	22,439,407	22,327,407
Denominator for pro forma basic and diluted net loss per common share	<u>28,180,321</u>	<u>27,978,990</u>
Pro forma basic and diluted net loss per common share	<u>\$ (0.20)</u>	<u>\$ (0.84)</u>

Unaudited pro forma basic and diluted net loss per common share and shares used in computations of pro forma basic and diluted net loss per common share assume conversion of all shares of convertible preferred stock into common stock, conversion of all convertible

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Note 1—Organization and Significant Accounting Policies—(Continued)

preferred stock warrants into common stock warrants as of January 1, 2008 or the date of issuance, if later.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment" (SFAS 123R) under the prospective method which requires the measurement and recognition of compensation expenses for all future share-based payments made to employees and directors be based on estimated fair values. The Company is using the straight-line method to allocate compensation cost to reporting periods over the optionees' requisite service period, which is generally the vesting period.

Stock options granted to non-employees are accounted for using the fair value approach in accordance with SFAS 123 and Emerging Issues Task Force Consensus (EITF) Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" (EITF 96-18). The options to non-employees are subject to periodic revaluation over their vesting terms.

For purposes of estimating the fair value of its common stock for stock option grants under SFAS 123R, the Company reassessed the estimated fair value of its common stock for the three months ended March 31, 2009 and for each quarterly period during the years ended December 31, 2008 and 2007 and as of the year ended December 31, 2006. In 2008, the Company continued to perform a valuation analysis at the end of each quarter. As a result, certain stock options granted during 2008 and all stock options granted in 2007 and 2006 had an exercise price different than the estimated fair value of the common stock at the date of grant. The Company used these fair value estimates derived from its valuations to determine the SFAS 123R stock compensation expense which is recorded in its consolidated financial statements. The valuations were prepared using a methodology that first estimated the fair value of the company as a whole, and then allocated a portion of the enterprise value to common stock. This approach is consistent with the methods outlined in the AICPA Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation.

Segments

The Company operates in only one segment. Management uses cash flow as the primary measure to manage its business and does not segment its business for internal reporting or decision-making.

Adoption of Standards

In June 2007, the Financial Accounting Standards Board, or FASB, ratified EITF, Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities" (EITF 07-3). The scope of EITF 07-3 is limited to nonrefundable advance payments for goods and services to be used or rendered in future research and development activities. This issue provides that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized

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Note 1—Organization and Significant Accounting Policies—(Continued)

as an expense as the related goods are delivered or the related services are performed. The Company adopted EITF 07-3 on January 1, 2008. There was no impact to the Company's results of operations or financial position upon adoption.

In November 2007, the EITF reached a final consensus on EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" (EITF 07-1). EITF 07-1 requires disclosure of the nature and purpose of the Company's significant collaborative arrangements in the annual financial statements, including the Company's rights and obligations under the arrangement, the amount and income statement classification of significant financial expenditures and commitments, and a description of accounting policies for the arrangement. EITF 07-1 is effective beginning January 1, 2009 and requires the Company to apply as a change in accounting principle through retrospective application to all prior periods for all applicable collaborative arrangement existing as of the effective date. There was no impact to the Company's results of operations or financial position upon adoption.

Note 2—Investments

Cash, cash equivalents, restricted cash and short-term investments, all of which are carried at fair value, consisted of the following:

	March 31, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Cash and cash equivalents	\$10,092	\$—	\$ —	\$10,092
Mortgage-backed securities	6,926	19	(26)	6,919
Total	\$17,018	\$19	\$(26)	\$17,011
Amounts classified as cash and cash equivalents				\$ 9,899
Amounts classified as restricted cash				193
Amounts classified as short-term investments				6,919
Total				\$17,011

	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Cash and cash equivalents	\$12,919	\$—	\$ —	\$12,919
Mortgage-backed securities	7,355	3	(102)	7,256
Total	\$20,274	\$ 3	\$(102)	\$20,175
Amounts classified as cash and cash equivalents				\$12,726

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Note 2—Investments—(Continued)

	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Amounts classified as restricted cash				193
Amounts classified as short-term investments				7,256
Total				<u>\$20,175</u>

	December 31, 2007			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Cash and cash equivalents	\$ 1,135	\$—	\$ —	\$ 1,135
Commercial paper	4,995	4	—	4,999
Mortgage-backed securities	18,165	32	(40)	18,157
Total	<u>\$24,295</u>	<u>\$36</u>	<u>\$(40)</u>	<u>\$ 5,925</u>
Amounts classified as cash and cash equivalents				\$ 5,925
Amounts classified as restricted cash				209
Amounts classified as short-term investments				18,157
Total				<u>\$24,291</u>

The Company's investment portfolio is made up of cash, cash equivalents, and mortgage-backed, adjustable-rate securities issued by, or fully collateralized by, the U.S. government or U.S. government-sponsored entities. The mortgage-backed securities have contractual maturities ranging from seven to 30 years at March 31, 2009, and ranging from seven to 31 years at December 31, 2008. Due to normal annual prepayments, the estimated average life of the portfolio is approximately three to five years. The adjustable rate feature, which is not dependent on an auction process, further shortens the duration and interest risk of the portfolio, making it similar to a one-year government agency security. All investments are classified as short-term and available-for-sale on the accompanying balance sheets.

To determine the fair market value of its mortgage-backed securities, the Company's external investment manager formally prices securities at least monthly with external market sources. Mortgage-backed securities are priced using "round lot" pricing from external market sources. The primary external sources have historically been primary and secondary broker/dealers that trade and make markets in an open market exchange of these securities. Key drivers of pricing used by these external sources include rate reset margins, reset index, pool diversification, and prepayment levels.

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Note 2—Investments—(Continued)

The composition of the Company's investment income is as follows:

	Three Month Ended March 31,		Year Ended December 31,		
	2009	2008	(in thousands)		
			2008	2007	2006
Gross interest income	\$ 87	\$ 302	\$ 737	\$ 1,437	\$ 943
Gross realized gains on investments	—	—	16	310	270
Gross realized losses on investments	(6)	(23)	(92)	(165)	(125)
Total investment income	<u>\$ 81</u>	<u>\$ 279</u>	<u>\$ 661</u>	<u>\$ 1,582</u>	<u>\$ 1,088</u>

Realized gains and losses on sales of investments is calculated based on the specific identification method.

Note 3—Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS 157, "Fair Value Measurements." Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability, an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

These tiers include:

Level 1—Observable inputs for identical assets or liabilities such as quoted prices in active markets;

Level 2—Inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3—Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

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Note 3—Fair Value Measurements—(Continued)

As of March 31, 2009 and December 31, 2008, no assets or liabilities are measured at fair value on a nonrecurring basis. The Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis are as follows:

	March 31, 2009			Total
	Level 1	Level 2	Level 3	
(in thousands)				
Short-term investments:				
Money market funds	\$ 7,125	\$ —	\$ —	\$ 7,125
Mortgage-backed securities	—	6,919	—	6,919
Total	<u>\$ 7,125</u>	<u>\$ 6,919</u>	<u>\$ —</u>	<u>\$ 14,044</u>
Liabilities:				
Preferred stock warrant liability	\$ —	\$ —	\$ 1,720	\$ 1,720
Notes payable success fee liability	—	—	310	310
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,030</u>	<u>\$ 2,030</u>
	December 31, 2008			Total
	Level 1	Level 2	Level 3	
(in thousands)				
Short-term investments:				
Money market funds	\$12,783	\$ —	\$ —	\$12,783
Mortgage-backed securities	—	7,256	—	7,256
Total	<u>\$12,783</u>	<u>\$7,256</u>	<u>\$ —</u>	<u>\$20,039</u>
Liabilities:				
Preferred stock warrant liability	\$ —	\$ —	\$1,780	\$ 1,780
Notes payable success fee liability	—	—	310	310
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,090</u>	<u>\$ 2,090</u>

The change in fair value of the Company's short-term investments are included in accumulated other comprehensive income (loss) in the accompanying balance sheets. The change in fair value of the Company's preferred stock warrant liability and notes payable success fee liability are recorded as other income (expense) in the consolidated statements of operations. For the three-month period ended March 31, 2009 and the year ended

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Note 3—Fair Value Measurements—(Continued)

December 31, 2008, the change in fair value of the preferred stock warrant liability and notes payable success fee liability are as follows:

	Preferred Stock Warrant Liability	Notes Payable Success Fee Liability
	(in thousands)	
Fair value at December 31, 2007	\$1,562	\$ —
Additions measured at fair value	—	319
Change in fair value	218	(9)
Fair value at December 31, 2008	\$1,780	\$310
Change in fair value	(60)	—
Fair value at March 31, 2009	<u>\$1,720</u>	<u>\$310</u>

See Note 8 for a discussion of the valuation methodology used to estimate the fair value of the preferred stock warrant liability. See Note 5 for a discussion of the valuation methodology used to estimate the fair value of the notes payable success fee liability.

Note 4—Property and Equipment

Property and equipment consisted of the following:

	March 31 2009	December 31, 2008		2007
		(in thousands)		
Computer equipment	\$ 274	\$ 266	\$ 267	
Computer software	319	319	46	
Office equipment and furniture	284	284	268	
Leasehold improvements	278	278	276	
Laboratory equipment	1,016	1,016	953	
Total	2,171	2,163	1,810	
Less accumulated depreciation and amortization	(1,341)	(1,245)	(971)	
Property and equipment, net	<u>\$ 830</u>	<u>\$ 918</u>	<u>\$ 839</u>	

The Company's property and equipment have lives that range from three to five years with the exception of the leasehold improvements that are limited to the lesser of the term of the lease or five years. Depreciation expense for the three months ended March 31, 2009 and 2008 was \$96,000 and \$72,000, respectively. Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$330,000, \$272,000 and \$189,000, respectively.

Note 5—Notes Payable

Promissory Note

In April 2005, nura borrowed \$3.0 million under a promissory note. Borrowings under the note bear interest at the holder's prime rate. The Company assumed this note upon its

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Note 5—Notes Payable—(Continued)

acquisition of nura in August 2006. The Company is not subject to financial and operating covenants under the terms of the note. In September 2008, in connection with the execution of the loan and security agreement described below, the remaining principal amount of \$190,000 due under the promissory note was repaid.

Loan and Security Agreement

In September 2008, the Company entered into a loan and security agreement with BlueCrest Capital Finance, L.P. (BlueCrest Capital) to borrow up to \$20.0 million in four tranches. The Company has borrowed a total of \$17.0 million under the agreement in three separate tranches as follows: the first tranche of \$5.0 million was borrowed upon the date of execution of the agreement and the second and third tranches, of \$6.0 million each, were drawn together in December 2008. The Company's ability to borrow the fourth tranche, up to \$3.0 million, was conditioned on the Company meeting financing milestones by March 31, 2009 that it did not meet; accordingly, the Company did not draw upon the fourth tranche. Interest on borrowings under the loan agreement is at an annual rate of 12.5%. Repayments of advances under the loan are made monthly, on the first of the month following the date of each applicable advance. Payments are interest only for the first three months and interest and principal thereafter for 36 months. Under the loan agreement, the Company must satisfy specified conditions prior to any borrowings and comply with affirmative and negative covenants. In addition, if any event, condition, or change occurs that has a material adverse effect (as defined in the agreement), BlueCrest Capital may require immediate repayment of all borrowings then currently outstanding. The Company has classified all of these notes payable as current liabilities in the consolidated balance sheets due to this subjective acceleration clause. However, the Company has no indication that it is in default of the material adverse effect clause and no scheduled loan payments have been accelerated as a result of this provision. The proceeds of the loan may be used for working capital, capital expenditures and general corporate purposes and are collateralized by substantially all of the Company's assets, other than intellectual property. The Company may prepay the outstanding principal amount of all loans then outstanding in whole, but not in part, by providing 30 days written notice. However, a prepayment premium of 2.0% applies if the prepayment is made within 18 months after the borrowing date of the applicable draw. If a prepayment is made more than 18 months after the date of the applicable draw, then the prepayment premium is reduced to 1.0%.

As a condition to BlueCrest Capital making the initial \$5.0 million loan, the Company agreed to pay a fee (success fee) to BlueCrest Capital in an amount up to \$400,000 should certain exit events (as defined) occur prior to September 12, 2018. The success fee amount will be pro rated based on the ratio of the actual amounts borrowed under the loan agreement to the total \$20.0 million that could be borrowed. An exit event is defined in the agreement as including, among other things, a change in control of the Company, a sale of all or substantially all of the Company's assets, or an initial public offering (IPO) of the Company's common stock. The fee was determined to be an embedded derivative which is recorded at estimated fair value in the accompanying financial statements. The potential future obligation of the pro rated fee is \$340,000 at March 31, 2009 and December 31, 2008, based on the \$17.0 million borrowed to date under the loan agreement. The fair value of the pro rated

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Note 5—Notes Payable—(Continued)

success fee was estimated at the time of borrowing based on the estimated probability and date of occurrence of the exit events, discounted to present value using the Company's estimated cost of capital. The fair value of the fee was recorded as a success fee liability with an offsetting reduction in notes payable accounted for as a debt discount. The debt discount is being amortized to interest expense using the effective interest method over the repayment term of the initial loan amount. The success fee liability is adjusted to fair value on a recurring basis, with changes in fair value recorded as other income (expense) in the consolidated statements of operations. At March 31, 2009 and December 31, 2008, the estimated fair value of the pro rated success fee liability was \$310,000, and is included in accrued expenses in the consolidated balance sheet.

In connection with the execution of and subsequent draws under the loan and security agreement, the Company issued two warrants to BlueCrest Capital to purchase common stock at an exercise price of \$6.88 per share. The warrants vest in tranches, commensurate with the Company's borrowings under the loan agreement. As of March 31, 2009 and December 31, 2008, a total of 49,416 common stock warrants had vested under the first warrant in connection with the drawdowns of the first three tranches available under the loan agreement. The fair value of the vested warrant was \$241,000, determined using the Black-Scholes option-pricing model and was recorded as additional paid-in capital and as a discount to the note. The debt discount is being amortized to interest expense using the effective interest method over the repayment term of the initial loan amount. Non-cash interest expense associated with amortization of the debt discount totaled \$46,000 for the three months ended March 31, 2009 and \$41,000 for the year ended December 31, 2008. The first warrant is fully vested and, because the Company did not borrow the fourth tranche by March 31, 2009, no shares will vest under the second warrant. The fair value of the second warrant was determined to be \$0 based on the probability that the funds available for borrowing under the fourth tranche of the loan agreement would not be drawn. If not exercised, these warrants will be terminated on the earlier of (a) completion of the Company's initial public offering, (b) a change of control as defined in the warrants or (c) September 12, 2018.

In connection with the loan and security agreement, the Company incurred debt issuance costs of \$122,000 that were capitalized and included in other assets in the March 31, 2009 and December 31, 2008 balance sheet. The debt issuance costs are being amortized to interest expense using the effective interest method over the repayment term of the initial loan amount. Non-cash interest expense associated with amortization of the debt issuance costs totaled \$13,000 for the three months ended March 31, 2009 and \$14,000 for the year ended December 31, 2008. The remaining unamortized balance is \$95,000 at March 31, 2009.

Software Financing Arrangement

In December 2008, the Company entered into agreements to finance certain software licenses. The amount financed totaled \$193,000 and is payable over a three-year period with an effective interest rate of 8.0%.

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Note 5—Notes Payable—(Continued)

Future Principal Payments

Future principal payments as of December 31, 2008 under the loan and security agreement and the software financing arrangement based on stated contractual maturities are as follows (in thousands):

Year Ending December 31,	Loan and Security Agreement	Software Financing Arrangement	Total
2009	\$ 3,629	\$ 75	\$ 3,704
2010	5,459	64	5,523
2011	6,182	54	6,236
2012	1,730	—	1,730
Total principal payments	17,000	193	17,193
Less current portion	(17,000)	(75)	(17,075)
Total notes payable, net of current portion	<u>—</u>	<u>\$118</u>	<u>\$ 118</u>

The unamortized debt discount is \$519,000 at December 31, 2008.

Note 6—Acquisition of nura

Effective August 11, 2006, the Company acquired nura, inc. (nura), a private biotechnology company, which expanded and diversified the Company's potential product pipeline and strengthened its discovery capabilities. The Company completed the acquisition of nura through the issuance of 3,398,445 shares of Omeros Series E convertible preferred stock and 36,246 shares of common stock, and the assumption of a \$2.4 million promissory note. The convertible preferred stock issued in conjunction with the acquisition included shares issued to certain nura shareholders in exchange for their \$5.2 million investment in the Company concurrent with the acquisition. nura's primary assets included its research and development team and PDE10 preclinical product candidates.

The acquisition of nura, a development stage drug discovery company, was accounted for as an acquisition of assets rather than as a business combination in accordance with the criteria outlined in EITF 98-3 "Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business."

The Company recorded the convertible preferred shares issued to the nura stockholders at its fair value of \$14.4 million. In valuing the nura acquisition, the Company followed the guidance as provided in paragraphs 5 and 6 of SFAS 141, which states the value is measured on the fair value of the consideration given or the fair value of the asset acquired, whichever is more clearly evident and, thus, more reliably measurable. Because the tangible assets of nura were minor in comparison to the intangible assets acquired, the Company believed that the fair value of the consideration given, the Company's preferred stock issued, was more clearly evident and measurable.

The value of \$14.4 million was based upon the implied value of the Company's preferred shares considering the enterprise value of the Company at the date of the transaction, as well as considering the value of the assets received. The valuation methodology relied primarily on

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Note 6—Acquisition of nura—(Continued)

the income approach. The Company's enterprise value was then allocated to the different classes of equity using the option pricing method, with a resulting Series E preferred stock implied value of \$4.14 per share. In allocating the enterprise value to the various classes of equity, the Company made the following assumptions: 0.75 year period to liquidity; 49.0% volatility metric; 0.0% dividend yield; and a risk-free interest rate of 5.05%. Since the Company's preferred stock was not publicly traded in 2006, additionally, in accordance with SFAS 141, the Company estimated the fair value of the assets (consideration) received in the transaction, consisting primarily of acquired in-process research and development as described in more detail below. The results of this analysis of the assets acquired corroborated the value of the \$14.4 million recorded in the transaction.

The aggregate purchase price of nura was \$14.4 million, consisting of the issuance of 3,398,445 shares of Omeros convertible preferred stock, 36,246 shares of Omeros common stock and \$299,000 in direct transaction costs. The purchase price was allocated as follows (in thousands):

Cash	\$ 87
Prepaid assets and other current assets	233
Cash investment from existing nura institutional investors	5,200
Equipment	182
Assumed liabilities	<u>(2,535)</u>
Net tangible assets	3,167
Assembled workforce	310
Acquired in-process research and development	<u>10,891</u>
Total fair value of assets acquired, net of liabilities assumed	<u>\$ 14,368</u>

Assumed liabilities include notes payable of \$2.4 million, accounts payable and accrued expenses of \$65,000, and preferred stock warrant liability of \$64,000.

The value assigned to assembled workforce is being amortized over three years. The value assigned to acquired in-process research and development represented the fair value of nura's incomplete research and development programs that had not yet reached technological feasibility and had no alternative future use as of the acquisition date.

nura's research and development activities were very early stage and none of its product candidates had yet entered clinical studies. Based on a review of the acquired research and development technology, management believed that the economic benefit associated with the acquisition of nura related to only one of the preclinical product candidates, PDE10. PDE10 product candidates were at the time being developed by other life science companies, indicating potential to commercialize the acquired technology.

The acquired in-process research and development was valued at \$10.9 million and was recorded as an operating expense in 2006. The value was determined using the income approach whereby estimated future net cash flows of the PDE10 program from 2007 to 2026 were discounted to present value using a risk-adjusted discount rate of 40%.

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Note 6—Acquisition of nura—(Continued)

As a preclinical product candidate, the ability of the Company to successfully commercialize PDE10 is highly uncertain. It is expected to take a number of years to conduct the necessary preclinical and clinical studies to file for product approval with the FDA and there is no assurance that such studies will be successful. The Company's development effort for PDE10 is currently supported by funds from SMRI, a non-profit corporation that supports research on the causes and treatment of schizophrenia and bipolar disorder.

Note 7—Commitments and Contingencies

The Company leases laboratory and corporate office space, and rents equipment under operating lease agreements which include certain rent escalation terms. The laboratory space lease term extends through September 30, 2011 and the lease term for the corporate office space expires August 31, 2011. Rental of equipment extends into 2013. The Company subleases a portion of its leased properties. Future minimum payments related to the leases, which exclude common area maintenance and related operating expenses, at December 31, 2008, are as follows:

Year Ending December 31,	Lease Payments	Sublease Income (in thousands)	Net Lease Payments
2009	\$1,560	\$603	\$ 957
2010	1,563	240	1,323
2011	1,134	—	1,134
2012	23	—	23
2013	15	—	15
Total	<u>\$4,295</u>	<u>\$843</u>	<u>\$3,452</u>

Rent expense totaled \$548,000 and \$511,000 for the three-month periods ended March 31, 2009 and 2008, respectively, and \$2.0 million, \$1.9 million and \$1.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. Rental income received under noncancelable subleases was \$201,000 and \$116,000 for the three-month periods ending March 31, 2009 and 2008, respectively, and \$587,000, \$378,000 and \$61,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Rental income is recorded as other income in the consolidated statements of operations.

In connection with the funding agreement with SMRI, beginning the first calendar year after commercial sales of a schizophrenia product, if and when a product is commercialized, the Company may become obligated to pay royalties based on net income, as defined in the agreement, not to exceed a set multiple of total grant funding received. The Company has not paid any such royalties through March 31, 2009.

The Company previously utilized two contract research organizations for assistance in synthesizing compounds for its PDE10 program, ComGenex, Inc. (ComGenex) and Scottish Biomedical Research, Inc. (Scottish Biomedical). If a clinical product candidate for the PDE10 program is selected that is a compound synthesized by one of these contract research organizations, the Company may be required to make milestone payments to that organization upon the occurrence of certain development events, such as the filing of an investigational

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Note 7—Commitments and Contingencies—(Continued)

new drug application (IND), the initiation of clinical trials, or the receipt of marketing approval. In such a case, the Company would also be required to pay a royalty to the applicable organization in the low single-digits with respect to any sales of a PDE10 inhibitor product that includes the organization's compound. The Company is no longer using either of these contract research organizations to synthesize or develop compounds and the terms of the agreements have ended.

In July 2008, the Company entered into a discovery and development agreement with Affitech AS (Affitech) to isolate and optimize fully human antibodies for the Company's mannan-associated serine protease-2 (MASP-2) program. Under the terms of the agreement, Affitech will apply its human antibody libraries and proprietary antibody discovery and screening technologies to generate fully human MASP-2 antibodies for the Company. The Company recorded research and development expense under the agreement totaling \$400,000 in 2008. The Company may be required to make additional payments to Affitech upon the achievement of certain development events, such as the filing of an IND, initiation of clinical trials, and the receipt of marketing approval for a drug product containing an antibody developed by Affitech. The agreement also stipulates certain optional services that may be requested by the Company for a fee. In addition, the Company is obligated to pay Affitech royalties in the low single-digits on any net sales by the Company of drug products containing an antibody developed by Affitech under the agreement. The agreement may be terminated for cause by either party, or at any time by the Company by providing 30 day advance written notice to Affitech.

In September 2008, the Company entered into a technology option agreement with Patobios Limited (Patobios) to evaluate and potentially acquire the intellectual property rights covering Patobios' G protein-coupled receptor (GPCR) technology. Under the terms of the agreement, Patobios granted the Company an option to evaluate the technology over three option periods commencing September 2008 and continuing up to June 2010. The Company made a non-refundable payment of \$188,000, to Patobios following execution of the agreement for the first nine-month option period, all of which was charged to research and development expense. The Company may extend the option period for two additional six-month periods at a cost of \$650,000 CAD each. Under the terms of the agreement, the Company has the exclusive option to acquire the intellectual property rights, including patents, covering Patobios' GPCR technology at any time during the option period for an acquisition price of \$10.7 million CAD in cash and stock. In addition, if a de-orphanization milestone is achieved during the option period, Patobios may require the Company to purchase the GPCR technology by submitting a put notice to the Company. The agreement may be terminated for cause by either party, at any time by mutual consent of the Company and Patobios, and by the Company at any time prior to the achievement of a de-orphanization milestone.

In October 2008, the Company entered into an antibody development agreement with North Coast Biologics LLC (North Coast) to isolate and optimize antibodies for the Company's MASP-2 program. Under the terms of the agreement, North Coast will apply its proprietary antibody discovery and screening technologies to generate MASP-2 antibodies for the Company. The Company recorded research and development expenses under the agreement

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Note 7—Commitments and Contingencies—(Continued)

totaling \$150,000 in 2008. Under the agreement, the Company may be required to make additional payments to North Coast upon the achievement of certain development events, such as initiation of clinical trials and the receipt of marketing approval for a drug product containing an antibody developed by North Coast. The agreement also provides an option to the Company to have North Coast generate antibodies for additional targets. If such option is exercised, the Company may be required to make additional payments to North Coast for rights to the technology and for services performed that meet established acceptance criteria. In addition, the Company is obligated to pay North Coast royalties in the low single-digits on any net sales by the Company of drug products containing an antibody developed by North Coast under the agreement. The agreement may be terminated for cause by either party.

In February 2009, the Company entered into a patent assignment agreement with an individual whereby the Company acquired all intellectual property rights, including patent applications, related to peroxisome proliferators activated receptor gamma agonists for the treatment and prevention of addictions to substances of abuse, as well as other compulsive behaviors. No payments were made related to the technology acquisition. Under the agreement, the Company may be required to make payments to the individual upon achievement of certain development events, such as the initiation of clinical trials and receipt of marketing approval. In addition, the Company is obligated to pay royalties in the low single-digits on any net sales of drug products that are covered by any patents that issue from the acquired patent application.

Note 8—Warrants

In 1998, the Company issued a warrant to purchase 11,829 shares of Series B convertible preferred stock at \$1.75 per share, which was fully exercised in 2003. The warrant value was determined to be immaterial using the Black-Scholes option-pricing model. In addition, in exchange for securing a loan for operations, the Company issued warrants to directors to acquire 124,999 shares of common stock at an exercise price equal to the Series B convertible preferred stock exercise price of \$1.75 per share. These warrants were exercised in December 2007.

In 2000, the Company issued warrants to purchase 49,980 shares of Series C convertible preferred stock at \$2.65 per share. The fair value of the warrants to purchase 40,547 shares of Series C convertible preferred stock was \$72,000 determined using the Black-Scholes option-pricing model and was accounted for as a cost of the offering. In September 2005, these warrants were exercised for 31,995 shares and the remaining warrants for 8,552 shares expired. The Company also issued a warrant to purchase 9,433 shares of Series C convertible preferred stock to a consultant. The fair value of this warrant was \$12,000 determined using the Black-Scholes option-pricing model and was expensed in 2000. This warrant was exercised prior to January 1, 2005.

In 2002, the Company issued a warrant to purchase 25,139 shares of Series D convertible preferred stock at \$3.97 per share. The fair value of the warrant to purchase the Series D convertible preferred stock was \$64,000, determined using the Black-Scholes option-pricing

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Note 8—Warrants—(Continued)

model and was accounted for as a cost of the offering. The warrant was exercised and cancelled in January 2007.

During 2006 and 2005, in connection with the sale of Series E convertible preferred stock, the Company committed to issue warrants to purchase 241,080 and 14,320 shares, respectively, of Series E convertible preferred stock at \$6.25 per share upon the final close of the Series E financing. The value of the 2006 and 2005 warrants to purchase the Series E convertible preferred stock was \$606,000 and \$45,000, respectively, determined using the Black-Scholes option-pricing model. The warrants are included as a cost of the offering and expire in 2012. All of the Series E related warrants are outstanding at March 31, 2009 and December 31, 2008.

In connection with the acquisition of nura, the Company issued warrants to acquire 65 shares of common stock and 22,548 shares of Series E convertible preferred stock warrants with an exercise price of \$4.66 per share, for a fair value of \$64,000 and expiring in 2015.

During 2008, in connection with the execution under a loan and security agreement with BlueCrest Capital, the Company issued warrants to BlueCrest Capital to purchase shares of the Company's common stock at an exercise price of \$6.88 per share. As of March 31, 2009 and December 31, 2008, warrants to purchase a total of 49,416 shares of common stock have vested, commensurate with borrowings made under the loan agreement. See Note 5 for disclosure of the terms of the BlueCrest Capital loan and security agreement.

The following is a table summarizing the warrants outstanding as of:

	March 31, 2009			December 31, 2008		
	Warrants Outstanding	Fair Value	Weighted-Average Exercise Price	Warrants Outstanding	Fair Value	Weighted-Average Exercise Price
Common stock	49,481	\$ —	\$6.88	49,481	\$ —	\$6.88
Series E preferred stock	409,578	1,720	6.16	409,578	1,780	6.16
Total	459,059	\$1,720	\$6.24	459,059	\$1,780	\$6.24

The common stock warrants are recorded in permanent equity and are not adjusted to fair value on a recurring basis. The fair value of the preferred stock warrants is classified as a liability on the Consolidated Balance Sheet and is adjusted to fair value at the end of each reporting period. Such fair values were estimated using the Black-Scholes option pricing model, based on the following assumptions:

	March 31,	2008	December 31,	2006
	2009		2007	
Risk-free interest rate	2.13%	2.3%	3.78%	4.57%
Weighted-average expected life (in years)	3.00-5.00	3.25-5.00	4.25-5.00	5.00-6.08
Expected dividend yield	—	—	—	—
Expected volatility rate	71%	71%	60%	60%

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Note 8—Warrants—(Continued)

The increase (decrease) in the fair value of the warrants totaled \$(60,000) and \$(56,000) during the three months ended March 31, 2009 and 2008, respectively, and \$218,000, \$503,000 and (\$117,000) for the years ended December 31, 2008, 2007 and 2006, respectively. These changes in the preferred stock warrant liability are included in other income (expense) in the consolidated statement of operations.

Note 9—Convertible Preferred Stock

The Company's Second Amended and Restated Articles of Incorporation authorize the Company to issue shares of Series A through Series E convertible preferred stock, which hereafter are collectively referred to as convertible preferred stock.

A summary of convertible preferred stock is as follows (amounts in thousands, except share and per share data):

March 31, 2009					
	Issued Price per Share	Shares Authorized and Designated	Issued and Outstanding Shares	Aggregate Liquidation Preference	Carrying Value
Series A	\$1.00	775,000	775,000	\$ 775	\$ 775
Series B	\$1.75	2,675,073	2,675,073	4,681	4,682
Series C	\$2.65	2,866,719	2,866,719	7,597	7,608
Series D	\$3.97	997,719	996,962	3,958	3,957
Series E*	\$5.00	19,000,000	15,253,653	76,268	73,997
Total		<u>26,314,511</u>	<u>22,567,407</u>	<u>\$93,279</u>	<u>\$91,019</u>
December 31, 2008 and 2007					
	Issued Price per Share	Shares Authorized and Designated	Issued and Outstanding Shares	Aggregate Liquidation Preference	Carrying Value
Series A	\$1.00	775,000	775,000	\$ 775	\$ 775
Series B	\$1.75	2,675,073	2,675,073	4,681	4,682
Series C	\$2.65	2,866,719	2,866,719	7,597	7,608
Series D	\$3.97	997,719	996,962	3,958	3,957
Series E*	\$5.00	19,000,000	15,013,653	75,068	72,146
Total		<u>26,314,511</u>	<u>22,327,407</u>	<u>\$92,079</u>	<u>\$89,168</u>

(*) Shares issued in conjunction with the nura acquisition totaled 3,398,445 at a price of \$4.14 per share.

Prior to January 1, 2005, the Company issued 875,000 shares of Series A convertible preferred stock at \$1.00 per share for net proceeds of \$868,000; 2,663,244 shares of Series B convertible preferred stock at \$1.75 per share for net proceeds of \$4.4 million; 2,825,291 shares of Series C convertible preferred stock at \$2.65 per share for net proceeds of \$7.2 million; 972,580 shares of Series D convertible preferred stock at \$3.97 per share for net proceeds of \$3.7 million; and 3,672,293 shares of Series E convertible preferred stock at \$5.00 per share for

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Note 9—Convertible Preferred Stock—(Continued)

net proceeds of \$17.2 million. During 2006 and 2005, the Company issued 7,196,700 and 1,120,215 shares, respectively, of Series E convertible preferred stock for net proceeds of \$34.2 million and \$5.3 million, respectively. The cumulative cash issuance costs associated with the private placements of convertible preferred stock were approximately \$4.0 million.

On February 27, 2007, the Company issued 666,000 shares of Series E convertible preferred stock at \$5.00 per share, raising net proceeds of \$3.2 million. The Company also committed to issue warrants to purchase 8,800 shares of Series E convertible preferred stock at \$6.25 per share upon the final close of the Series E financing.

On February 18, 2009, the Company received \$3.1 million in connection with the funding agreement with SMRI. Under the terms of the agreement with SMRI, entered into in December 2006, \$1.9 million of the funding is characterized as grant funding and the remaining \$1.2 million is characterized as equity funding for the purchase of 240,000 shares of the Company's Series E convertible preferred stock at a price of \$5.00 per share. At the time of issuance of the Series E convertible preferred stock to SMRI in February 2009, the estimated fair value of the 240,000 shares was \$1.9 million, or \$7.71 per share, rather than the \$1.2 million characterized as equity funding under the agreement. Accordingly, the Company recorded \$1.9 million to equity for the 240,000 shares issued to SMRI and the remaining \$1.2 million of the proceeds from SMRI as deferred revenue.

As discussed in Note 6, effective August 11, 2006, the Company acquired nura and issued 2,358,445 shares of Series E convertible preferred stock and 36,246 shares of common stock. Concurrently, certain nura stockholders invested in the Company through the purchase of 1,040,000 shares of Series E convertible preferred stock for \$5.2 million.

Holders of convertible preferred stock have preferential rights to noncumulative dividends, when and if declared by the Board of Directors, and are entitled to the number of votes equal to the number of shares of common stock into which the convertible preferred stock could be converted. No dividends have been declared or paid as of December 31, 2008.

In the event of liquidation, Series A, B, C, D, and E convertible preferred shareholders have preferential rights to liquidation payments of \$1.00, \$1.75, \$2.65, \$3.97 and \$5.00 per share, respectively, plus any declared but unpaid dividends.

Each share of Series A, B, C, D, and E convertible preferred stock is convertible, at the option of the holder, into one share of common stock, subject to anti-dilution provisions. Conversion is automatic upon the vote or written consent of the holders of 50% of the convertible preferred shares, or upon the closing of an initial public offering of the Company's common stock from which the aggregate proceeds are not less than \$10.0 million.

In addition, the Company has granted registration rights and rights of first offer to certain of the convertible preferred shareholders, and is precluded from carrying out certain actions without the approval of the majority of the convertible preferred shareholders voting as a group.

In the event of a change in control whereby the Company: (a) is involved in any liquidation or winding up of the Company, whether voluntary or not, (b) sells or disposes of all or substantially all of the assets of the Company, or (c) effects any other transaction or series of

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Note 9—Convertible Preferred Stock—(Continued)

related transactions in which more than 50% of the voting power of the Company is disposed of, then a "deemed liquidation" event occurs whereby the convertible preferred shareholders are entitled to receive their liquidation preferences described above. This change in control provision and the stock conversion provision described above require the Company to classify the convertible preferred stock outside of shareholders' equity because under those circumstances, the redemption of the convertible preferred stock is outside the control of the Company.

Company Stock Repurchases

Prior to 2004, the Company repurchased 371,875 shares of common stock for \$65,000. Upon purchase, these shares were canceled. Shares were repurchased in an amount equal to the exercise price of the shares. During 2004, the Company repurchased 100,000 shares of convertible preferred stock upon resolution of a legal matter that existed prior to 2004. The Company recorded the repurchased shares as a deduction of \$100,000 from convertible preferred stock at December 31, 2003, which was equal to the original purchase price of the shares.

In February 2009, the Company repurchased 5,065 shares of unvested stock for their original exercise price of \$0.50 per share. The shares had been issued in connection with the early exercise of a stock option. In accordance with the provisions of the Company's 2008 Equity Incentive Plan (the 2008 Plan), the repurchased shares increased the authorized shares available under the 2008 Plan, see Note 11.

Note 10—Common Stock

The Company has reserved shares of common stock for the following purposes as of:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Options granted and outstanding under the 2008 stock option plan	65,700	50,200
Options available for future grant under the 2008 stock option plan	2,121,855	2,000,627
Options granted and outstanding under the 1998 stock option plan	5,311,171	5,451,167
Options granted and outstanding outside of the stock option plans	58,806	58,806
Options granted and outstanding under the nura 2003 stock option plan	6,067	6,070
Conversion of convertible preferred stock	22,567,407	22,327,407
Convertible preferred stock warrants	409,578	409,578
Common stock warrants	49,481	49,481
Total shares reserved	<u>30,590,065</u>	<u>30,353,336</u>

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Note 11—Stock-Based Compensation

Stock Options

In February 2008, the Company's board of directors adopted the 2008 Equity Incentive Plan (the 2008 Plan) which was subsequently approved by the Company's shareholders in March 2008. The 2008 Plan provides for the grant of incentive and nonstatutory stock options, restricted stock, stock appreciation rights, performance units and performance shares to employees, directors and consultants and subsidiary corporations' employees and consultants. Under the 2008 Plan 1,750,000 shares of common stock were initially reserved for issuance. The 2008 Plan also allows any shares returned under the Company's Amended and Restated 1998 Stock Option Plan (the 1998 Plan), as a result of cancellation of options or repurchase of shares issued pursuant to the 1998 Stock Plan, to be issued under the 2008 Plan subject to a maximum limit of 6,046,303 shares. As of March 31, 2009 and December 31, 2008, an additional 437,555 and 300,827 shares, respectively, have been reserved under the 2008 Plan as a result of the cancellation or repurchase of options under the 1998 Plan. In addition, the 2008 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each fiscal year, beginning with the 2010 fiscal year, equal to the lesser of:

- five percent of the outstanding shares of the Company's common stock on the last day of the immediately preceding fiscal year;
- 3,500,000 shares; or
- such other amount as the Company's board of directors may determine.

Under the 1998 Plan, 8,311,516 shares of common stock were reserved for the issuance of incentive and nonqualified stock options to any former, current, or future employees, officers, directors, agents, or consultants, including members of technical advisory boards and any independent contractors of the Company. Options are granted with exercise prices equal to the fair value of the common stock on the date of the grant, as determined by the Company's Board of Directors. The terms of options may not exceed ten years. Generally, options vest over a four-year period.

Prior to 2005, the Board of Directors approved the grant of 148,906 stock options outside the 1998 Plan. These options were granted with exercise prices equal to the fair value of the common stock on the date of grant, as determined by the Board of Directors.

In connection with the Company's acquisition of nura on August 11, 2006, the Company assumed all of the outstanding options issued under nura's 2003 Stock Plan (the nura Plan). As of March 31, 2009 and December 31, 2008, options to purchase 6,067 and 6,070 shares, respectively, of the Company's common stock were outstanding under the nura Plan and no shares remained available for future issuance pursuant to the nura Plan. These options were granted with exercise prices equal to the fair value of nura's common stock on the date of grant, as determined by nura's board of directors. The Company does not intend to issue any additional stock options pursuant to the nura Plan.

The Company accounts for cash received in consideration for the purchase of unvested shares of common stock or the early-exercise of unvested stock options as a current liability, included as a component of accrued liabilities in the Company's balance sheets. As of March 31, 2009 and December 31, 2008 and 2007, there were 45,833, 56,373 and 158,530

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Note 11—Stock-Based Compensation—(Continued)

unvested shares of the Company's common stock outstanding, respectively, and \$46,000, \$54,000 and \$155,000, of related recorded liability, respectively, which is included in accrued liabilities.

A summary of stock option activity and related information follows:

	Shares Available for Grant	Options Outstanding	Weighted- Average Exercise Price per Share
Balance at January 1, 2006	198,883	1,246,095	0.35
Authorized increase in Plan shares	5,700,000	—	—
Assumption of outstanding nura stock options	—	15,192	5.42
Granted	(4,325,853)	4,325,853	0.50
Exercised	—	(453,716)	0.28
Cancelled nura stock options	—	(8,184)	5.42
Cancelled	51,646	(51,646)	0.37
Balance at December 31, 2006	1,624,676	5,073,594	0.49
Granted	(1,456,733)	1,456,733	1.21
Exercised	—	(567,920)	0.58
Cancelled nura stock options	—	(639)	5.42
Cancelled	53,586	(53,586)	0.54
Balance at December 31, 2007	221,529	5,908,182	\$0.66
Authorized increase in Plan shares	2,050,827	—	—
Expired	(477,356)	—	—
Granted	(95,200)	95,200	4.05
Exercised	—	(136,312)	0.30
Cancelled	300,827	(300,827)	0.89
Balance at December 31, 2008	2,000,627	5,566,243	\$0.71
Authorized increase in Plan shares	136,728	—	—
Expired	(131,666)	—	—
Granted	(15,500)	15,500	6.36
Exercised	—	(8,333)	1.25
Cancelled	131,666	(131,666)	1.05
Balance at March 31, 2009	<u>2,121,855</u>	<u>5,441,744</u>	<u>\$0.72</u>

The aggregate intrinsic value of options outstanding as of March 31, 2009 and December 31, 2008 was \$30.5 million and \$31.4 million, respectively. The aggregate intrinsic value of options exercisable as of March 31, 2009 and December 31, 2008 was \$25.2 million and \$23.8 million, respectively.

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Note 11—Stock-Based Compensation—(Continued)

Information about stock options outstanding and exercisable is as follows:

March 31, 2009					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
\$0.18-0.40	168,306	1.88	\$0.28	168,306	\$0.28
\$0.50	4,163,590	7.53	\$0.50	3,775,894	\$0.50
\$1.00-1.25	1,013,081	8.42	\$1.18	418,063	\$1.17
\$5.00-6.88	96,767	8.79	\$6.06	7,012	\$5.60
\$0.18-6.88	<u>5,441,744</u>	7.54	\$0.72	<u>4,369,275</u>	\$0.56

December 31, 2008					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
\$0.18-0.40	168,306	2.66	\$0.28	168,306	\$0.28
\$0.50	4,164,184	7.77	\$0.50	3,584,304	\$0.50
\$1.00-1.25	1,152,483	8.71	\$1.17	351,132	\$1.16
\$5.00-6.88	81,270	8.83	\$6.00	6,288	\$5.49
\$0.18-6.88	<u>5,566,243</u>	7.82	\$0.71	<u>4,110,030</u>	\$0.56

At March 31, 2009 there were 989,552 unvested employee options outstanding that will vest over a weighted-average period of 2.5 years. The total estimated compensation expense of these shares is up to \$3.1 million. This excludes non-employee options.

Compensation cost for stock options granted to employees is based on the grant-date fair value estimated in accordance with SFAS 123R and is recognized over the vesting period of the applicable option on a straight-line basis. The estimated per share weighted-average fair value of stock options granted to employees during the three months ended March 31, 2009 and the years ended December 31, 2008 and 2007 was \$4.06, \$4.73 and \$4.13, respectively.

As stock-based compensation expense recognized under SFAS 123R is based on options ultimately expected to vest, the expense has been reduced for estimated forfeitures. The fair value of each employee option grant during the years ended December 31, 2008, 2007 and 2006 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

OMEROS CORPORATION
(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 11—Stock-Based Compensation—(Continued)

	Three Months Ended March 31,		Years Ended December 31,		
	2009	2008	2008	2007	2006
Expected volatility	71%	60%	60%	60%	60%
Expected term (in years)	6.08	6.08	6.08	6.00-6.08	5.00-6.08
Risk-free interest rate	2.13%	2.80%-3.40%	2.80%-3.40%	3.78%-4.78%	4.57%-5.04%
Expected dividend yield	0%	0%	0%	0%	0%

Expected Volatility. The expected volatility rate used to value stock option grants is based on volatilities of a peer group of similar companies, considering industry and stage of life cycle, whose share prices are publicly available. The peer group was developed based on companies in the pharmaceutical and biotechnology industry in a similar stage of development.

Expected Term. The Company elected to utilize the "simplified" method for "plain vanilla" options as provided for in the Securities and Exchange Commission's Staff Accounting Bulletin No. 107 and as amended by Staff Accounting Bulletin No. 110, to value stock option grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

Risk-free Interest Rate. The risk-free interest rate assumption was based on zero-coupon U.S. Treasury instruments that had terms consistent with the expected term of our stock option grants.

Expected Dividend Yield. The Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future.

SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates. The Company estimates forfeitures based on its historical experience; separate groups of employees that have similar historical forfeiture behavior are considered separately for expense recognition. During the fourth quarter of 2008, a revision was made for changes in estimated forfeitures related to stock-based compensation expense, including some immaterial changes that related to prior periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 11—Stock-Based Compensation—(Continued)

The following table summarizes recent stock option grant activity:

Grant Date	Number of Shares Subject to Options Granted	Exercise Price per Share	Estimated Fair Value of Common Stock per Share at Date of Grant	Intrinsic Value per Share at Date of Grant
July 2006	23,000	\$0.50	\$0.89	\$0.39
September 2006	28,000	0.50	0.89	0.39
December 2006	4,274,853	0.50	0.89	0.39
March 2007	308,500	1.00	1.05	0.05
May 2007	350,000	1.00	3.63	2.63
October 2007	275,733	1.25	6.23	4.98
December 2007	522,500	1.25	6.32	5.07
January 2008	45,000	1.25	6.32	5.07
March 2008	1,200	6.32	6.32	—
June 2008	27,000	6.32	6.88	0.56
September 2008	22,000	6.88	6.87	—
March 2009	15,500	6.36	6.33	—

Stock options granted to non-employees are accounted for using the fair value approach in accordance with SFAS 123 and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" (EITF 96-18). The fair value of non-employee option grants are estimated using the Black-Scholes option-pricing model and are re-measured over the vesting term as earned. The estimated fair value is charged to expense over the applicable service period. During the year ended December 31, 2007, the Company granted 157,733 options to non-employees to purchase shares of common stock. During the three months ended March 31, 2009 and years ended December 31, 2008 and 2006 there were no options granted to non-employees.

In connection with the non-employee options, the Company recognized expense of \$57,000 during each of the three month periods ended March 31, 2009 and 2008 and \$234,000, \$119,000 and \$0 during the years ended December 31, 2008, 2007 and 2006, respectively.

For purposes of estimating the fair value of its common stock for stock option grants under SFAS 123R, the Company reassessed the estimated fair value of its common stock for the three months ended March 31, 2009 and for each quarterly period during the years ended December 31, 2008 and 2007, and as of the year ended December 31, 2006. As a result, certain stock options granted during the three months ended March 31, 2009 and the year ended December 31, 2008 and all stock options granted in 2007 and 2006 had an exercise price different than the estimated fair value of the common stock at the date of grant. The Company used these fair value estimates derived from its valuations to determine the SFAS 123R stock compensation expense which is recorded in its consolidated financial statements. The valuations were prepared using a methodology that first estimated the fair value of the company as a whole, or enterprise value, and then allocated a portion of the enterprise value

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 11—Stock-Based Compensation—(Continued)

to common stock. This approach is consistent with the methods outlined in the AICPA Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation.

In conjunction with the exercise of certain stock options, the Company received non-recourse promissory notes from Gregory A. Demopoulos, M.D., the Company's president, chief executive officer, chief medical officer and chairman of the board of directors, totaling \$239,000. The promissory notes accrued interest at rates ranging from 3% to 6.25% and were secured by pledges of the underlying common stock. Since the notes were non-recourse, they were treated as stock options subject to variable accounting whereby changes in the estimated fair value of the underlying deemed option were reported as an increase or decrease, as applicable, in stock-based compensation expense until the notes were repaid in December 2007. Stock-based compensation expense relating to variable accounting for these notes was \$5.0 million and \$361,000 for the years ended December 31, 2007 and 2006, respectively.

Stock-Based Compensation Summary. Stock-based compensation expense includes variable awards, amortization of deferred stock compensation and stock options granted to employees and non-employees' and has been reported in the Company's consolidated statements of operations as follows:

	Three Months Ended March 31,		Years Ended December 31,		
	2009	2008	2008	2007	2006
			(in thousands)		
Research and development	\$220	\$327	\$ 983	\$ 482	\$ 309
General and administrative	228	391	1,332	5,574	1,130
Total	<u>\$448</u>	<u>\$718</u>	<u>\$2,315</u>	<u>\$6,056</u>	<u>\$1,439</u>

Note 12—Income Taxes

The Company has a history of losses and therefore has made no provision for income taxes. Deferred income taxes reflect the tax effect of net operating loss and tax credit carryforwards and the net temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

OMEROS CORPORATION
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 12—Income Taxes—(Continued)

Significant components of deferred tax assets are as follows:

	December 31,	
	2008	2007
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 24,658	\$ 18,105
Deferred revenue	79	170
Stock-based compensation	120	41
Research and development tax credits	2,281	1,580
Other	133	138
	<u>27,271</u>	<u>20,034</u>
Less valuation allowance	(27,271)	(20,034)
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

As of December 31, 2008 and 2007, the Company had net operating loss carryforwards of approximately \$72.5 million and \$53.3 million, respectively, and research and development tax credit carryforwards of approximately \$2.3 million and \$1.6 million, respectively. Unless previously utilized, the Company's net operating loss and research and development tax credit carryforwards will expire between 2009 and 2027. The difference between the net operating loss carryforwards and the net loss for financial reporting purposes relates primarily to in-process research and development, accrued vacation, depreciation and stock-based compensation. In certain circumstances, due to ownership changes, the net operating loss and tax credit carryforwards may be subject to limitations under the Internal Revenue Code of 1986, as amended (the Code). The Company's ability to utilize its net operating loss and tax credit carryforwards may be limited in the event that a change in ownership, as defined in Section 382 of the Code, has occurred or may occur in the future.

A reconciliation of the Federal statutory tax rate of 34% to the Company's effective income tax rate follows:

	December 31,		
	2008	2007	2006
	(in thousands)		
Statutory tax rate	(34%)	(34%)	(34)%
Permanent differences	6	9	19
Change in valuation allowance	21	20	14
Other	7	5	1
Effective tax rate	<u>—</u>	<u>—</u>	<u>—</u>

The Company has established a 100% valuation allowance due to the uncertainty of the Company's ability to generate sufficient taxable income to realize the deferred tax assets. The Company's valuation allowance increased \$7.2 million, \$6.4 million and \$3.7 million in 2008, 2007 and 2006, respectively, primarily due to net operating losses incurred during these periods.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 12—Income Taxes—(Continued)

The Company files income tax returns in the United States, which typically provides for a three-year statute of limitations on assessments. However, because of net operating loss carryforwards, substantially all of the Company's tax years remain open to federal tax examination.

The Company adopted Financial Accounting Standards Board Interpretation No. 48 "Accounting for Uncertainties in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48) effective January 1, 2007. FIN 48 requires that the Company recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result of the implementation of FIN 48, the Company identified certain adjustments to its research and development tax credit, which was accounted for as a reduction to the deferred tax assets. The amount of the reduction as of December 31, 2007 was \$227,000 and there was no change in 2008. There were no unrecognized tax benefits that impacted the Company's effective tax rate and accordingly, there was no material effect to its financial position, results of operations or cash flows.

The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. To date, there have been no interest or penalties charged to the Company in relation to the underpayment of income taxes.

Note 13—Related-Party Transactions

The Company conducts research using the services of one of its founders, Pamela Pierce Palmer, M.D., Ph.D. There were no costs associated with this research for the three month periods ended March 31, 2009 and 2008. Costs incurred for the years ended December 31, 2008, 2007 and 2006 totaled \$5,000, \$5,000 and \$41,000, respectively, and \$445,000 for the period of inception (June 16, 1994) through March 31, 2009. In 2007, the Company granted Dr. Palmer an option to purchase 40,000 shares of common stock and recognized \$14,000, \$14,000, \$66,000 and \$42,000 of non-cash compensation associated with this option for the three months ended March 31, 2009 and 2008 and the years ended December 31, 2008 and 2007, respectively, and \$122,000 for the period of inception (June 16, 1994) through March 31, 2009.

In conjunction with the exercise of certain stock options by Gregory A. Demopoulos, M.D., the Company received recourse notes totaling \$239,000 that were deemed to be non-recourse for accounting purposes. The notes were repaid in full in December 2007. The loans were secured by pledges of common stock of the Company. The loans bore interest ranging from 3% to 6.25%. Interest income on the loans totaled \$12,000 during each of the years ended December 31, 2007 and 2006. These notes were determined to be a variable stock compensation arrangement and the difference between the original exercise price of the related stock options and the fair value of the underlying common stock was recorded as stock compensation expense. For the years ended December 31, 2007 and 2006, \$5.0 million and \$361,000, respectively, and \$5.6 million for the period of inception (June 16, 1994) through March 31, 2009, has been recognized as stock compensation expense. The shares underlying the loans were not considered outstanding for the computation of basic and diluted net loss per common share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information as of March 31, 2009, for the three-month periods ended March 31, 2009 and 2008 and for the period from June 16, 1994 (inception) through March 31, 2009 is unaudited)

Note 13—Related-Party Transactions—(Continued)

In December 2007, the Company approved a payment to Dr. Demopolos of \$159,000 as a tax gross-up amount related to payments that the Company made to him during 2007 that he used to repay his indebtedness to the Company in the amount of \$278,000, including principal and interest. The \$159,000 was recorded as an accrued liability as of December 31, 2007 and was subsequently paid by the Company to Dr. Demopolos in January 2008.

Note 14—401(k) Retirement Plan

The Company has adopted a 401(k) plan. To date, the Company has not matched employee contributions to the plan. All employees are eligible to participate, provided they meet the requirements of the plan.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

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Until _____, 2009 (25 days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer's obligation to deliver a prospectus when acting as underwriter and with respect to unsold allotments or subscriptions.



Wedbush Pac Grow Life Sciences

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Needham & Company, LLC

Prospectus

, 2009

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth all expenses to be paid by the registrant, other than estimated underwriting discounts and commissions, in connection with this offering. All amounts shown are estimates except for the SEC registration fee, the NASDAQ Global Market listing fee and the FINRA filing fee.

SEC registration fee	\$ 4,520
NASDAQ Global Market listing fee	125,000
FINRA filing fee	12,000
Printing and engraving	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Director and officer insurance	*
Miscellaneous	*
Total	*

* To be completed by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under various circumstances for liabilities arising under the Securities Act.

As permitted by the Washington Business Corporation Act, the registrant's articles of incorporation and bylaws that will be effective following the offering together provide that the registrant will indemnify any individual made a party to a proceeding because that individual is or was one of the registrant's directors, officers or certain other employees or agents, and will advance or reimburse the reasonable expenses incurred by that individual with respect to such proceeding, without regard to the limitations of Sections 23B.08.510 through 23B.08.550 and 23B.08.560(2) of the Washington Business Corporation Act, or any other limitation that may be enacted in the future to the extent the limitation may be disregarded if authorized by the registrant's articles of incorporation, to the fullest extent and under all circumstances permitted by applicable law. The indemnification rights conferred in the registrant's articles of incorporation and bylaws are not exclusive.

The registrant's policy is to enter into separate indemnification agreements with each of its directors and officers that provide the maximum indemnity allowed to directors and executive officers by the Washington Business Corporation Act and also provides for certain additional procedural protections. The registrant also maintains directors and officers insurance to insure such persons against certain liabilities.

These indemnification provisions and the indemnification agreements entered into between the registrant and its officers and directors may be sufficiently broad to permit indemnification of the registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

The underwriting agreement filed as Exhibit 1.1 to this registration statement provides for indemnification by the underwriters of the registrant and its officers and directors for certain liabilities arising under the Securities Act and otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Since May 1, 2006, the registrant has issued the following unregistered securities:

1. Since May 1, 2006, the registrant has granted to directors, officers, employees and consultants option awards to purchase 5,893,286 shares of common stock with per share exercise prices ranging from \$0.50 to \$6.88, and has issued 1,079,482 shares of common stock upon exercise of such option awards for an aggregate purchase price of \$486,784.

2. On August 11, 2006, the registrant assumed option awards held by directors, officers, employees and consultants of nura, inc. that after such assumption represented the right to purchase 15,192 shares of the registrant's common stock at an exercise price of \$5.42 per share, and since August 11, 2006 the registrant has issued 299 shares of common stock upon exercise of such option awards for an aggregate purchase price of \$1,621.

3. Since May 1, 2006, the registrant has sold and issued to accredited investors 8,102,700 shares of Series E preferred stock for an aggregate purchase price of \$40,513,500.

4. On August 11, 2006, the registrant issued to accredited investors 36,246 shares of common stock and 2,358,445 shares of Series E preferred stock in exchange for all of the capital stock in nura, inc.

5. On August 11, 2006, the registrant assumed a warrant held by an accredited investor to purchase capital stock of nura, inc. that after such assumption represented the right to purchase 65 and 22,548 shares of the registrant's common stock and Series E preferred stock, respectively, at an exercise price of \$4.66 per share.

6. During January 2007, the registrant sold and issued to accredited investors 24,382 shares of Series D preferred stock pursuant to the exercise of warrants for an aggregate purchase price of \$96,797.

7. On March 29, 2007, the registrant sold and issued to accredited investors warrants to purchase an aggregate of 387,030 shares of Series E preferred stock at an exercise price of \$6.25 per share as consideration for providing the registrant broker services in connection with the registrant's Series E preferred stock financing. Each of these brokers is a registered broker-dealer under the Securities Exchange Act.

8. On October 26, 2007, the registrant issued and sold to accredited investors 657 shares of its common stock for an aggregate purchase price of \$3,561.

9. During December 2007, the registrant issued and sold to accredited investors 107,142 shares of common stock pursuant to the exercise of warrants for an aggregate purchase price of \$187,499.

10. On September 12, 2008, the registrant issued and sold to a large institutional accredited investor warrants to purchase up to an aggregate of 58,136 shares of common stock at an exercise price of \$6.88 per share in connection with the registrant's establishment of a \$20 million debt facility with the investor.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering, and the registrant believes that each transaction was exempt from the registration requirements of the Securities Act, with respect to items (1) and (2) above, in reliance on Rule 701 thereunder as transactions by an issuer pursuant to

compensatory benefit plans and contracts relating to compensation and, with respect to items (3) through (10) above, in reliance on Section 4(2) thereof as transactions not involving a public offering. The recipients of securities in such transactions represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. Recipients of securities in the transactions described in (3) through (10) above represented their status as accredited investors pursuant to Rule 501 of the Securities Act, and all recipients either received adequate information about the registrant or had access, through their relationships with the registrant, to such information.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits. The following exhibits are included herein or incorporated herein by reference:

<u>Exhibit Number</u>	<u>Description</u>
1.1*	Form of Underwriting Agreement.
2.1*	Agreement and Plan of Reorganization among the registrant, Epsilon Acquisition Corporation, nura, inc. and ARCH Venture Corporation dated August 4, 2006
3.1*	Form of Amended and Restated Articles of Incorporation of the registrant, to be in effect upon the completion of this offering.
3.2*	Form of Amended and Restated Bylaws of the registrant, to be in effect upon the completion of this offering.
4.1**	Form of registrant's common stock certificate.
4.2*	Stock Purchase Warrant issued by nura, inc. to Oxford Finance Corporation dated April 26, 2005 (assumed by the registrant on August 11, 2006).
4.3*	Amended and Restated Investors' Rights Agreement among the registrant and holders of capital stock dated October 15, 2004.
5.1**	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1*	Form of Indemnification Agreement to be entered into between the registrant and its directors and officers.
10.2*	Second Amended and Restated 1998 Stock Option Plan.
10.3*	Form of Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (that does not permit early exercise).
10.4*	Form of Amendment to Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (to permit early exercise).
10.5*	Form of Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (that permits early exercise).
10.6*	nura, inc. 2003 Stock Plan.
10.7*	Form of Stock Option Agreement under the nura, inc. 2003 Stock Plan.
10.8*	2008 Equity Incentive Plan.
10.9*	Form of Stock Option Award Agreement under the 2008 Equity Incentive Plan (to be used following the completion of this offering).
10.10*	Second Amended and Restated Employment Agreement between the registrant and Gregory A. Demopoulos, M.D. dated December 30, 2007.
10.11*	Non-Plan Stock Option Agreement between the registrant and Gregory A. Demopoulos, M.D. dated December 11, 2001.
10.12*	Offer Letter between the registrant and Marcia S. Kelbon, Esq. dated August 16, 2001.
10.13*	Offer Letter between the registrant and Richard J. Klein dated May 11, 2007.
10.14*	Technology Transfer Agreement between the registrant and Gregory A. Demopoulos, M.D. dated June 16, 1994.
10.15*	Technology Transfer Agreement between the registrant and Pamela A. Pierce, M.D., Ph.D. dated June 16, 1994.

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<u>Exhibit Number</u>	<u>Description</u>
10.16*	Second Technology Transfer Agreement between the registrant and Gregory A. Demopulos, M.D. dated December 11, 2001.
10.17*	Second Technology Transfer Agreement between the registrant and Pamela Pierce, M.D., Ph.D. dated March 22, 2002.
10.18*	Technology Transfer Agreement between the registrant and Gregory A. Demopulos, M.D. dated June 16, 1994 (related to tendon splice technology).
10.19*	Master Security Agreement between the nura, inc. and Oxford Finance Corporation dated April 26, 2005.
10.20*	Guaranty from the registrant to Oxford Finance Corporation dated August 11, 2006.
10.21*	U.S. Bank Centre Office Lease Agreement between Bentall City Centre LLC and Scope International, Inc. dated September 28, 1998.
10.22*	Assignment and Amendment of Lease among the registrant, City Centre Associates and Navigant Consulting, Inc. dated August 1, 2002.
10.23*	Second Amendment to Office Lease Agreement between the registrant and City Centre Associates dated January 4, 2006.
10.24*	Lease Agreement between Alexandria Real Estate Equities, Inc. and Primal, Inc. dated April 6, 2000.
10.25*	Lease Agreement between Alexandria Real Estate Equities, Inc. and Primal, Inc. dated September 28, 2001.
10.26*	Assignment and Assumption and Modification of Lease Documents among Alexandria Real Estate Equities, Inc., Primal, Inc., and nura, inc. dated October 23, 2003.
10.27*	Assignment and Assumption and Modification of Lease Documents among Alexandria Real Estate Equities, Inc., nura, inc., and the registrant dated September 26, 2007.
10.28†	Commercial Supply Agreement between the registrant and Hospira Worldwide, Inc. dated October 9, 2007.
10.29†	Exclusive License and Sponsored Research Agreement between the registrant and the University of Leicester dated June 10, 2004.
10.30†*	Research and Development Agreement First Amendment between the registrant and the University of Leicester dated October 1, 2005.
10.31†	Exclusive License and Sponsored Research Agreement between the registrant and the Medical Research Council dated October 31, 2005.
10.32†*	Amendment dated May 8, 2007 to Exclusive License and Sponsored Research Agreement between the registrant and the Medical Research Council dated October 31, 2005.
10.33†	Funding Agreement between the registrant and The Stanley Medical Research Institute dated December 18, 2006.
10.34†	Services and Materials Agreement between the registrant and Scottish Biomedical Limited dated April 20, 2007.
10.35†	Amendment dated April 30, 2007 of the Services and Materials Agreement between the registrant and Scottish Biomedical Limited dated April 20, 2007.
10.36†	Drug Product Development and Clinical Supply Agreement between the registrant and Althea Technologies, Inc. dated January 20, 2006.
10.37†*	Project Plan for Non-GMP and cGMP Fill and Finish of OMS302 between the registrant and Althea Technologies, Inc. dated May 31, 2007.
10.38†	Master Services Agreement between nura, inc. and ComGenex, Inc. dated January 27, 2005.
10.39*	Landlord Consent to Sublease among Christensen O'Connor Johnson Kindness PLLC, City Centre Associates and the registrant dated January 29, 2008.

Exhibit Number	Description
10.40*	Form of Stock Option Award Agreement under the 2008 Equity Incentive Plan (used prior to the completion of this offering).
10.41†	Agreement for Antibody Discovery and Development between the registrant and Affitech AS dated July 25, 2008.
10.42†	Exclusive Technology Option Agreement between the registrant, Patobios Limited, Susan R. George, M.D., Brian F. O'Dowd, Ph.D. and U.S. Bank National Association as escrow agent dated September 4, 2008.
10.43	Loan and Security Agreement between the registrant and BlueCrest Capital Finance, L.P. dated September 12, 2008.
10.44	Promissory Note issued by the registrant to BlueCrest Capital Finance, L.P. dated September 12, 2008.
10.45	Promissory Note issued by the registrant to BlueCrest Capital Finance, L.P. dated December 23, 2008.
10.46†	Agreement for Antibody Development between the registrant and North Coast Biologics LLC dated October 31, 2008.
10.47†	Patent Assignment Agreement between the registrant and Roberto Ciccocioppo, Ph.D. dated February 23, 2009.
10.48	Amendment to Exercise Notice and Restricted Stock Purchase Agreements between the registrant and Richard J. Klein dated April 29, 2009.
21.1*	List of significant subsidiaries of the registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
23.4**	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
24.1*	Power of Attorney.
99.1*	Consent of The Reimbursement Group.

* Previously Filed.

** To be filed by amendment.

† Confidential treatment will be requested for portions of this exhibit. These portions will be omitted from this Registration Statement and will be filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules

Financial statement schedules have been omitted because they are inapplicable or not required or because the information is included elsewhere in the registrant's consolidated financial statements and the related notes.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public

policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Seattle, State of Washington, on this 15th day of May 2009.

OMEROS CORPORATION

By: /s/ Gregory A. Demopoulos, M.D.

Gregory A. Demopoulos, M.D.
*President, Chief Executive Officer,
Chief Medical Officer
and
Chairman of the Board of Directors*

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GREGORY A. DEMOPOULOS, M.D.</u> Gregory A. Demopoulos, M.D.	President, Chief Executive Officer, Chief Medical Officer and Chairman of the Board of Directors (Principal Executive, Financial and Accounting Officer)	May 15, 2009
<u>*</u> Ray Aspiri	Director	May 15, 2009
<u>*</u> Thomas J. Cable	Director	May 15, 2009
<u>*</u> Peter A. Demopoulos, M.D.	Director	May 15, 2009
<u>*</u> Leroy E. Hood, M.D., Ph.D.	Director	May 15, 2009
<u>*</u> Jean-Philippe Tripet	Director	May 15, 2009
<u>*By: /s/ GREGORY A. DEMOPOULOS, M.D.</u> Gregory A. Demopoulos, M.D. Attorney-in-Fact		

EXHIBIT INDEX

Exhibit Number	Description
1.1*	Form of Underwriting Agreement.
2.1*	Agreement and Plan of Reorganization among the registrant, Epsilon Acquisition Corporation, nura, inc. and ARCH Venture Corporation dated August 4, 2006
3.1*	Form of Amended and Restated Articles of Incorporation of the registrant, to be in effect upon the completion of this offering.
3.2*	Form of Amended and Restated Bylaws of the registrant, to be in effect upon the completion of this offering.
4.1**	Form of registrant's common stock certificate.
4.2*	Stock Purchase Warrant issued by nura, inc. to Oxford Finance Corporation dated April 26, 2005 (assumed by the registrant on August 11, 2006).
4.3*	Amended and Restated Investors' Rights Agreement among the registrant and holders of capital stock dated October 15, 2004.
5.1**	Opinion of Wilson Sonsini Goodrich & Rosati, Professional Corporation.
10.1*	Form of Indemnification Agreement to be entered into between the registrant and its directors and officers.
10.2*	Second Amended and Restated 1998 Stock Option Plan.
10.3*	Form of Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (that does not permit early exercise).
10.4*	Form of Amendment to Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (to permit early exercise).
10.5*	Form of Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (that permits early exercise).
10.6*	nura, inc. 2003 Stock Plan.
10.7*	Form of Stock Option Agreement under the nura, inc. 2003 Stock Plan.
10.8*	2008 Equity Incentive Plan.
10.9*	Form of Stock Option Award Agreement under the 2008 Equity Incentive Plan (to be used following the completion of this offering).
10.10*	Second Amended and Restated Employment Agreement between the registrant and Gregory A. Demopoulos, M.D. dated December 30, 2007.
10.11*	Non-Plan Stock Option Agreement between the registrant and Gregory A. Demopoulos, M.D. dated December 11, 2001.
10.12*	Offer Letter between the registrant and Marcia S. Kelbon, Esq. dated August 16, 2001.
10.13*	Offer Letter between the registrant and Richard J. Klein dated May 11, 2007.
10.14*	Technology Transfer Agreement between the registrant and Gregory A. Demopoulos, M.D. dated June 16, 1994.
10.15*	Technology Transfer Agreement between the registrant and Pamela Pierce, M.D., Ph.D. dated June 16, 1994.
10.16*	Second Technology Transfer Agreement between the registrant and Gregory A. Demopoulos, M.D. dated December 11, 2001.
10.17*	Second Technology Transfer Agreement between the registrant and Pamela Pierce, M.D., Ph.D. dated March 22, 2002.
10.18*	Technology Transfer Agreement between the registrant and Gregory A. Demopoulos, M.D. dated June 16, 1994 (related to tendon splice technology).
10.19*	Master Security Agreement between the nura, inc. and Oxford Finance Corporation dated April 26, 2005.
10.20*	Guaranty from the registrant to Oxford Finance Corporation dated August 11, 2006.
10.21*	U.S. Bank Centre Office Lease Agreement between Bentall City Centre LLC and Scope International, Inc. dated September 28, 1998.
10.22*	Assignment and Amendment of Lease among the registrant, City Centre Associates and Navigant Consulting, Inc. dated August 1, 2002.

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<u>Exhibit Number</u>	<u>Description</u>
10.23*	Second Amendment to Office Lease Agreement between the registrant and City Centre Associates dated January 4, 2006.
10.24*	Lease Agreement between Alexandria Real Estate Equities, Inc. and Primal, Inc. dated April 6, 2000.
10.25*	Lease Agreement between Alexandria Real Estate Equities, Inc. and Primal, Inc. dated September 28, 2001.
10.26*	Assignment and Assumption and Modification of Lease Documents among Alexandria Real Estate Equities, Inc., Primal, Inc., and nura, inc. dated October 23, 2003.
10.27*	Assignment and Assumption and Modification of Lease Documents among Alexandria Real Estate Equities, Inc., nura, inc., and the registrant dated September 26, 2007.
10.28†	Commercial Supply Agreement between the registrant and Hospira Worldwide, Inc. dated October 9, 2007.
10.29†	Exclusive License and Sponsored Research Agreement between the registrant and the University of Leicester dated June 10, 2004.
10.30†*	Research and Development Agreement First Amendment between the registrant and the University of Leicester dated October 1, 2005.
10.31†	Exclusive License and Sponsored Research Agreement between the registrant and the Medical Research Council dated October 31, 2005.
10.32†*	Amendment dated May 8, 2007 to Exclusive License and Sponsored Research Agreement between the registrant and the Medical Research Council dated October 31, 2005.
10.33†	Funding Agreement between the registrant and The Stanley Medical Research Institute dated December 18, 2006.
10.34†	Services and Materials Agreement between the registrant and Scottish Biomedical Limited dated April 20, 2007.
10.35†	Amendment dated April 30, 2007 of the Services and Materials Agreement between the registrant and Scottish Biomedical Limited dated April 20, 2007.
10.36†	Drug Product Development and Clinical Supply Agreement between the registrant and Althea Technologies, Inc. dated January 20, 2006.
10.37†*	Project Plan for Non-GMP and cGMP Fill and Finish of OMS302 between the registrant and Althea Technologies, Inc. dated May 31, 2007.
10.38†	Master Services Agreement between nura, inc. and ComGenex, Inc. dated January 27, 2005
10.39*	Landlord Consent to Sublease among Christensen O'Connor Johnson Kindness PLLC, City Centre Associates and the registrant dated January 29, 2008.
10.40*	Form of Stock Option Award Agreement under the 2008 Equity Incentive Plan (used prior to the completion of this offering).
10.41†	Agreement for Antibody Discovery and Development between the registrant and Affitech AS dated July 25, 2008.
10.42†	Exclusive Technology Option Agreement between the registrant, Patobios Limited, Susan R. George, M.D., Brian F. O'Dowd, Ph.D. and U.S. Bank National Association as escrow agent dated September 4, 2008.
10.43	Loan and Security Agreement between the registrant and BlueCrest Capital Finance, L.P. dated September 12, 2008.
10.44	Promissory Note issued by the registrant to BlueCrest Capital Finance, L.P. dated September 12, 2008.
10.45	Promissory Note issued by the registrant to BlueCrest Capital Finance, L.P. dated December 23, 2008.
10.46†	Agreement for Antibody Development between the registrant and North Coast Biologics LLC dated October 31, 2008.

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<u>Exhibit Number</u>	<u>Description</u>
10.47†	Patent Assignment Agreement between the registrant and Roberto Ciccocioppo, Ph.D. dated February 23, 2009.
10.48	Amendment to Exercise Notice and Restricted Stock Purchase Agreements between the registrant and Richard J. Klein dated April 29, 2009.
21.1*	List of significant subsidiaries of the registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
23.4**	Consent of Wilson Sonsini Goodrich & Rosati, Professional Corporation (included in Exhibit 5.1).
24.1*	Power of Attorney.
99.1*	Consent of The Reimbursement Group.

* Previously Filed.

** To be filed by amendment.

† Confidential treatment will be requested for portions of this exhibit. These portions will be omitted from this Registration Statement and will be filed separately with the Securities and Exchange Commission.

COMMERCIAL SUPPLY AGREEMENT

This Commercial Supply Agreement (this "**Agreement**") is made as of the 9th day of October, 2007 (the "**Effective Date**") by and between Omeros Corporation, a Washington corporation, having its principal offices at 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101 ("**Omeros**"), and Hospira Worldwide Inc., a Delaware corporation, having its principal offices at 275 North Field Drive, Lake Forest, Illinois 60045 ("**Hospira**"). Omeros and Hospira previously entered into a Master Development Agreement, dated May 8, 2007 (the "**Development Agreement**"), pertaining to the development of Omeros' pharmaceutical drug product OMS103HP-S. Omeros and Hospira now desire to enter into an agreement for the commercial supply of OMS103HP-S by Hospira to Omeros. Therefore, in consideration of the mutual covenants and obligations set forth below, Omeros and Hospira (the "**Parties**" and each a "**Party**") agree as follows:

1. DEFINITIONS

The following initially capitalized terms in this Agreement, whether used in the singular or plural, shall have the respective meanings set forth below:

1.1 "**Act**" means U.S. Federal Food, Drug and Cosmetic Act, 21 U.S.C. §301 *et seq.*

1.2 "**Affiliate**" means any corporation or other entity or enterprise that controls, is controlled by, or is under common control with, a Party. A corporation or other entity or enterprise shall be regarded as in control of another corporation, entity or enterprise if it owns or directly or indirectly controls 50% or more of the voting securities or other ownership interest of the other corporation, entity or enterprise or if it possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the corporation or other entity or enterprise.

1.3 "**APIs**" means the active pharmaceutical ingredients required for the Processing of Product as set forth in the Specifications.

1.4 "**Applicable Laws**" means all laws, ordinances, rules and regulations applicable to the Product and the Services (including Processing of Product or any aspect thereof) and the obligations of Hospira or Omeros, as the context requires under this Agreement, including, without limitation, (a) all applicable federal, state and local laws and regulations, including without limitation the Act, (b) all applicable FDA regulations promulgated under the Act, (c) all applicable cGMPs, (d) all applicable guidances promulgated or adopted by FDA, including without limitation all applicable International Conference on Harmonization ("**ICH**") guidances, each as amended from time to time and (e) all laws and regulations within the Territory, including without limitation ICH guidances, that are applicable to the Processing of Product for commercial supply.

1.5 "**Batch**" means the Product, made in accordance with the Specifications, resulting from a single production run, or any other specific quantity of Product that is mutually agreed upon in writing by the Parties from time to time.

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

1.6 “**Batch Records**” means Batch-specific manufacturing, packaging and test records and documentation relating to Processing, packaging and release of each Batch, exception documentation, deviations/discrepancies and additional documentation generated and/or processed as part of the production record of the related Batch.

1.7 [†]

1.8 “**Certificate of Analysis**” means, for each Batch produced, a document prepared by Hospira setting forth the measured and observable characteristics of Product from the Batch, and confirming that such Batch meets the Specifications. Each Certificate of Analysis shall include: (a) a listing of tests performed by or on behalf of Hospira, test date(s), and test results, and a certification of the accuracy of each of the foregoing; and (b) a reference to or inclusion of the related Certificate of Compliance. The Parties shall from time to time agree upon a format or formats for the Certificate of Analysis to be used under this Agreement.

1.9 “**Certificate of Compliance**” means, for each Batch, a document prepared by Hospira: (a) listing the manufacturing date, unique Batch number, and quantity of Product in such Batch, and (b) certifying that such Batch was manufactured in accordance with Applicable Laws, including, without limitation, cGMP. The Parties shall from time to time agree upon a format or formats for the Certificate of Compliance to be used under this Agreement. The Certificate of Compliance may be included within the Certificate of Analysis.

1.10 “**cGMP**” means current Good Manufacturing Practices as defined in the FDA rules and regulations, including, without limitation, the United States regulations set forth at 21 CFR Parts 210-211, as appropriate and as the same may be amended from time to time.

1.11 “**Confidential Information**” means any data, research, development, manufacturing, marketing, financial, personnel, sales, business, and other non-public, proprietary or technical information provided by the disclosing Party to the Recipient, including without limitation all Product Data (which shall be considered Omeros’ Confidential Information even if generated or provided by Hospira), except any portion of such information that:

- (a) is or becomes generally available to the public or within the industry to which such information relates, other than as a result of a breach of this Agreement; or
- (b) is known by Recipient at the time of receipt of the disclosing Party’s information, as evidenced by Recipient’s contemporaneous written records; or
- (c) is provided to Recipient on a non-confidential basis by a third party who has the legal right to make such disclosure; or
- (d) was or is independently developed by or for Recipient without access to or use of the information of the disclosing Party, as evidenced by Recipient’s contemporaneous written records.

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1.12 “**Deliver**” or “**Delivery**” with respect to Product means, and shall take place upon, the transfer of possession of Product to Omeros [†] for Product delivered in the United States and [†] for Product delivered outside of the United States.

1.13 “**Develop**” or “**Development**” shall mean the generation, improvement, optimization, transfer or validation of methods, assays, protocols or processes for Processing, analyzing or testing Product.

1.14 “**Facility**” means Hospira’s pharmaceutical manufacturing facility in McPherson, Kansas.

1.15 “**FDA**” means the United States Food and Drug Administration and any successor agency.

1.16 “**Hospira New IP**” shall mean all Intellectual Property conceived solely by Hospira during the course of the performance of the Services pursuant to this Agreement, or conceived by Hospira prior to this Agreement (other than pursuant to the Development Agreement) and reduced to practice solely by Hospira during the course of the performance of the Services pursuant to this Agreement, that is not specific to [†].

1.17 “**Intellectual Property**” means all intellectual property (whether or not patented or patentable), including, without limitation, inventions, patents, patent applications, trade secrets, know-how, copyrights, trademarks, designs, concepts, technical information, manuals, standard operating procedures, instructions or specifications.

1.18 “**Joint New IP**” shall mean Intellectual Property conceived or reduced to practice jointly by Hospira and Omeros excluding all Omeros New IP.

1.19 “**Latent Defect**” means the failure of any Product delivered to Omeros to meet the current Specifications at the time of manufacture as a result of the acts or omissions of Hospira or its employees, subcontractors, agents or other representatives that was not, and could not reasonably be expected to have been, found by exercise of ordinary care in inspection and testing by Omeros. For purposes of clarity, the presence of a contaminant from Processing or Hospira’s failure to comply with cGMPs shall be considered a Latent Defect.

1.20 “**Master Batch Record**” shall mean the formal set of instructions for Processing of Product.

1.21 “**Materials**” means, collectively, all raw materials and other ingredients (excluding APIs) and packaging and shipping materials required for Processing Product.

1.22 “**Minimum Percentage**” shall initially mean [†] of Omeros’ Product Requirements and subsequently any adjusted percentage of Omeros’ Product Requirements as may be mutual agreed in writing by the Parties in accordance with Section 2.6.1, 3.9.1 or 3.10.6.

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1.23 “**Omeros New IP**” means any and all Intellectual Property conceived or reduced to practice by either Party individually or jointly during the course of the performance of this Agreement that are specific to [†].

1.24 “**Omeros’ Product Requirements**” means Omeros’ total requirements for commercial sales of Product in the Territory as well as clinical supplies of Product for the development of additional therapeutic indications after Launch.

1.25 “**Omeros Property**” means any chemical and/or biological materials or samples, other tangible property, and written or electronic documents and records owned by or licensed to Omeros as of the Effective Date, developed by Omeros in connection with this Agreement, or disclosed or delivered by or on behalf of Omeros in connection with this Agreement, including, without limitation, Omeros Confidential Information (including without limitation Product Data) and Omeros’ Intellectual Property (including without limitation Omeros New IP) in tangible or electronic form.

1.26 “**Price**” means the [†] price of the Product, as set forth on Exhibit B attached hereto and incorporated herein.

1.27 “**Process**” or “**Processing**” shall mean the act or acts of manufacturing, handling, storing, analyzing, testing, filling, finishing, packaging, inspecting, labeling, preparing for shipment and/or stability testing of Product by Hospira pursuant to this Agreement.

1.28 “**Product**” means a liquid formulation of Omeros’ pharmaceutical product, designated as OMS103HP-S, which contains each of the following APIs: amitriptyline hydrochloride, oxymetazoline hydrochloride and ketoprofen.

1.29 “**Product Data**” means all information, documents, records, raw data, specimens, and other work product that relates to or describes the Services, including the Processing of Product. The term “Product Data” shall include, without limitation, documents and records pertaining to Processing of Product, Batch Records, Certificates of Analysis, Certificates of Compliance, analytical test methods, analytical test results, list of SOPs, Product Specific SOPs, list of equipment used in the Processing of Product, signed title pages of approved qualification reports for such equipment, general facility layout details and process trend and variability data, and all other documents, reports and data prepared, developed or generated by Hospira in connection with performance of the Services hereunder. The term “Product Data” shall expressly exclude, however, General SOPs and other information that is Hospira’s confidential information that is not specific to Omeros or Omeros’ Product and is related to Hospira’s manufacturing processes that are generally applicable to the products of multiple customers.

1.30 “**Recipient**” means a Party that receives Confidential Information.

1.31 “**Regulatory Authority**” means any governmental regulatory agency or authority that is responsible for regulating any aspect of the development, manufacture, market approval, sale, distribution, packaging or use of the Product, including, without limitation, as applicable, based on the Territory on the Effective Date or any expansion of the Territory by mutual written agreement of the Parties, the FDA, the European Medicines Agency (EMA), the Japanese

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Ministry of Health, Labour and Welfare (MHLW), the Health Canada — Therapeutic Product Programme (TPP) and any additional governmental agencies as agreed upon by the Parties based on expansion of the Territory.

1.32 “**Services**” means all services performed and activities conducted by Hospira (including, without limitation, those related to process improvements and Processing of Product, as applicable) pursuant to this Agreement and the Specifications.

1.33 “**SOPs**” means Hospira’s standard operating procedures, and includes “**General SOPs**” that are not specific to Processing of Product and “**Product Specific SOPs**” that are specific to the Processing of Product.

1.34 “**Specifications**” means the Product attributes listed on Exhibit A attached hereto, which is incorporated into this Agreement, the Master Batch Record for Product, the master packaging batch record for the Product, the labeling requirements for the Product, and all other written specifications and/or instructions for measurable and observable qualities, characteristics and attributes of Product and all other written requirements, standards, specifications, quality assurance/quality control testing and release and other attributes pertaining to the Product and/or Processing of Product, including APIs, other Materials and Third Party suppliers for Processing Product, that are agreed to by the Parties (and as amended from time to time by Omeros in consultation with Hospira, including, without limitation, such amendments as may be required to obtain or maintain approval from the FDA or other Regulatory Authorities).

1.35 “**Technical Records**” shall mean all books, records (including without limitation the Master Batch Record and individual Batch Records for Product), test and laboratory data (including, without limitation, Certificates of Analysis, SOPs and all other Product Data), reports and all other information relating to the Services performed under this Agreement and the methods, Facility and equipment used for Processing of Product or other Services.

1.36 “**Territory**” shall mean [†].

1.37 **Additional Definitions.**

<u>Defined Term</u>	<u>Section in which Defined</u>
Agreement	Preamble
[†]	10.4
[†]	10.4
Change Order	2.4
Damages	9.2
Development Agreement	Recitals
DMF	5.2
Effective Date	Preamble
Executives	12.2
Firm Commitment	3.9.2
Firm Purchase Order	3.10.1
General SOPs	1.33

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Defined Term	Section in which Defined
<i>Hospira</i>	Preamble
<i>Hospira Indemnitees</i>	9.2
<i>ICH</i>	1.4
<i>Indemnified Party</i>	9.4
<i>Indemnifying Party</i>	9.4
<i>Initial Term</i>	10.1
<i>Launch</i>	10.4
<i>Minimum Purchase Requirement</i>	3.10.5
<i>NDA</i>	3.9.2
<i>Omeros</i>	Preamble
<i>Omeros Indemnitees</i>	9.3
<i>Party and/or Parties</i>	Preamble
<i>Product and Equivalents</i>	7.1
<i>Product Specific SOPs</i>	1.33
<i>Purchase Order</i>	3.10.1
<i>Quality Agreement</i>	3.2
<i>Representative</i>	2.5
<i>Rolling [†] Estimate</i>	3.9.1
<i>Rolling Forecast</i>	3.9.2
<i>Stability Lot Price</i>	3.7
<i>Submission</i>	10.4
<i>Supply Period</i>	10.4
<i>[†]</i>	10.6.2
<i>Term</i>	10.1

2. COMMERCIAL SUPPLY

2.1 **Processing of Product.** Omeros hereby engages Hospira, and Hospira hereby agrees, to Process the Product for commercial sale by Omeros in accordance with the Specifications, and in compliance with this Agreement and all Applicable Laws (including, without limitation, cGMPs). The terms of this Agreement shall apply to the exclusion of and shall supersede the terms of any purchase order, acknowledgement, confirmation, shipping document, or other document.

2.2 **Materials and Equipment.** Unless otherwise agreed by the Parties in writing, Hospira shall supply all Materials and standard processing and manufacturing equipment needed for Processing of Product in accordance with this Agreement and the Specifications, at its sole cost and expense (including, without limitation, shipping costs in connection with such Materials and equipment).

2.2.1 **Non-Standard Equipment.** If dedicated or specialized equipment is required to Process Product for Omeros, Hospira shall specify such equipment to Omeros in writing and, if Omeros agrees in writing that such equipment is required, Omeros shall reimburse Hospira for

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the cost of purchasing such equipment, on a pass-through basis, as well as the reasonable cost of installation and validation of such equipment, all subject to Omeros' prior written approval or a separate written agreement between the Parties with respect to such equipment purchase, installation and validation. Title to such equipment shall be in Omeros' name and, at Omeros' request and reasonable expense, shall be returned to Omeros or discarded upon termination of this Agreement. If Hospira wishes to use such equipment for Processing of a product other than Product for Omeros, Hospira and Omeros shall meet and discuss the technical and practical ramifications of such use and appropriate compensation to Omeros, but in no event is Omeros obligated to allow the use of such equipment for the manufacture of such other product. These provisions shall not apply to any non-dedicated or non-specialized equipment normally used or required for the manufacture of pharmaceutical products, or to additional non-dedicated or non-specialized equipment required to increase production capacity or efficiency at Hospira's Facility.

2.2.2 Labeling. Hospira shall label Product in accordance with Omeros' instructions. Label copy may be modified from time to time by written agreement of the Parties. Omeros shall reimburse Hospira for Hospira's actual costs of making any label copy changes and for the cost of any labeling that Hospira is unable to use due to such label copy changes.

2.3 Omeros' Responsibilities and Authority. Unless otherwise agreed by the Parties in writing, Omeros agrees that it will (a) provide APIs for processing of Product in accordance with the provisions of Section 2.6.; (b) provide appropriate scientific data regarding the Product, including, without limitation, appropriate and available safety and toxicity data, test methods and formulation, fill and finish of the Product (as applicable); (c) provide Hospira with commercially appropriate information necessary to Process the Product; (d) prepare and/or review and, if acceptable to Omeros, approve all Specifications; and (e) as applicable, prepare all submissions to Regulatory Authorities, portions of such that are relevant to Hospira which shall be subject to review by Hospira as set forth in Section 5.8. Other than Processing of Product by Hospira in accordance with this Agreement, Omeros shall retain sole authority and responsibility in all matters related to commercialization of the Product.

2.4 Specifications/Amendments/Changes.

2.4.1 Specifications. The Master Batch Record and the Specifications shall be prepared and maintained in Hospira's standard format by Hospira, using Omeros' master formula, other technical information or standards that may be provided by Omeros, technical support provided by Omeros, and labeling criteria (if applicable) provided by Omeros, and shall be approved in writing by Omeros.

2.4.2 Changes to Specifications. Except as set forth in Section 2.4.3 below, if either Party requests a change to the Specifications, Hospira shall provide Omeros with cost estimates for the additional or repeat work related to such changes. If Omeros approves in writing such additional or repeat work, Omeros shall be responsible for paying such costs if the changes are specific to the Product, but not for regulatory mandated or plant upgrade changes that are required for products in addition to the Product (which shall be approved pursuant to Section 2.4.3). If Omeros approves such estimated costs, Hospira shall perform such work, and Omeros

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shall pay Hospira's reasonable costs for such work within thirty (30) days of completion of such work; provided that Hospira shall promptly notify Omeros in writing that such work has been completed. Reimbursement for such additional work or repeat work shall be at the rate of [†].

2.4.3 Regulatory Mandated Change to Specifications. If there is a change in Applicable Laws that would necessitate a change in the Specifications, Processing or the means or methods of performance under this Agreement by Hospira, the Parties will meet and confer in good faith to determine whether and what changes (if any) should be made thereto and/or to the respective responsibilities of the Parties therefor. Promptly after a request is made by Omeros for any such change, or the Parties become aware of the change in Applicable Laws necessitating such change, Hospira shall notify Omeros of any anticipated increase and/or decrease in the Price and any costs, expenses or fees associated with such change. Omeros shall have the right to approve such change and, if approved, the right to approve any corresponding revised Price and any reasonable costs, expenses or fees associated with such change. No change in the Specifications, Product-specific manufacturing processes, test methods, or other documentation or procedures relating to Processing of Product or the Services shall be implemented by Hospira, whether initiated by Omeros or requested or required by any Regulatory Authority, unless and until the Parties have executed a written agreement documenting such change ("**Change Order**"), including the implementation date of such change and any increase or decrease to the Price to reflect costs, expenses, fees or savings associated with such change. If a Change Order is caused by a change clearly mandated or required by any Regulatory Authority then approval of such Change Order shall not be withheld.

2.4.4 Increases in Price. [†].

2.5 Meetings; Communications. The Parties shall hold team meetings via teleconference, videoconference or in person on a regular and periodic basis. Each Party shall appoint a representative (each a "**Representative**") who will have primary responsibility for day-to-day interactions with the other Party's Representative concerning the Processing of Product, the Services and the activities of the Parties in connection with this Agreement. Unless otherwise mutually agreed by the Parties in writing, all communications between Hospira and Omeros regarding the Processing of Product, the Services and the activities of the Parties in connection with this Agreement shall be addressed to or routed directly through (as appropriate) the respective Representatives of each Party. Hospira shall provide periodic updates to Omeros regarding the Processing of Product. These updates may be delivered by Hospira verbally, by telephone or videoconference, or in writing, as mutually agreed upon by the Parties. Hospira shall notify Omeros as soon as practicable (but in any event within twenty-four (24) hours) of any event or condition, including without limitation technical deviations as addressed in Subsection 5.6 that is likely to detrimentally impact or limit Hospira's performance of the Services or Processing of Product. Hospira shall notify Omeros as soon as practicable (but in any event within four (4) business days) of any financial, legal or business condition that is likely to detrimentally impact or limit Hospira's performance of the Services or Processing of Product.

2.6. Supply and Processing of Commercial Product; APIs.

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2.6.1 Commercial Product Supply; Minimum Percentage; Hospira Obligations Regarding Processing and Services. Pursuant to the terms and conditions of this Agreement, Omeros engages Hospira to supply, and Hospira agrees to manufacture, deliver and sell to Omeros, Product intended for commercial sale. Hospira shall be obligated to supply, and Omeros shall be obligated to purchase and take delivery of, the Minimum Percentage of Omeros' Product Requirements during the Term, which shall initially be [†] as set forth in Section 1.22. At any time during the Term, Omeros and Hospira may mutually agree in writing to have Hospira supply and Omeros purchase a percentage of Omeros' Product Requirements that is greater than the initial Minimum Percentage as provided for in Section 1.22. Hospira shall Process Product and perform all other services (including Services) agreed upon by the Parties: (a) in accordance with the Specifications; (b) in accordance with the Applicable Laws including, without limitation, cGMPs; and (c) in compliance with this Agreement.

2.6.2 Active Pharmaceutical Ingredient Supply. Hospira shall manufacture Product for Omeros from APIs that Omeros shall supply at no cost to Hospira. Omeros shall supply APIs to Hospira in quantities sufficient to satisfy Hospira's gross manufacturing requirements of Product for Omeros. Hospira's use of APIs received from Omeros shall be limited to Processing of Product for Omeros as contemplated by this Agreement. Omeros shall deliver or cause to be delivered APIs D.D.P. (Incoterms 2000) Hospira's designated Facility pursuant to no-cost purchase orders that Hospira issues to Omeros. Within thirty (30) days of Hospira's receipt of any APIs supplied by Omeros hereunder, Hospira shall (a) perform identification, bacterial endotoxin and microbial limit testing on the APIs and confirm the shipment quantity, and (b) notify Omeros of any inaccuracies with respect to quantity or of any claim that any portion of the shipment fails the identification test. In the event Hospira notifies Omeros of any deficiency in quantity of APIs received, Omeros shall use reasonable commercial efforts to promptly ship to Hospira, at its own expense, the quantity of APIs necessary to fulfill the original APIs shipment, unless Hospira and Omeros mutually agree to a reduction in Product quantity to be Processed in accordance with Section 3.10.2. Hospira recognizes that the APIs will be procured by Omeros from third parties. In the event that Omeros is unable to make up any shortage of APIs, Hospira shall be excused from any resulting delay in the Processing of Product but Omeros shall be bound to any firm Purchase Orders which have been accepted by Hospira, to be completed once API becomes available. In the event Hospira notifies Omeros that the APIs shipment does not conform to the Specifications, Omeros shall have the right to confirm such findings at Hospira's manufacturing location. If Omeros determines that such shipment of APIs conformed to the Specifications, the parties shall submit samples of such shipment to a mutually acceptable independent laboratory for testing. If such independent laboratory determines that the shipment conformed to the Specifications, Hospira shall bear all expenses of shipping and testing such shipment samples. If Omeros or such independent laboratory confirms that such shipment did not meet the Specifications, Omeros shall replace, at no cost to Hospira, the portion of the APIs which does not conform to the Specifications and bear all expenses of shipping and testing the shipment samples.

2.6.3 API Title. Omeros shall retain title to the APIs while in Hospira's possession and Hospira shall assume all responsibility and risk for the safekeeping, storage and handling of APIs delivered hereunder and accepted by Hospira.

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2.6.4 **Replacement of API.** If, due to any negligent act or omission or willful misconduct on Hospira's part in the examination of APIs supplied by Omeros, Product Processed hereunder fails to conform with the Product Specifications, Hospira's sole liability in such case shall be limited to replacement of non-conforming Product, at no additional cost to Omeros, with conforming Product using APIs that Hospira shall purchase from Omeros at [†]. If APIs are lost or destroyed in connection with the Processing of Product by Hospira, Hospira's sole liability in such case, [†], shall be limited to replacement of such APIs with APIs that Hospira shall purchase from Omeros at [†].

2.6.5 **API Reimbursement.** [†]

3. DELIVERY; PRODUCT ACCEPTANCE/REJECTION; FORECASTING; PAYMENT

3.1 **Delivery of Product.** Omeros will arrange the transportation of Product with Omeros approved carriers. Hospira shall provide product together with corresponding Certificates of Analysis in accordance with the shipping and packaging instructions set forth in the Specifications or otherwise provided in advance by Omeros and agreed to by Hospira (including any special packaging or shipping conditions or labeling requirements), on or before the date(s) specified for delivery in any Purchase Order. Delivery by Hospira shall be made FOB origin (U.S.) or FCA Hospira's facility (international) (Incoterms 2000) at the designated location(s) specified by Hospira. All freight, handling, insurance, duties, taxes and shipping expense will be borne by Omeros. Title to Product shall pass to Omeros upon delivery of Product to the carrier selected by Omeros. Hospira shall be responsible for providing all quality and commercial shipping documentation as set forth in the Specifications or as otherwise required under Applicable Laws or by agreement of the Parties. At no additional expense to Omeros for assistance, Hospira will cooperate with Omeros and Omeros' carrier to arrange for transportation of Product at Omeros' expense from the Facility to the destination(s) specified by Omeros. Risk of loss or damage to Product and responsibility to insure shall pass to Omeros upon delivery to Omeros on Hospira's dock.

3.2 **Quality Control; Certificates.** Hospira shall perform quality control tests to ensure that each Batch is produced in accordance with Applicable Laws, including cGMP, and conforms to the Specifications. All quality control test results and copies thereof shall be made available to Omeros upon written request of Omeros. A separate quality agreement between Hospira and Omeros ("**Quality Agreement**") will be signed prior to cGMP production of the Product, so that Omeros and Hospira may set forth certain quality responsibilities of the Parties as they relate to the Processing of Product in connection with this Agreement. In the event of any conflict between the Quality Agreement and this Agreement, the terms of this Agreement shall control. Any testing performed by or on behalf of Hospira (including tests to confirm that each Batch meets the Specifications), which shall be performed at Hospira's sole cost and expense, may be used by Omeros for final release of each Batch without additional testing by Omeros. Notwithstanding the foregoing, Omeros may conduct its own release testing of each Batch, and in accordance with Subsection 3.3 shall determine whether such Batch is conforming. Omeros (in its sole discretion) shall determine the form and substance of any release testing information that is submitted to a Regulatory Authority(ies). At the time of Delivery of each

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Batch, Hospira shall send to Omeros a signed Certificate of Analysis with respect to such Batch and a signed Certificate of Compliance (which may be included in the Certificate of Analysis). Upon Omeros' request, within thirty (30) days following the Delivery of each Batch, Hospira shall provide Omeros with properly completed copies of Batch Records for such Batch prepared in accordance with the Specifications and Applicable Laws, unless otherwise set forth in the Quality Agreement. Omeros shall be responsible for all shipment validation and quality control.

3.3 Inspection; Acceptance or Rejection. All Product Processed pursuant to this Agreement shall be received by Omeros subject to Omeros' right to conduct inspections and performance testing of such Product. Omeros or its designee shall examine Product Delivered hereunder promptly after actual receipt thereof by Omeros or its designee utilizing such methodology as Omeros shall implement from time to time in its sole discretion.

3.3.1 Rejection. Omeros shall have thirty (30) days from the date of actual receipt by Omeros or its designee of each shipment of Product from Hospira in which to evaluate and accept or reject such shipment of Product. Omeros shall be permitted to reject any shipment of Product as non-conforming if (a) Hospira fails to timely provide an accurate Certificate of Analysis and/or truthful Certificate of Compliance, (b) Product does not meet the Specifications, or (c) Product was not Processed in accordance with Applicable Laws, including cGMP. If Omeros does not notify Hospira in writing of Omeros' rejection of such shipment of Product within thirty (30) days from the date of receipt thereof by Omeros or its designee, Omeros shall be deemed to have accepted such shipment of Product, except that Omeros shall retain the right to revoke acceptance of Product for a Latent Defect pursuant to Section 3.3.3.

3.3.2 Product Quantity. If the quantity of Product produced in any Batch fails to meet the quantity specified in the applicable Purchase Order, then the Parties shall meet to discuss in good faith one or more possible remedies to resolve the shortage.

3.3.3 Latent Defect. If, after Omeros' acceptance or deemed acceptance of a shipment of Product, Omeros discovers a Latent Defect, Omeros shall notify Hospira within thirty (30) days after such discovery of the Latent Defect, and Omeros shall have the right to revoke acceptance of such shipment of Product by notifying Hospira thereof in writing. Upon such notice, such shipment of Product shall be deemed rejected hereunder and the terms of Subsections 3.3.4 and 3.4 shall apply.

3.3.4 Disagreement Regarding Non-Conformity. In the event Omeros rejects a shipment of Product for non-conformance in accordance with Subsection 3.3.1 or revokes acceptance of a shipment of Product under Subsection 3.3.3, Hospira shall have the right within thirty (30) days thereafter to sample and re-test such shipment of Product. If Hospira (a) agrees that such shipment of Product is non-conforming, then the terms of Subsection 3.4 shall apply, or (b) disagrees with Omeros' determination that such shipment of Product is non-conforming, Hospira shall so notify Omeros in writing within such thirty (30) day period. If Hospira disagrees with Omeros' determination that Product is non-conforming, then Hospira and Omeros shall cause an outside testing laboratory or consultant agreeable to both of them to perform comparative tests and/or analyses on samples of the alleged non-conforming Product. The testing laboratory's or consultant's results shall be in writing and shall be final and binding, save

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for manifest error on the face of its report. Unless otherwise agreed to by Hospira and Omeros in writing, the costs associated with such testing and review shall be borne by the Party against whom the outside testing laboratory or consultant rules. The outside testing laboratory or consultant shall be required to enter into written undertakings of confidentiality no less burdensome than those set forth herein. Hospira shall furnish the outside testing laboratory or consultant such instructions regarding the storage, handling and potential hazards of any Product as are provided to or developed by Hospira by or on behalf of Omeros.

3.4 Remedies for Non Conforming Product. In the event that Hospira agrees that a shipment of Product is non-conforming, or if the outside testing laboratory or consultant determines that such Product is non-conforming, then, at Omeros' election, Hospira shall [†]. Upon Hospira's instructions, Omeros shall destroy or return, at Hospira's cost, the non-conforming Product.

3.5 Custody of Omeros Property. In connection with this Agreement, the Parties agree that Hospira will have custody over certain Omeros Property. It is understood that such Omeros Property, to the extent practicable, will be clearly labeled by Hospira as belonging to Omeros, and that Hospira shall bear the risk of loss for any Omeros Property during the time that such Omeros Property is in the possession of Hospira. Title to Omeros Property shall at all times remain in Omeros or its assigns, and Hospira shall not pledge to any third party a security or other interest in the Omeros Property, nor shall Hospira allow the Omeros Property to be otherwise encumbered. Hospira shall at all times employ the measures specified by Omeros, and take such measures as are otherwise reasonably required, to protect Omeros Property from risk of loss or damage at all stages of Processing the Product and the Services hereunder. Hospira shall immediately notify Omeros if at any time it believes any Omeros Property has been damaged, lost or stolen. Hospira shall not use any Omeros Property for any purpose other than performing its obligations under this Agreement. Upon any request by Omeros, Hospira shall immediately return to Omeros all Omeros Property, including all copies thereof, in conformance with any directions provided by Omeros therefore, except that Hospira shall retain reserve samples of Product as provided in Subsection 3.6.

3.6 Retention Samples; Storage. Hospira shall retain and store, in accordance with the Specifications, samples of each Batch of Product at the Facility at no cost to Omeros until the date that is thirteen (13) months after the expiration date of each such Batch (or for such longer period as may be required by applicable Regulatory Authorities or Applicable Laws). Thereafter, if requested by Omeros, Hospira and Omeros shall negotiate in good faith and enter into a contract for continued storage of such Product samples, at Omeros' reasonable cost and expense; provided, however, that at any time following the initial storage period set forth above, if Hospira decides that it will no longer store such samples or Omeros decides it does not wish to continue to have Hospira store such samples, such Party shall provide no less than sixty (60) days' written notice to the other Party, during which time Omeros will instruct Hospira to either return such samples to Omeros or a third party designated by Omeros, or to destroy such samples. Hospira shall comply with such instructions from Omeros, provided that Omeros shall reimburse Hospira its reasonable out-of-pocket costs incurred in returning or destroying such samples.

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3.7 **Marketed Product Stability Samples.** Hospira shall, in accordance with SOPs, pull stability samples of Product and either (a) retain, store and test such stability samples in accordance with the Specifications, or (b) ship such stability samples to Omeros or a third party designated by Omeros in accordance with the Specifications. Hospira shall provide Omeros at least sixty (60) days advance written notice prior to disposition of any stability samples after specified storage times have elapsed, and Omeros shall provide instructions on disposal, continued storage or shipment of such samples at Omeros' reasonable expense. Upon Omeros' written request, Hospira shall provide stability testing of the Product in accordance with ICH guidance at a total cost of [†] (the "**Stability Lot Price**") put up on stability testing in accordance with a time point matrix to be mutually agreed in writing and, upon such agreement, appended and incorporated into this Agreement as Exhibit C.. The Stability Lot Price shall be invoiced on a pro-rata basis for each stability time point completed. The Stability Lot Price is based on an assumed shelf life of [†], and should the shelf life increase or decrease the Stability Lot Price shall be adjusted proportionately.

3.8 **Price; Adjustments; Payment**

3.8.1 **Initial Product Pricing.** Hospira shall invoice Omeros upon shipment of Product by Hospira, at the Price [†] of Product set forth in Exhibit B of this Agreement.

3.8.2 **Price Adjustments.** [†].

3.8.3 **Payment Terms.** [†]. Omeros shall make payment of any undisputed portion of such invoices within [†] after Omeros' receipt of each such invoice, unless otherwise specifically set forth in this Agreement. If Omeros should default on any undisputed, due and owing payment, interest shall accrue on any undisputed amount that is overdue at the rate of [†] per month or the maximum rate allowed by law, whichever is lower.

3.9 **Product Forecasts.**

3.9.1 **Rolling [†] Estimate.** No later than [†], Omeros shall provide Hospira with a written estimate of Omeros' [†] quantity of commercial Product that represents the Minimum Percentage of Omeros' Product Requirements for the first [†] of the Term, such estimate to be used by Hospira solely for [†] planning purposes. Omeros shall not incur any liabilities if such estimate is not met. If Hospira notifies Omeros (and such notification shall be provided to Omeros in writing) that it will be unable to supply Product in accordance with Omeros' estimate, Omeros shall have the right, in its sole discretion, [†]. Thereafter, by [†] Omeros shall update such rolling [†] estimate ("**Rolling [†] Estimate**") for the period commencing on [†]. Upon receipt of each Rolling [†] Estimate, Hospira shall, within [†] days after such receipt, provide Omeros a written (a) acceptance of such estimate (and in such event, Hospira shall plan to allocate its capacity in a manner consistent with such Rolling [†] Estimate), or (b) rejection of such estimate. In the event Hospira rejects any updated Rolling [†] Estimate, Hospira and Omeros shall meet as soon as possible to discuss in good faith the quantities of Product that Hospira would have capacity to provide to Omeros during [†] covered by the Rolling [†] Estimate, and any amount agreed to shall be memorialized by the Parties in writing in a revised Rolling [†] Estimate. In such event and in Omeros' discretion, Omeros shall have the right to [†].

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3.9.2 **Notification and Rolling Forecast.** Omeros will provide Hospira with written notice when a new drug application (“NDA”) to market Product is submitted to FDA. Hospira and Omeros will cooperate in scheduling and estimating initial commercial Batches of the Product. On or before the first (1st) day of each calendar month, beginning at least [†] prior to the anticipated date of commencement of commercial manufacture (excluding process validation batches), Omeros shall provide to Hospira an [†] rolling forecast of the quantities of Product that Omeros intends to order from Hospira during such period (“**Rolling Forecast**”). The first [†] of such Rolling Forecast shall constitute a binding order of Omeros and a supply commitment of Hospira for the quantities of Product specified therein (“**Firm Commitment**”), and the following [†] of the Rolling Forecast shall be a good faith estimate, the [†] of such [†] period which is binding to the extent set forth in the Supply and Purchase Commitment described in Section 3.10.4 below.

3.10 Purchase Orders; Supply and Purchase Commitment.

3.10.1 **Purchase Orders.** On or before the first (1st) day of each calendar month, Omeros shall submit a purchase order (each a “**Purchase Order**”) to Hospira covering Omeros’ purchases of Product pursuant to the [†] of the Firm Commitment that is effective as of such first day, and shall specify the Delivery dates for the Product included in such Purchase Order. Hospira will use commercially reasonable good faith efforts to accept and meet the Delivery date specified by Omeros in the Purchase Order. Omeros shall not, without the written consent of Hospira, designate a Product Delivery date in a Purchase Order that is earlier than [†]calendar days from the date on which Omeros submits the Purchase Order. For each Purchase Order, Hospira shall provide (a) a confirmation of acceptance of the Purchase Order based on the Product Delivery date specified by Omeros, or (b) a proposed modification of the Purchase Order offering to accept the Purchase Order based on an alternate Product Delivery date. Upon (a) Omeros’ receipt of Hospira’s confirmation of acceptance of the unchanged Purchase Order, or (b) Hospira’s receipt of Omeros’ written confirmation accepting the modified Purchase Order with the alternate Product Delivery date, such Purchase Order shall become a “**Firm Purchase Order**.” If Hospira subsequently finds that it is unable to meet the specified Product Delivery date for a Firm Purchase Order, Hospira shall promptly notify Omeros and provide to Omeros an alternate Product Delivery date (which shall not be more than fifteen (15) calendar days later than the initial Product Delivery date designated in the Firm Purchase Order).

3.10.2 **Purchase Order Changes.** In the event that Omeros requests any change to the Delivery date set forth in a Firm Purchase Order, Hospira shall attempt to accommodate the Delivery date change within reasonable manufacturing capabilities and efficiencies. [†]. Hospira shall also advise Omeros of the reasonable costs associated with making any such Delivery date change (if any), and Omeros shall be deemed to have accepted the obligation to pay Hospira for such associated, reasonable costs if Omeros indicates in writing to Hospira that Hospira should proceed to make the change. Hospira shall charge Omeros the amount agreed upon in writing by Omeros for making any such Delivery date change. If Omeros cancels a Firm Purchase Order, Hospira shall be relieved of its obligation relating to such order, but Omeros will not be relieved of its obligation of payment unless Hospira agrees to such cancellation in writing [†]. Subject to Hospira’s compliance with the terms of Section 2.6.4, if Omeros (a) does not supply sufficient API to Process Product in accordance with a given Firm Purchase Order, or (b) acts in any other

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manner, not including any change requested by Omeros due to changes in regulatory or other Applicable Law or to ensure that the Product meets the Specifications, to directly and effectively interfere with Hospira's ability to perform in accordance with a given Firm Purchase, Omeros shall remain liable for the full amount of the Firm Purchase Order, regardless of whether such Product is Processed by Hospira or whether Omeros takes Delivery of any such Processed Product [†]. Notwithstanding the foregoing, Hospira shall use its commercially reasonable efforts to supply Omeros with quantities of Product which are in excess of the quantities specified in a Firm Purchase Order, subject to Hospira's other supply commitments and manufacturing and equipment capacity.

3.10.3 Agreement Controls. In the event of a conflict between the terms of any Firm Purchase Order and this Agreement, this Agreement shall control.

3.10.4 Supply and Purchase Commitment. Hospira shall supply Omeros with the quantity of Product ordered by Omeros in each Firm Purchase Order, unless the quantity of Product ordered for any calendar quarter exceeds [†] thereafter, in which event Hospira shall use commercially reasonable efforts to supply quantities in excess of these amounts.

3.10.5 Purchase Commitment. Following completion of the first [†] of the Initial Term, Omeros covenants to purchase from Hospira not less than [†] of the Rolling Forecast during the [†] of the Initial Term thereafter (the "**Minimum Purchase Requirement**"). Omeros may shift any portion of its Firm Commitment to the [†] of the Rolling Forecast so long as its Minimum Purchase Requirement is met. In lieu of Omeros taking Delivery of each such [†] Minimum Purchase Requirements of Product, Omeros shall have the option, to be exercised in writing if elected by Omeros, to pay for its Minimum Purchase Requirement at the Price set forth in Exhibit B and waive Hospira's Processing and Delivery obligations for the corresponding amount of Product. In the latter event, Hospira shall invoice Omeros for the amount payable to meet the Minimum Purchase Requirement, and Omeros shall pay Hospira such amount within [†] after receipt of Hospira's invoice.

3.10.6 Failure/Inability to Supply.

(a) **At Least [†].** If Hospira fails to, or is unable to, supply Omeros with at least [†] of the quantity of Product ordered by Omeros pursuant to the greater of (i) all Firm Purchase Orders received during [†], or (ii) Omeros' Firm Commitment for any [†] period, then the Minimum Percentage of Omeros' Product Requirements would, at Omeros' sole discretion, be decreased by [†].

(b) **At Least [†].** If Hospira fails to, or is unable to, supply Omeros with at least [†] of the quantity of Product ordered by Omeros pursuant to the greater of (i) all Firm Purchase Orders received during [†], or (ii) Omeros' Firm Commitment for any [†], then promptly thereafter Hospira's and Omeros' senior executives shall meet to develop a corrective action plan and/or remedy. If such mutually acceptable corrective action plan and/or remedy is not developed and mutually agreed [†] after the first meeting of such executives, then Omeros shall have the right, in its sole discretion, to either [†] (ii) require Hospira to qualify another Hospira site at Hospira's sole cost; or (iii) terminate this Agreement.

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3.11 **Rework.** Hospira will not rework or reprocess Product unless authorized in advance by Omeros in writing and there is a validated process for such rework or reprocessing of Product. Re-inspection does not constitute rework or reprocessing.

3.12 **Product Recalls.** In the event that any Product is recalled due to (a) the request, directive or order of any Regulatory Authority or other national government authority, (b) the order of a court of competent jurisdiction, or (c) a voluntary recall instituted by Omeros, Omeros shall coordinate such recall, and the Parties shall take all appropriate actions to carry out such recall and shall cooperate with any governmental investigations surrounding such recall. The cost of any such recall shall be borne by Hospira if the recall results from the failure of the Product to meet Specifications or Hospira's breach of this Agreement, including, without limitation, breach of Hospira's warranties under Section 4.1 of this Agreement [†]. Further, Hospira shall at Hospira's expense, replace any recalled Batches and shall purchase replacement APIs or other Materials from Omeros for such replacement Product at Omeros purchase cost/kg as set forth in Section 2.6.3; [†]. The cost of any other recall shall be borne exclusively by Omeros. For purposes of this Agreement, recall expenses shall include, without limitation, the expenses of notification and destruction or return of the recalled Product, cost of the recalled Product, and any costs associated with the APIs and other Materials for and Processing and distribution of replacement Product, but shall not include lost profits of either Party.

3.13 **Hazardous Waste.** Hospira shall be responsible for destruction of any and all hazardous waste, including, without limitation, rejected or recalled Product, rejected, excess or unsuitable APIs or other Materials, remainder, residue and refuse, subject first to completion of any retention periods and activities specified in this Agreement, in accordance with the Applicable Laws. Omeros shall bear the expense of destruction of hazardous waste, except for any hazardous waste resulting from Hospira's breach of this Agreement, including, without limitation, breach of any warranty under Section 4.1 herein, for which hazardous waste Hospira shall bear the expense.

3.14 **Cold Storage Fee.** A cold storage fee shall be due and payable to Hospira if Omeros stores Product at Hospira's plant for longer than thirty (30) days after Product's final release. The fee shall be [†] or any part thereof.

3.15 **Shipments per Batch.** Hospira shall make [†] shipments to Omeros of Product per Batch at no charge to Omeros. Any additional shipments of Product per Batch requested shall be at a fee of [†] per shipment plus shipping costs.

4. REPRESENTATIONS AND WARRANTIES

4.1 **Hospira Representations and Warranties.** Hospira represents and warrants that: (a) it has the full power, right and authority to execute and deliver this Agreement; (b) it shall use commercially reasonable best efforts to perform its obligations hereunder; (c) it will assign professional personnel, qualified to perform the Services in a manner consistent with the technical requirements of the Processing of Product; (d) none of its officers, directors, employees, Affiliates, contractors or agents has been debarred or, to Hospira's knowledge, threatened with debarment under the Generic Drug Enforcement Act or convicted of a crime which could lead to debarment, and it has not utilized, and will not utilize, the services of any

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individual or entity in the performance of any Services that has been debarred or threatened with debarment under the Generic Drug Enforcement Act, convicted of a crime that could lead to debarment or subject to any other penalty or sanction by the FDA; (e) it will conduct the Services in conformity with Applicable Laws including applicable cGMP, the procedures and parameters set forth in the Specifications, and generally accepted professional standards, and the event of any conflicts between the foregoing requirements, the most stringent requirement shall be met so long as consistent with all Applicable Laws; (f) each Certificate of Analysis will reflect the results of the tests conducted on the Batch of Product to which it relates, each Certificate of Compliance will be accurate and true, and the Batch Records delivered to Omeros will accurately reflect in all material respects the processes and procedures followed by Hospira in Processing Product as set forth in the Specifications; (g) the Product shall not have been and shall not be adulterated, misbranded, misused, contaminated, tampered with or otherwise altered, mishandled while in the custody and control of Hospira; and (h) it will not transfer to any third party any Product, other than (i) for the purpose of tests at any outside testing laboratory or consultant, as provided under Subsection 3.3.4, (ii) to Omeros' designee or (iii) to any subcontractor approved in accordance with Subsection 6.1. In the event that Hospira receives notice of the debarment or threatened debarment of any individual or entity utilized by Hospira in connection with the Product, Hospira shall notify Omeros in writing immediately, and Omeros shall have the right to terminate this Agreement upon written notice without further cost or liability, except for payments of accrued and unpaid obligations to the date of termination. Hospira further represents and warrants that it has obtained (or will obtain prior to Processing Product or performance of other Services), and will remain in compliance with during the term of this Agreement, all permits, licenses and other authorizations which are required under Applicable Laws for the Processing of Product or performance of other Services hereunder.

4.2 Mutual Representations and Warranties. Each Party hereby represents and warrants to the other Party that: (a) the person executing this Agreement is authorized to execute this Agreement; (b) this Agreement is legal and valid and the obligations binding upon such Party are enforceable by their terms; and (c) the execution, delivery and performance of this Agreement does not conflict with any agreement, instrument or understanding, oral or written, to which such Party may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

4.3 Omeros Representations and Warranties. Omeros represents and warrants: (a) if Omeros supplies APIs to Hospira for use in Processing the Product, then all such Omeros' supplied API at the time of delivery to Hospira shall be in conformity with the applicable Specifications and shall not be adulterated or misbranded within the meaning of the Act; (b) Hospira's Processing of Product and performance of the Services pursuant to the Specifications will not, to Omeros' knowledge, violate any third party proprietary right; and (c) Omeros will not sell Product into any jurisdiction unless and until Omeros receives any necessary Regulatory Authority approvals.

5. RECORDS; REGULATORY MATTERS

5.1 Technical Records. Hospira shall maintain complete, true and accurate Technical Records in accordance with Applicable Laws and as is reasonably necessary to

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support Omeros' regulatory filings with respect to Product. Hospira shall store all Technical Records for the longer of a period of at least [†] from the relevant Product manufacturing date or the period required under Applicable Laws, after which Hospira may dispose of the Technical Records or return the Technical Records (excluding General SOPs and any Confidential Information of Hospira) to Omeros in accordance with Omeros' express written instructions therefore. In the absence of such instructions, Hospira shall notify Omeros in writing of its intent to dispose of the Technical Records and request Omeros' instructions as to their disposal. If Omeros does not respond to such notice within sixty (60) days after receipt thereof, or in any event prior to the later destruction of such records, Hospira may destroy such records at its discretion and expense. Hospira shall, at any time upon Omeros' written request and at Omeros' reasonable expense, return the Technical Records to Omeros or transfer the Technical Records to any third party designated by Omeros.

5.2 Drug Master File; Regulatory Filings. Hospira shall file and maintain the appropriate drug master file ("DMF") and related reference applications (e.g., site master file) in accordance with the Applicable Laws in the Territory for its Processing of each Product under this Agreement, at Hospira's sole expense. Upon request by Omeros, Hospira shall make selected portions (including all portions relevant to the Processing of the Product) of its DMF and related reference applications, and all Technical Records available for inspection by authorized representatives of the FDA and other Regulatory Authorities. At Omeros' request and as agreed upon by Hospira, Hospira shall prepare some or all sections of Omeros' regulatory filings (including without limitation chemistry, manufacturing and control sections) for a Product that pertain to Hospira's Processing activities hereunder, or at Omeros' request shall assist Omeros in preparing such sections; provided that Omeros shall compensate Hospira for its reasonable out-of-pocket costs and expenses associated with such preparation activities. Hospira shall provide any additional information, and otherwise cooperate as reasonably requested by Omeros, at Omeros' reasonable cost and expense, in support of any regulatory filings related to Product, including in the preparation and maintenance of such regulatory filings, which regulatory filings shall be filed by Omeros at its sole cost and expense in its sole discretion and shall be the sole and exclusive property of Omeros.

5.3 Communications with Regulatory Authorities. Omeros shall be solely responsible for all contacts and communications with any Regulatory Authority with respect to all matters relating to Product. At Omeros' request and expense, Hospira shall make appropriate personnel reasonably available for meetings with Regulatory Authorities related to Hospira's Processing of Product or other Services. Other than during an audit or inspection by any Regulatory Authority, Hospira shall have no contact or communication with any Regulatory Authority regarding a Product or regarding Hospira's Processing activities or other Services related to Product without the prior written consent of Omeros, which consent may be granted or withheld in Omeros' sole discretion, except as provided in Subsection 5.6 or as required by Applicable Law or a Regulatory Authority. Hospira shall notify Omeros immediately, and in no event later than two (2) business days, after receiving any contact or communication from any Regulatory Authority that in any way directly relates to Product or Hospira's Processing activities or other Services.

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5.4 **Compliance.** Hospira shall comply in all material respects with all regulatory requirements with respect to Product that are imposed upon Hospira (as the provider of Services hereunder) by Applicable Law from time to time, including, but not limited to, those relating to environmental, health, and safety matters. Omeros shall comply in all material respects with all regulatory requirements with respect to Product that are imposed upon Omeros (as the holder of any Investigational New Drug application or New Drug Application and any similar global applications with respect to Product) by Applicable Law from time to time.

5.5 **Audits; Right of Access.** Hospira shall permit Omeros personnel and authorized representative(s), or shall ensure that Omeros personnel and authorized representative(s) shall be entitled (a) to inspect, observe and audit the Processing of Product and other Services, the Facility and any other locations at which Product may be Processed with Omeros' consent, (b) to examine the condition of the Materials, Omeros Property, and Product stored at the Facility, and (c) to examine all Product Data, Technical Records and all other documentation related to this Agreement, including, without limitation, maintenance logs for the purposes of ensuring compliance with cGMP and Hospira's trade secrets and other Confidential Information related to its manufacturing processes to the extent relevant to the Processing of Product and/or other Services performed by Hospira hereunder, not to exceed [†] (except "for cause" audits as set forth below in this Subsection) during the term of this Agreement, subject to reasonable notice and prior approval by Hospira, such approval not to be unreasonably withheld, during regular business hours, and for a period not to exceed [†]; provided that such Omeros personnel and/or authorized representative(s) shall be bound to obligations of confidentiality pursuant to this Agreement or pursuant to a separate, executed confidentiality agreement that imposes an obligation of confidentiality no less onerous than the obligation imposed pursuant to Section 8 of this Agreement. Notwithstanding these limitations, Omeros personnel and/or representatives shall be entitled to observe the Processing of Product and other Services at any time upon reasonable notice and for a reasonable duration during regular business hours (including during any shift that is engaged in Processing of Product or performance of other Services). Omeros shall be entitled to conduct "for cause" audits following issuance of Form 483s or similar reports delivered by Regulatory Authorities to Hospira pertaining to the Processing of Product, performance of other Services, or the occurrence of other events which are likely to adversely affect the Processing of Product or other Services as frequently as requested by Omeros at reasonable times and for reasonable duration (which may exceed [†] days) until Hospira has corrected such deficiencies, subject to Hospira approval, such approval not to be unreasonably withheld. Hospira shall audit its permitted subcontractors and suppliers for compliance with the Specifications and Applicable Laws, including cGMP according to Hospira's standard subcontractor audit procedures, if the subcontractors are chosen by Hospira. Omeros shall be responsible for audit of all subcontractors and suppliers that have been selected by Omeros in lieu of subcontractors and suppliers recommended or routinely used by Hospira. During Omeros' audits of the Facility, Omeros shall have the right to confirm Hospira's compliance with Hospira's standard operating procedures for auditing subcontractors and suppliers for any Products Processed or other Services performed under this Agreement.

5.6 **Regulatory Inspections.** Hospira shall advise Omeros no later than the next day that is not a Saturday, Sunday or federal or state holiday if an authorized agent of any Regulatory Authority or any other regulatory body plans to visit the Facility, and makes an inquiry regarding

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Hospira's Processing of Product or performance of other Services regarding any part of the Facility that is used in Processing of Product or performance of other Services. Omeros shall have the right to be present at any visit directly relating to the Product or otherwise with Hospira's approval, which approval shall not be unreasonably withheld, and to review in advance and comment on any response to the communication or investigation submitted by Hospira (but no more than [†] Omeros personnel shall be present during any such visit). Hospira shall cooperate fully with Omeros in providing the information needed for any such communication. Hospira shall provide to Omeros copies of any Form 483s or equivalent documents delivered by such Regulatory Authority or regulatory body as a result of such visit, to the extent that the 483 or other document specifically mentions Product. Portions of the 483 or other document not relating to Product will be redacted.

5.7 **Product Complaints.** Omeros shall maintain customer complaint and adverse event files in accordance with Applicable Laws. Any such complaints received by Hospira shall be forwarded to Omeros. Omeros shall be responsible for the review of the complaint or adverse event to determine the need for an investigation or the need to report to the FDA, as required by Applicable Laws. Omeros shall provide Hospira copies of all Product performance or manufacturing-related complaints that relate directly to Processing of Product by Hospira and require investigation, as well as copies of the results of such investigation. Hospira shall cooperate and assist Omeros in any such investigations and shall fully report findings of any investigation it conducts to Omeros. Omeros shall make specific complaint and adverse event files available for inspection, to the extent required by any Regulatory Authority, during inspection of Hospira's facilities.

5.8 **Hospira Right to Review.** Hospira shall have the right to review and consult on those portions of Omeros' proposed regulatory submissions relating to Hospira's Processing procedures before any submissions are filed with appropriate Regulatory Authorities. Omeros shall use commercially reasonable efforts to provide Hospira with no less than fifteen (15) business days to review any such proposed regulatory submissions and Hospira will use commercially reasonable efforts to expedite any review. Omeros shall provide copies and consult with Hospira and Hospira may advise Omeros in responding to questions from the Regulatory Authorities regarding Omeros' submission(s) for Product. Omeros shall provide to Hospira for its files a final copy of the Chemistry, Manufacturing and Controls section of any such regulatory submission(s) related to Hospira's Processing.

6. SUBCONTRACTORS

6.1 **Conditions.** [†] Hospira shall be responsible, and shall remain liable, for the performance of all of its obligations under this Agreement and for any breach by any subcontractor. Omeros shall have the right to audit and inspect all subcontractors (including, without limitation, all vendors and testing contractors) with whom Hospira may enter into agreements in the performance of Services. Such audit and inspection rights shall be substantially similar to the rights of Omeros to audit and inspect Hospira under this Agreement. Hospira shall ensure that all agreements with such subcontractors include provisions to maintain the confidentiality of Omeros' Confidential Information, and shall provide Omeros rights with

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respect to such subcontractors that are substantially similar to the access rights granted to Omeros under Subsection 5.5 above.

7. INTELLECTUAL PROPERTY

7.1 Ownership of Intellectual Property. Except as expressly set forth in this Agreement or as the Parties may otherwise agree in writing, each Party owns, and shall continue to own, its existing Intellectual Property as of the Effective Date of this Agreement, and its Intellectual Property developed, acquired or obtained by such Party after the Effective Date of this Agreement independently of the other Party and the Services, without conferring any interest therein on the other Party. All Joint New IP shall be jointly owned by Hospira and Omeros. All Hospira New IP shall be owned solely by Hospira. Hospira shall grant to Omeros, and does hereby grant to Omeros, a fully paid-up, royalty-free, worldwide, perpetual, exclusive license, including the right to grant sublicenses, under all Hospira New IP and Hospira's joint ownership interest in Joint New IP that is necessary or beneficial for Omeros' [†]. Hospira shall grant to Omeros, and does hereby grant to Omeros, a fully paid-up, royalty-free, worldwide, perpetual, non-exclusive license, including the right to grant sublicenses, under all Hospira New IP solely to the extent necessary or beneficial for the purposes of making, having made, using, importing, offering for sale, and/or selling Omeros' pharmaceutical products other than Product and Equivalents. [†]. All Omeros New IP shall be owned solely by Omeros. Hospira agrees to execute any assignment to confirm title to any Intellectual Property in Omeros' name consistent with the ownership of such Intellectual Property as set forth in this Subsection, and to execute any other documents, including, without limitation, any and all patent applications or other instruments and render such other assistance to Omeros to apply for and prosecute patent or other proprietary protection in the United States or any other country with respect to Omeros New IP, provided Omeros shall compensate Hospira for its reasonable out of pocket costs and expenses and, for assistance other than executing documents, Hospira's standard hourly fees for such assistance. Hospira shall promptly notify Omeros in writing of any and all Omeros New IP promptly after conception or reduction to practice thereof by Hospira. The parties recognize that Hospira is in the business of developing, manufacturing, and selling generic pharmaceutical products. Nothing in this provision is intended to prohibit Hospira from independently developing, manufacturing, and/or selling any pharmaceutical product provided that Hospira does not utilize, refer to, and/or rely upon any [†] in the development, manufacturing, and/or sale of such product in contravention of the exclusive license granted to Omeros herein. The preceding sentence does not in any way convey to Hospira any right or license to Omeros' Intellectual Property, including without limitation the New Omeros IP, or to Omeros' Confidential Information, or limit Hospira's obligations with respect to the same as provided in this Agreement.

7.2 License to Hospira. During the Term, Omeros hereby grants to Hospira a royalty-free, non-exclusive license, without a right to sublicense, to use and exploit Intellectual Property owned by or licensed to Omeros and used in connection with the Processing of Product, solely to the extent necessary to Process Product for Omeros under the terms and conditions of this Agreement.

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7.3 **Product Data.** All Product Data, including, without limitation, all Batch Records and other Product-specific Technical Records generated or obtained by Hospira in connection with this Agreement, and all Specifications, including, without limitation, Master Batch Records generated or obtained by Hospira in connection with this Agreement, but excluding General SOPs, shall be the sole and exclusive property of Omeros and shall be deemed to be Omeros' Confidential Information. Upon expiration or termination of this Agreement or the earlier request of Omeros, Hospira shall send to Omeros at Omeros' sole and reasonable expense, complete copies of all Product Data and Specifications in written and (where available) editable electronic form. The Product Data shall be prepared, documented and communicated by Hospira in a manner consistent with the Specifications or as otherwise instructed by Omeros.

7.4 **No Implied Right or License.** Nothing contained in this Agreement shall be implied to grant to either Party any right or license with respect to the other Party's Intellectual Property or Confidential Information of the other Party, except as specifically provided in this Agreement.

8. CONFIDENTIALITY

8.1 **Confidential Information.** Each Party agrees that the disclosing Party has and shall retain sole and exclusive rights of ownership in all Confidential Information disclosed or owned by such Party. Each Recipient agrees that during the term of this Agreement and for five (5) years thereafter it will not use any Confidential Information of the disclosing Party except for the purposes of performing under this Agreement, unless otherwise agreed by the Parties in writing. Each Recipient agrees not to disclose any Confidential Information of the disclosing Party to others (except to Recipient's employees, consultants, professional advisors, agents and Affiliates who reasonably require disclosure of such Confidential Information to achieve the purposes of this Agreement and who are bound to the Recipient by like obligations as to confidentiality no less stringent than those set forth herein) during the term of this Agreement and for five (5) years thereafter without the prior written consent of the disclosing Party. Hospira agrees that with respect to the Product Data, the Specifications and the Omeros New IP, which are included in Omeros' Confidential Information, these obligations of non-use and confidentiality shall subsist beyond five years after the termination of this Agreement. Each Party agrees to maintain and follow reasonable procedures to prevent unauthorized disclosure or use of the other Party's Confidential Information and to prevent it from becoming disclosed or being accessed by unauthorized persons. Each Party agrees that it may disclose to authorized persons only such Confidential Information of the disclosing Party as is necessary for each such authorized person to perform its responsibilities under this Agreement. Recipient shall advise the disclosing Party of any disclosure, loss, or use of Confidential Information of the disclosing Party in violation of this Agreement as soon as practicable. Each Party agrees to return or destroy the Confidential Information of the other Party, whether in written, graphic, electronic or other tangible form, upon written request, provided, however, that legal counsel for each Party may retain an archival copy of Confidential Information solely for purposes of ensuring compliance with this Agreement.

8.2 **Disclosure of this Agreement.** The terms of this Agreement shall be considered each Party's Confidential Information, and accordingly except for disclosures expressly

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permitted under this Agreement, neither Party may release any information to any third party regarding the terms of this Agreement without the prior written consent of the other Party except as required by law or regulation. Notwithstanding the foregoing, the terms of this Agreement may be disclosed by Omeros to its existing or potential investors, acquirers, merger partners, commercial partners, shareholders, directors and professional advisors as long as such parties are subject to similar conditions of confidentiality.

8.3 Permitted Disclosures. Notwithstanding anything to the contrary, a Party may disclose the Confidential Information of the other Party only to the extent such disclosure is reasonably necessary : (a) to secure patent protection for an Intellectual Property developed pursuant to this Agreement consistent with the ownership set forth in Subsection 7.1; or (b) to comply with Applicable Law, requirements of any Regulatory Authority or other regulatory or governmental agency, including without limitation the FDA, the Securities and Exchange Commission, the Federal Trade Commission and/or the Department of Justice, or judicial order from a court of competent jurisdiction; or (c) in order to conduct pre-clinical or clinical trials or seek regulatory approval to market Product. Prior to making any such permitted disclosures, however, the disclosing Party shall give reasonable advance notice to other Party with as much detail as possible in relation to the disclosure. Each Party agrees that it shall cooperate fully and in a timely manner with the other Party with respect to all such permitted disclosures, including determining what information should be released and requests for confidential treatment of Confidential Information of either Party included in any such disclosure; provided that in no event shall a Party be required to delay any filing or release unreasonably hereunder.

8.4 Remedies. Because of the unique nature of the Confidential Information, each Recipient acknowledges and agrees that the disclosing Party may suffer irreparable injury if the Recipient fails to comply with the obligations set forth in this Section 8, and that monetary damages may be inadequate to compensate the disclosing Party for such breach. Accordingly, each Recipient agrees that the disclosing Party will, in addition to any other remedies available to it at law, in equity or otherwise, without the requirement to post a bond, be entitled to seek injunctive relief and/or specific performance to enforce the terms, or prevent or remedy the violation, of this Section 8. This provision shall not constitute a waiver by either Party of any rights to damages or other remedies which it may have pursuant to this Agreement or otherwise.

9. NO WARRANTY; LIMITATION OF LIABILITY; INDEMNIFICATION; INSURANCE

9.1 No Warranty; Limitation of Liability. EXCEPT AS EXPRESSLY SET FORTH HEREIN, EACH PARTY DISCLAIMS ALL CONDITIONS, REPRESENTATIONS AND WARRANTIES, WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OTHER THAN THAT THE PRODUCT MEETS THE SPECIFICATIONS, OR ANY WARRANTY OF NON-INFRINGEMENT OF THIRD PARTY RIGHTS. UNDER NO CIRCUMSTANCES SHALL EITHER PARTY, ANY OF ITS AFFILIATES OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, AGENTS, LICENSORS OR PARTNERS BE LIABLE FOR ANY SPECIAL, INDIRECT, INCIDENTAL, EXEMPLARY,

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CONSEQUENTIAL OR PUNITIVE DAMAGES OR LIABILITIES (INCLUDING, WITHOUT LIMITATION, SUCH DAMAGES OR LIABILITIES FOR LOSS OF PROFITS, BUSINESS, USE OR OTHER ECONOMIC ADVANTAGE) ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT (INCLUDING PERFORMANCE OR FAILURE TO PERFORM HEREUNDER), EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY THEREOF, AND REGARDLESS OF THE LEGAL OR EQUITABLE THEORY (CONTRACT, TORT, OR OTHERWISE).

9.2 **Omeros' Indemnification.** Omeros shall indemnify, defend and hold harmless Hospira and its officers, employees and agents (collectively, the "**Hospira Indemnitees**") from and against any and all liabilities, obligations, penalties, claims, judgments, demands, suits, costs and expenses (including, without limitation, reasonable attorneys' fees) (any of the foregoing, "**Damages**") arising out of or occurring as a result of a claim or demand made by an unaffiliated third party against a Hospira Indemnitee for property damage or personal injury (including, without limitation, death), in connection with: (a) Omeros' storage, promotion, labeling, marketing, distribution, use or sale of Product; (b) Omeros' negligence, wrongful act or willful misconduct; (c) any breach by Omeros of its obligations, representations, warranties or covenants under this Agreement; (d) the lack of safety or efficacy of the APIs or Product; or (e) any violation of any patent or proprietary right of any third party relating to the APIs, Specifications or Product other than Hospira's General SOPs or other Hospira developed Development or Processing procedures used in the Processing of Product pursuant to this Agreement, except to the extent that any such Damages are caused by (i) any failure of the Product to meet the Specifications or any Latent Defect in the Product caused by a Hospira Indemnitee, (ii) the gross negligence or willful misconduct of a Hospira Indemnitee, (iii) by the breach by a Hospira Indemnitee of its obligations, representations, warranties or covenants under this Agreement, including, without limitation, failure to comply with the Specifications or any Applicable Laws, (iv) by the violation of any patent or proprietary Intellectual Property right of any third party that was known to Hospira and was not known to Omeros at the time of such violation, (v) the purchase, transportation, storage, use, handling or disposal of any hazardous substances in connection with performance of the Services by a Hospira Indemnitee, or (vi) any claim that the Processing or performance of Services by a Hospira Indemnitee pursuant to Hospira's General SOPs or other Hospira developed Development or Processing procedures violates a proprietary Intellectual Property right of any third party (except to the extent that such claim results from the Specifications or other instructions or directions from Omeros).

9.3 **Hospira's Indemnification.** Hospira shall indemnify, defend and hold harmless Omeros and its officers, employees, and agents (collectively, the "**Omeros Indemnitees**"), from and against any and all Damages arising out of or occurring as a result of a claim or demand made by an unaffiliated third party against an Omeros Indemnitee for property damage or personal injury (including, without limitation, death) in connection with: (a) Hospira's negligence or willful misconduct; (b) any failure of the Product to meet the Specifications, any Latent Defect in the Product caused by Hospira; (c) any breach by Hospira of its obligations, representations, warranties or covenants under this Agreement, including, without limitation, Hospira's failure to comply with the Specifications or any breach by Hospira of the Applicable Laws; (d) Hospira's purchase, transportation, storage, use, handling or disposal of any hazardous

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substances in connection with performance of the Services; or (e) any claim that the Processing or performance of Services by Hospira pursuant to Hospira's General SOPs or other Hospira developed Development or Processing procedures violates a proprietary Intellectual Property right of any third party (except to the extent that such claim results from the Specifications or other instructions or directions from Omeros), except to the extent that any such Damages are caused by: (i) the gross negligence or willful misconduct of an Omeros Indemnitee, or (ii) by the breach by an Omeros Indemnitee of its obligations, representations, warranties or covenants under this Agreement.

9.4 **Procedure.** In the event that any third party claim, action or suit is instituted against a Party (the "**Indemnified Party**") or its employees, officers or agents in respect of which indemnity may be sought pursuant to this Section 9, the Indemnified Party will promptly notify the other Party (the "**Indemnifying Party**") in writing (provided that the failure to give such notice promptly will not prejudice the rights of an Indemnified Party, except to the extent that the failure to give such prompt notice materially adversely affects the ability of the Indemnifying Party to defend the claim, action or suit). Promptly after the Indemnified Party gives such written notice, the Indemnifying Party and the Indemnified Party shall meet to discuss how to respond to such claim, action or suit. The Indemnifying Party shall control the defense of such claim, action or suit. The Indemnified Party shall cooperate with the Indemnifying Party in the defense of such claim, action or suit, at the expense of the Indemnifying Party. In any such proceeding, the Indemnified Party shall also have the right to retain its own counsel at its own expense. The Indemnifying Party shall not be liable for Damages with respect to a claim, action or suit settled or compromised by the Indemnified Party without the Indemnifying Party's prior written consent. No offer of settlement, settlement or compromise by the Indemnifying Party shall be binding on an Indemnified Party without the Indemnified Party's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), unless such settlement fully releases the Indemnified Party without any liability, loss, cost or obligation to such Indemnified Party, provided, however, that the Indemnifying Party shall have no authority to take any action as part of any such defense or settlement that invalidates or otherwise compromises or renders unenforceable the Indemnified Party's Intellectual Property without the Indemnified Party's express prior written consent.

9.5 **Insurance.** Each Party will procure and maintain, at its own expense, for the duration of the Agreement, and for [†] thereafter if written on a claims made or occurrence reported form, the types of insurance specified below with carriers rated A- VII or better with A. M. Best or like rating agencies:

(a) Workers' Compensation accordance with applicable statutory requirements and each party shall provide a waiver of subrogation in favor of the other party;

(b) Employer's Liability with a limit of liability in an amount of not less than [†]; and

(c) Commercial General Liability including premises operations, products & completed operations, blanket contractual liability, personal injury and advertising injury including fire legal liability for bodily injury and property damage in an amount not less than [†] per occurrence and [†] in the aggregate;

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Each Party shall include the other party and their subsidiaries, affiliates, directors, officers, employees and agents as additional insured's with respect to Commercial General Liability and Excess Liability but only as their interest may appear by written contract. Each Party shall make available to the other Party, at such other Party's request, evidence of its maintenance of insurance in satisfaction of its obligations under this Subsection 9.5. In the case of cancellation, non-renewal or material change in said coverage, Each Party shall promptly provide to the other Party with a new certificate of insurance evidencing that the coverage meets the requirements in this Subsection 9.5. Each Party agrees that its insurance shall act as primary and noncontributory from any other valid and collectible insurance maintained by the other Party. Each party may, at its option, satisfy, in whole or in part, its obligation under this Subsection 9.5 through its self- insurance program, subject to the other party's review and approval of the sufficiency of such program.

10. TERM; TERMINATION

10.1 **Term.** This Agreement shall be effective as of the Effective Date, and shall continue for five (5) years after the date of the first commercial sale of Product (the "**Initial Term**"), unless earlier terminated in accordance with this Agreement. This Agreement shall automatically renew for up to two (2) additional twelve (12) month periods, commencing at the expiration of the Initial Term and any extensions thereof, unless either Omeros or Hospira should terminate the Agreement by giving the other Party written notice of intent to terminate at least twenty-four (24) months prior to the expiration of the Initial Term or any extension thereof. The Initial Term as it may be extended shall be referred to herein as the "**Term**."

10.2 **Termination for Cause.** Either Party shall have the right to terminate this Agreement (a) for an uncured material breach by the other Party; or (b) for bankruptcy or insolvency of the other Party, as further specified herein below in this Subsection 10.2. In the event that a Party materially breaches this Agreement, the other Party shall deliver written notice to the breaching Party describing such breach in detail, which notice shall include a statement of the non-breaching Party's intent to terminate this Agreement unless such breach is remedied. If the breaching Party does not cure such breach within sixty (60) days following receipt of such written notice from the non-breaching Party, the non-breaching Party may terminate this Agreement by sending a written notice of termination to the breaching Party. In the event that a Party goes into liquidation, or seeks the benefit of any bankruptcy or insolvency act, or a receiver or trustee is appointed for its property or estate, or it makes an assignment for the benefit of creditors, whether any of the aforesaid events be the outcome of the voluntary act of such Party or otherwise, and such procedures are not terminated within ninety (90) days, the other Party may terminate this Agreement by sending a written notice of termination to such Party.

10.3 **Termination by Omeros.** Omeros shall have the right to terminate this Agreement at any time, without penalty:

10.3.1 *for all countries, if, prior to Launch of the Product in any country in the Territory,* (a) Hospira and/or the Product fails to meet any performance requirement, standard or Specification or an inability or failure of the Product to be Processed to meet the Specifications during Hospira's development work regarding the Product, as set forth in the Development

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Agreement; (b) technical feasibility with respect to the Product is not demonstrated; (c) clinical efficacy and/or safety with respect to a Product is not demonstrated; and/or (d) a primary endpoint in a clinical study of the Product is not met; and/or.

10.3.2 *on a country by country basis within the Territory, if, at any time before or after Launch of the Product in such country(ies) in the Territory:* (a) applicable regulatory requirements in one or more countries in the Territory have a material adverse impact on Omeros' ability to obtain regulatory approval for Product in such country(ies); and/or (b) Omeros receives a materially adverse decision or determination by a Regulatory Authority in such country(ies) in the Territory regarding the Product; and/or.

10.3.3 *for all countries, if, after Launch of the Product in any country in the Territory:* (a) pursuant to Section 3.10.6, Hospira fails to supply at least [†] of the then-current Minimum Percentage for any [†].

Except as specified above, termination of this Agreement as to any country in the Territory shall not automatically terminate this Agreement for any remaining countries in the Territory.

10.4 [†]

10.5 **Termination by Mutual Consent.** The Parties may terminate this Agreement at any time by mutual written consent.

10.6 **Effects of Termination.**

10.6.1 **Return of Omeros Property and Product.** Upon expiration or earlier termination of this Agreement for any reason, Hospira shall return to Omeros all Omeros Property and Product (other than samples retained under Subsection 3.6) within thirty (30) days after the date of such expiration or termination.

10.6.2 [†]

10.6.3 **Inventory.** Upon termination pursuant to this Section 10, and except in instances of breach by Hospira including without limitation failure of Product to meet Specifications, Omeros shall purchase all inventory on hand and, if applicable, work in progress and reimburse Hospira for Hospira's cost of all supplies purchased and on hand or on order, if such supplies were ordered by Hospira based on firm purchase orders or Omeros' estimates of its requirements of Product, and such supplies cannot be reasonably used by Hospira for other purposes. Hospira shall invoice Company for all amounts due hereunder.

11. **FORCE MAJEURE**

11.1 **Excuse from Performance.** Either Party shall be excused from performing its respective obligations under this Agreement if its performance is delayed or prevented by any event beyond such Party's reasonable control, including, but not limited to, acts of God, fire, explosion, weather, disease, war, insurrection, civil strife, riots, government action, earthquake,

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terrorism, or power failure; provided that such performance shall be excused only to the extent of and during such disability and the affected Party shall use commercially reasonable efforts to resume performance as soon as reasonably practicable. Any time specified for completion of performance during or subsequent to the occurrence of any or all such events shall be automatically extended for a commercially reasonable period of time to enable the affected Party to recover from such disability. Hospira shall immediately notify Omeros if, by reason of any of the events referred to herein, Hospira is unable to meet any such time for performance. Capacity constraints due to the volume of business at Hospira shall not be deemed a force majeure event. If Hospira experiences a force majeure event that interferes with Processing of Product at Hospira's Facility, Hospira shall, at Omeros' discretion and request, cooperate in good faith with Omeros in expeditiously transferring Processing to another of Hospira's facilities, if available. The Parties shall mutually discuss and implement in good faith an agreed-upon action plan for such transfer. The Parties understand and agree that Omeros has chosen the excipient and primary container packaging component suppliers listed in the Specifications and Hospira has agreed to such suppliers. In the event that Hospira has reasonably objected in writing to the use of such suppliers based on demonstrable quality or reliability concerns, and Omeros has unreasonably refused alternate suppliers proposed by Hospira for reasons other than demonstrable quality or reliability concerns, then under such circumstances, Hospira shall not have any liability to Omeros, nor shall Hospira be deemed to be in breach of this Agreement, if Hospira is unable to supply Product to Omeros due to a failure of such suppliers to provide such excipients and/or primary container packaging components to Hospira.

12. MISCELLANEOUS

12.1 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to conflicts of laws or rules thereof.

12.2 **Dispute Resolution.** In the event of a dispute arising from the performance of this Agreement, each Party agrees to notify the other Party of the specific complaints or points of disagreement, and to use its good faith efforts to resolve any such disputes without legal action. Except for a dispute arising under Subsection 3.3 (which shall be resolved in accordance with Subsection 3.3.4), in the event such good faith efforts fail, such dispute shall be first referred to authorized executives of each Party (collectively, "**Executives**") for resolution, upon one Party providing the other Party with written notice that such dispute exists and has not been resolved. The Executives shall attempt to resolve such dispute through good faith discussions prior to instituting any civil action to resolve such dispute.

12.3 **Independent Contractors.** For purposes of this Agreement, Hospira shall be deemed to be an independent contractor and not an agent or employee of Omeros or a joint venturer with Omeros, and nothing in this Agreement shall be construed to create any other relationship between Hospira and Omeros. Neither Party shall have any right, power, or authority to assume, create, or incur any expense, liability or obligation, expressed or implied, on behalf of the other Party. Hospira shall be solely responsible for withholding and payment of all appropriate state and federal taxes, including social security payments, with respect to all of its employees.

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12.4 **Importer of Record.** In the event any APIs or other Materials supplied by Omeros are imported into the United States for delivery to Hospira, Omeros shall be the importer of record of such APIs or other Materials, unless otherwise agreed with Hospira.

12.5 **Severability/Enforceability.** If any provision(s) of this Agreement shall be held invalid, illegal, or unenforceable by a court of competent jurisdiction, this Agreement shall continue in full force and effect without said provision(s), consistent with the intent of the Parties at the time of its execution. If deletion of such provision materially alters the basis of this Agreement, then the Parties shall negotiate a good faith alternative.

12.6 **Modification/Waiver.** This Agreement may not be altered, amended, or modified (nor shall any obligation or breach be deemed waived) in any way, unless such alteration, amendment or modification is in writing and signed by the Parties (or unless such waiver is in writing and signed by the waiving Party). The failure of a Party to enforce any provision(s) of this Agreement shall not be construed to be a waiver of the right of such Party to thereafter enforce that provision or any other provision or right.

12.7 **Notices.** All notices and demands required or permitted to be given or made pursuant to this Agreement shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (receipt verified), mailed by registered or certified mail (return receipt requested), postage prepaid, or sent by express courier service, properly addressed to the address of the Party to be notified as shown below:

If to Hospira:

Hospira Worldwide Inc.
D-988, Building H1
275 North Field Drive
Lake Forest, Illinois 60045
Attention: VP & GM, One2One Global Contract Manufacturing Services
Facsimile: 224-212-3210

With a copy to:

Hospira, Inc.
Building H1, Dept NLEG
275 North Field Drive
Lake Forest, Illinois 60045
Attention: General Counsel
Facsimile: 224-212-2088

If to Omeros:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, Washington 98101
Attention: Chief Executive Officer

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With a copy to: Vice President, Patent & General Counsel
Facsimile: 206-264-7856

or to such other address as to which either Party may notify the other. Any notice sent by facsimile transmission shall be followed within twenty-four (24) hours by a signed notice sent by first class mail, postage prepaid or by express courier service.

12.8 Assignability. Neither Party may assign its rights and/or delegate its obligations under this Agreement without the other Party's prior written consent (which shall not be unreasonably withheld or delayed); provided that either Party may assign or transfer this Agreement to any successor in interest (whether by merger, acquisition, asset purchase or otherwise) to all or substantially all of its business to which this Agreement relates, provided that the assigning Party shall provide written notice to the other within thirty (30) days prior to such assignment. The obligations and rights under this Agreement shall be binding upon all permitted assigns.

12.9 Public Announcements. Subject to disclosures permitted under Subsections 8.1, 8.2 and 8.3 or as otherwise required by law or regulation, no public announcement relating to this Agreement shall be made by either Party without the prior written consent of the other Party, and neither Party shall use the other Party's name, trademark or trade name, or the name of any employee of the other Party, in any advertising or news release (including, without limitation, any posting on the worldwide web) without the prior written consent of the other Party.

12.10 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

12.11 Survival. The following Sections and Subsections shall survive the termination or expiration of this Agreement for any reason: Sections 1 (to the extent definitions are embodied in the following Sections and Subsections), 4, 5, 7, 8, 9, 11 and 12 and Subsections 2.2.1, 3.1 (for Processed Product), 3.2, 3.3, 3.4 (except for replacement of non-conforming Product), 3.6 and 3.7 (with respect to retention of samples), 3.12, 3.13, 5.1-5.4, 5.6, 5.7, 5.8 and 10.6.

12.12 Integration. This Agreement including any Exhibits hereto, shall constitute the entire Agreement between the Parties with respect to the subject matter hereof, and shall supersede all prior communications, understandings, and agreements (including any prior confidentiality agreement) with respect thereto.

12.13 Counterparts. This Agreement may be executed by original or facsimile signature in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

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IN WITNESS THEREOF, the Parties have caused this Agreement to be duly executed as of the Effective Date.

OMEROS CORPORATION

By: /s/ Gregory A. Demopulos
Gregory A. Demopulos, M.D.
Chairman & CEO

HOSPIRA WORLDWIDE, INC.

By: /s/ Thomas Moore
Thomas Moore
President, Global Pharmaceuticals

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EXHIBIT A
PRODUCT ATTRIBUTES

Commercial Product

- § Manufactured at Hospira's McPherson, Kansas facility [†]
- § [†]
- § [†]
- § [†]
- § [†]
- § Bulk APIs to be supplied by Omeros, [†]
- § [†]
- § Release testing to be performed by Hospira with issuance of a Certificate of Analysis
- § [†]

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EXHIBIT B
PRODUCT PRICING

	[†]	[†]	
	[†]	[†]	
	[†]	[†]	
[†]	[†]	[†]	[†]
•	[†]		
•	[†]		

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EXHIBIT C
PRODUCT STABILITY MATRIX

A stability time point matrix shall be mutually agreed in writing.

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EXCLUSIVE LICENSE AND SPONSORED RESEARCH AGREEMENT

between

OMEROS CORPORATION and the UNIVERSITY OF LEICESTER

This license agreement (the "Agreement") is made effective the 10th day of June 2004 (the "Effective Date") between Omeros Corporation, a Washington corporation having a principal place of business at 1420 Fifth Avenue, Suite 2600, Seattle WA 98101 USA ("Omeros") and the University of Leicester, having a principal place of business at University Road, Leicester LE1 7RH, United Kingdom ("Leicester").

WHEREAS Leicester owns rights to certain technology related to mannan-binding lectin associated serine protease-2 ("MASP-2") and a MASP-2 related plasma protein of 19 kDa commonly referred to as "MAp19", which technology was developed in whole or in part by Wilhelm J. Schwaeble, Ph.D., ("Dr. Schwaeble" or the "Principal Investigator") and Cordula M. Stover, Ph.D. ("Dr. Stover"), both employees of Leicester, and has obtained ownership of related technology developed by Teizo Fujita ("Dr. Fujita") of the Fukushima Medical University, School of Medicine ("Fukushima"); and

WHEREAS Omeros wishes to undertake an exclusive license in Leicester's MASP-2 and MAp19 technology (including the related technology developed by Dr. Fujita), and to sponsor further research to develop Leicester's MASP-2 and MAp19 technology at Leicester under the direction of the Principal Investigator; and

WHEREAS Leicester wishes to grant Omeros an exclusive license in Leicester's MASP-2 and MAp19 technology (including the related technology developed by Dr. Fujita) in return for potential royalty payments and sublicense revenue sharing, and to accept payment for such sponsored research;

NOW THEREFORE, in consideration for the mutual covenants and obligations set forth herein as well as other good and valuable consideration, the parties hereby agree as follows:

1 **Definitions**

- 1.1 Reference to "Leicester" and "Omeros" in regards to any intellectual property right developed by the respective party shall be construed to refer to the respective party as well as the respective party's employees, officers, directors, consultants and agents.
- 1.2 "Intellectual Property Rights" shall mean all inventions, ideas, discoveries, issued, reissued or reexamined patents, pending and future patent applications, continuation, continuation-in-part and divisional patent applications, utility models, inventor's certificates, trade secrets, know-how, copyrights and trademarks.
- 1.3 "Sponsored Research" shall mean all research activities carried out by Leicester and/or its employees (as may be agreed by Leicester and Omeros) with the financial sponsorship, in whole or in part, by Omeros in accordance with Section 2 herein below or as otherwise agreed.

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- 1.4 "Leicester IP" shall mean all Intellectual Property Rights owned or held by Leicester, including without limitation all such Intellectual Property Rights arising from the work of Dr. Schwaeble, Dr. Stover, and/or other Leicester employees as well as that acquired under an assignment agreement from Dr. Fujita, prior to the Effective Date of this Agreement, or developed or obtained by Leicester after the Effective Date of this Agreement both (a) independently of Omeros (as determined by inventorship under US law with respect to any patents and patent applications) and (b) independently of the Sponsored Research, provided however that in the event and to the extent that such independently developed Intellectual Property Rights arise as the direct result of sponsorship by a not-for-profit enterprise in accordance with Section 4.3 herein, such independently developed Intellectual Property Rights shall be included within the scope of the license granted herein only if Leicester or Leicester employee(s) obtain an assignment or release of such independently developed Intellectual Property Rights from such not-for-profit enterprise, which assignment or release Leicester shall exert all reasonable efforts to obtain or to cause its employees to obtain, provided always that any of the Intellectual Property Rights described above in this section 1.4 are directly related to compositions, antibodies and/or methods for the inhibition of MASP-2 and/or MAp19 and/or the diagnosis and/or treatment of MASP-2 or MAp19 mediated disorders and/or deficiency syndromes, as well as methods, polynucleotides, polypeptides, sequences and tools related to the development and production of MASP-2 or MAp19 antibodies including without limitation murine, human, humanized and recombinant antibodies, murine lines in which MASP-2 or MAp19 genes have been knocked-out or knocked-in, and all Intellectual Property Rights in the subject matter disclosed or claimed in the draft patent application entitled GENETICALLY MODIFIED NON-HUMAN MAMMALS AND CELLS filed in the British Patent Office on 10 June 2004 and attached hereto as Exhibit A [†].
- 1.5 "Omeros IP" shall mean all Intellectual Property Rights owned or held by Omeros prior to the Effective Date of this Agreement, or developed or obtained by Omeros after the Effective Date of this Agreement independently of Leicester (as determined by inventorship under US law with respect to any patents and patent applications), including without limitation all such Intellectual Property Rights related to methods and pharmaceuticals or other agents to inhibit pain, inflammation, cartilage loss, vasospasm, smooth muscle spasm, restenosis, or tumor cell adhesion, and/or to accelerate recovery of joint motion and function, for use in surgical procedures (including without limitation arthroscopic, cardiovascular, urologic and general surgical procedures), other medical procedures, and/or for treatment of cartilaginous disorders, and drug delivery methods and systems.
- 1.6 "Joint IP" shall mean (a) all Intellectual Property Rights in technology that is developed jointly (as determined by inventorship with respect to any patents and patent applications) by Omeros and Leicester (as may be agreed by Leicester and Omeros) during the Sponsored Research Term (as that term is defined in Section 2.2 herein), and (b) all Intellectual Property Rights arising from and as the direct result of the Sponsored Research. Should Dr. Schwaeble or other Leicester employees enter into a consulting agreement with Omeros for general scientific consulting such as in the field of

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inflammation, then to the extent that such scientific consulting services may pertain to MASP-2 and MAP19, the results of such scientific consulting services will be treated as part of the Joint IP. However, the parties acknowledge herein that research by Dr. Schwaeble and other Leicester employees on behalf of Omeros related to MASP-2 and MAP19 will be carried out in major part through the Sponsored Research.

- 1.7 [†]
- 1.8 “Licensed Products” shall mean all antibodies, inhibitors and all other products that, were it not for the license granted to Omeros under this Agreement, infringe, or the use, manufacture, offer for sale or sale of which infringe any valid and subsisting claim(s) of any issued patent or any patentable claim(s) of any pending patent application included within the Leicester IP in the country or countries in which such products are offered for sale, sold, manufactured or used, excluding all products that would be included within the Licensed Products in accordance with the above definition only because they are products that infringe any claim(s) within the [†].
- 1.9 “Licensed Research Products” shall mean any antibodies that are not Licensed Products and which are produced or developed as the direct result of use of murine line(s) that, were it not for the license granted to Omeros under this Agreement, infringe, or the use of which infringe, any valid and subsisting claim(s) of any issued patent or any patentable claim(s) of any pending patent application for such murine line(s) included within the Leicester IP in the country or countries in which such lines are propagated or used.
- 1.10 “Net License Proceeds” shall mean the total of the gross monetary amounts invoiced and collected by Omeros for Licensed Products and Licensed Research Products (or that portion of the value of any combination product attributed to a Licensed Product or a Licensed Research Product included therein) used, manufactured, directly sold or directly distributed by Omeros, less (a) the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; commissions to third party sales agents; and credits to customers because of rejections or returns and (b) any accrued Omeros IP Legal Fees (as defined below) not previously deducted. For purposes of this paragraph, the acquisition of Licensed Products and Licensed Research Products from Omeros as part of an acquisition of all or a substantial part of the assets of Omeros’ business to which this Agreement pertains shall not be considered a manufacture, sale or distribution.
- 1.11 “Net Sublicense Proceeds” shall mean the total of all sublicense royalties or sublicense fees received by Omeros from third parties to which Omeros grants a sublicense under the Leicester IP for the manufacture, sale or distribution of Licensed Products or Licensed Research Products, and which were not included in the Net License Proceeds, less any accrued Omeros IP Legal Fees not previously deducted, provided however that the Net Sublicense Proceeds shall not include any fees or payments from such third parties to Omeros to support research and development efforts, to purchase equity in Omeros, or for any other purpose other than as compensation for sublicense rights.

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- 1.12 “Omeros IP Legal Fees” shall mean the sum of all legal fees and costs incurred by Omeros to (a) evaluate, apply for, prosecute and maintain any Intellectual Property Rights included within the Leicester IP, including without limitation any such fees and costs paid by Omeros as reimbursement to Leicester for such fees and costs incurred by Leicester, and (b) obtain or assist Leicester in obtaining or attempting to obtain clear, defensible, lawful and uncontested title to the Leicester IP, including without limitation all such fees and costs incurred in [†].
- 1.13 “Third Party License Fees” shall mean all royalties or other fees paid by Omeros to third parties for a license from such third parties under Intellectual Property Rights owned or held by such third parties for the manufacture, use, offer for sale, sale or distribution of Licensed Products or Licensed Research Products, but shall exclude that portion of any such third party royalties or other fees paid by Omeros attributed to items sold in combination with the Licensed Products or the Licensed Research products, which items are not Licensed Products or Licensed Research products.

2 **Sponsored Research**

- 2.1 Leicester shall perform research to be conducted by or under the direction of the Principal Investigator (as may be agreed between Leicester and Omeros), directed to advancing the technology included in the Leicester IP or related technology concerning the characterization and inhibition of MASP-2 or MAP19, supported by the financial sponsorship of Omeros, and without the use of third party sponsorship that would provide any intellectual property rights in the results of the Sponsored Research to such third party, in accordance with one or more research plans (“Research Plans”) agreed to in advance in writing between Leicester and Omeros. An initial Research Plan is attached hereto as Exhibit B. No Research Plan or any amendment thereto shall be effective until executed by Leicester and Omeros, and upon mutual execution shall be automatically incorporated into this Agreement. Each Research Plan shall define scientific aims, objectives and activities, a budget and a timeline for performance of Sponsored Research during the corresponding time period.
- 2.2 The Sponsored Research shall be completed over a term (the “Sponsored Research Term”) that will initially run for a period of one (1) year from the appointment or designation of appropriate and mutually acceptable staff at Leicester, and that is extendable annually upon mutual written agreement for a total term of three (3) years from the Effective Date of this Agreement or as may otherwise be mutually agreed in writing. If Omeros or Leicester does not wish to extend the Sponsored Research Term for the second or the third year, such party shall provide the other party notice of non-extension at least ninety (90) days prior to the end of the preceding year. The Sponsored Research Term shall run independently of the License Term (as defined herein below) of this Agreement. Termination of this Agreement shall result in termination of the Sponsored Research Term, but termination of the Sponsored Research Term, such as in accordance with Section 14.4 herein, shall not affect the overall status of this Agreement or the License Term.

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- 2.3 Leicester shall supply all necessary personnel, administrative management, facilities, equipment and supplies to enable timely completion of the Sponsored Research. Reimbursement for Leicester's costs and expenses for the Sponsored Research shall be provided only to the extent agreed to in writing in the applicable Research Plan. Each Research Plan will be completed diligently by Leicester using best efforts in accordance with prevailing professional standards and all applicable laws, regulations and Leicester's official policies. Should the Principal Investigator become unavailable to complete any Research Plan, Leicester and Omeros may agree on a substitute investigator, and in the event that a mutually acceptable substitute is not available, either party may terminate the Sponsored Research Term.
- 2.4 Within thirty (30) days of the end of each quarter of the Sponsored Research Term, Leicester shall submit a status report in written and electronic form ("Status Report") summarizing the results of the research completed during that quarter, except that annually within thirty (30) days of the end of each year of the Sponsored Research Term or at such other point in time as may be mutually agreed in writing, Leicester shall submit a final status report in written and electronic form ("Final Report") detailing the results of the research completed during such year of the Sponsored Research Term. Upon Omeros' request, Leicester shall complete all requested corrections and make reasonable revisions to each Status Report and/or Final Report to place it into a form suitable to meet Omeros' objectives, including potential use of any Status Report and/or any Final Report as part of any regulatory submissions.
- 2.5 In full and complete consideration for the Sponsored Research completed by Leicester during the Sponsored Research Term in accordance with the Research Plan(s), Omeros shall pay Leicester [†] for the first year, and unless a change in the level of Sponsored Research work is agreed to in writing in subsequent Research Plans, this amount shall be increased by [†] per year plus, in the event of continued use of a Leicester laboratory technician in performing Sponsored Research activities after the first year of the Sponsored Research Term, any increase in fees due to British national standard pay scale changes applicable on a pro rata basis to such Leicester laboratory technician's Sponsored Research activities, for each mutually agreed subsequent year of the Sponsored Research Term throughout which Sponsored Research is carried out (i.e., a total of [†] if the Sponsored Research Term is extended for a total three-year period and the level of Sponsored Research work during each year remains constant), payable at the rate of [†] of the annual amount per quarter within thirty (30) days of the end of each quarter within the Sponsored Research Term, provided however that no payment shall be due for any quarter prior to the receipt and acceptance by Omeros of a Status Report or any Final Report, as appropriate, for the respective quarter or year.
- 2.6 Omeros and the Principal Investigator shall collaborate on any proposed scientific publications of Sponsored Research data and results, including a discussion of authorship and contents. Leicester shall furnish Omeros with copies of any publication or written or oral disclosure that is proposed by Leicester, including, without limitation, disclosures in papers or abstracts or at research seminars, lectures, professional meetings, or poster sessions, at least sixty (60) days prior to the proposed date for submission for publication

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or disclosure. During such 60-day period, Omeros shall have the right to review and comment on such publication for accuracy and protection of confidential information. Additionally, upon Omeros' written request during the foregoing 60-day period, the proposed submission for publication or disclosure shall be delayed until Omeros has completed the filing of patent applications directed to information contained in such proposed publication or disclosure or based on Omeros' reasonable determination that publication should be delayed due to other business considerations, but in no event will such delay exceed an additional ninety (90) days following the initial 60-day period without Leicester's written consent, which consent shall not be unreasonably withheld. Omeros shall have the right, in its sole discretion, to use, disclose, disseminate and publish (with due acknowledgement of authorship) all data and results arising out of the Sponsored Research for any and all purposes, including without limitation in and for submissions to any regulatory agencies and in marketing any products including, but not limited to, Licensed Products and Licensed Research Products.

3 **Ownership of Intellectual Property**

3.1 All Leicester IP shall remain owned or held by Leicester to the same extent as would be the case were it not for this Agreement.

3.2 All Omeros IP shall remain owned or held by Omeros to the same extent as would be the case were it not for this Agreement.

3.3 All Joint IP shall be jointly owned by Omeros and Leicester, i.e., Omeros and Leicester each shall hold a 50% undivided joint ownership interest in all Joint IP.

4 **Grant Of License**

4.1 Leicester hereby grants to Omeros for the term of this Agreement a royalty-bearing, world-wide exclusive license in the Leicester IP for the research, development, manufacture, use, sale, offering for sale, distribution, exportation and importation of any and all products and the practice of all methods within the Leicester IP, including without limitation the exclusive right to develop, manufacture, use, sell, offer for sale, distribute, export and import the Licensed Products and the Licensed Research Products and to use all murine lines within the Leicester IP for all purposes including without limitation the research, development and production of antibody products.

4.2 Leicester hereby grants to Omeros a fully-paid up, irrevocable, world-wide exclusive license in and to Leicester's joint ownership interest in the Joint IP, for the manufacture, use, sale, offering for sale, distribution, exportation and importation of any and all products and the practice of all methods encompassed by the Joint IP.

4.3 Subject to publication approval and timing procedures consistent with Section 2.6 herein, Leicester shall retain the right to use the Leicester IP and the Joint IP for the purpose of conducting non-commercial, academic research, including research sponsored by not-for-profit entities, which shall not include the performance of research sponsored (directly or

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indirectly) by or on behalf of any for-profit entity that is in direct competition with Omeros in a technology, product or research tool that is the subject of the Leicester IP or Joint IP.

- 4.4 Omeros shall have the right to grant sublicenses in the Leicester IP and the Joint IP under this Agreement subject, with respect to the Leicester IP, to Omeros' obligations to share sublicense revenues as set forth in Section 5.
- 4.5 As part of the licenses granted to Omeros under Sections 4.1 and 4.2, Leicester agrees to transfer and provide and/or make available to Omeros upon request progeny from the licensed murine lines, cell lines, biological materials and any other research materials encompassed by or included within the Leicester IP and/or the Joint IP to which Leicester has appropriate rights and access, all such materials being provided on the basis of Omeros reimbursing Leicester for Leicester's actual cost in providing such materials but for no additional consideration.
- 4.6 Leicester also grants to Omeros a right of first refusal for an exclusive license in all of Leicester's Intellectual Property Rights, for which Omeros has not already been granted a license hereunder, and for which Leicester has all necessary rights to offer such first refusal, and Leicester shall exert reasonable efforts to obtain such necessary rights, in (1) any commercially applicable technology that arises during the Term of this Agreement and is directly related to MASP-2 and/or MAp19 as more fully defined in the Leicester IP and the Joint IP, and (2) any technology that has been developed through the contribution of both Omeros and Leicester after the Sponsored Research Term.
- 5 **Royalties and Sublicense Revenue**
- 5.1 Omeros shall pay Leicester on a quarterly basis a royalty for Licensed Products of [†] of the that portion of the Net License Proceeds realized during each respective quarter from Licensed Products (the "Licensed Product Royalty"), provided however that Omeros shall be entitled to deduct from the Licensed Product Royalty any accrued Third Party License Fees paid by Omeros on the Licensed Products not already deducted, but in no event shall Third Party License Fees be permitted to be deducted to an extent that such Third Party License Fees would reduce the Licensed Product Royalty by greater than [†] for any given quarter.
- 5.2 Omeros shall pay Leicester on a quarterly basis a royalty for Licensed Research Products (the "Licensed Research Products Royalty") of (a) [†] of that portion of the Net License Proceeds realized from Licensed Research Products during each respective quarter during and only during the first three (3)-year period following initial introduction of the relevant product to a commercial market, and (b) [†] of that portion of the Net License Proceeds realized from Licensed Research Products during each respective quarter after the first three-year period until such time that any third party should introduce into a commercial market a competing product that does not infringe the Leicester IP, after which third-party introduction no further Licensed Research Products Royalty shall be payable for the relevant product, provided however that Omeros shall be entitled to

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deduct from the Licensed Research Products Royalty any accrued Third-Party License Fees paid by Omeros on Licensed Research Products not already deducted, but in no event shall Third-Party License Fees be permitted to be deducted to an extent that such Third Party License Fees would reduce the Licensed Research Products Royalty by greater than [†] for any given quarter.

- 5.3 Omeros shall pay Leicester on a quarterly basis a share of that portion of the Net Sublicense Proceeds collected by Omeros on Licensed Products and collected by Omeros (“Sublicensed Product Revenue Share”) from sublicensed third parties during each respective quarter, such Sublicensed Product Revenue Share being either (a) [†] for any sublicenses in connection with the Licensed Products granted hereunder prior to the earlier of (i) [†], or (ii) the second year anniversary of the Effective Date of this Agreement, or (b) [†] for any sublicenses in connection with the Licensed Products granted hereunder thereafter.
- 5.4 Omeros shall pay Leicester on a quarterly basis a “Sublicensed Research Product Revenue Share” that is (a) an initial percentage share (“First Share Percentage”) of that portion of the Net Sublicense Proceeds realized from Licensed Research Products and collected by Omeros from sublicensed third parties during each respective quarter during and only during the first three (3)-year period following initial introduction to a commercial market of the relevant antibody product by the respective sublicensee, and (b) a subsequent percentage share (“Second Share Percentage”) of that portion of the Net Sublicense Proceeds realized from Licensed Research Products and collected by Omeros from sublicensed third parties during each respective quarter after the initial three-year period. For any sublicenses in connection with Licensed Research Products granted hereunder prior to the earlier of (i) [†], or (ii) the second year anniversary of the Effective Date of this Agreement, the First Share Percentage shall be [†] and the Second Share Percentage shall be [†]. For any sublicenses in connection with Licensed Research Products granted hereunder thereafter, the First Share Percentage shall be [†] and the Second Share Percentage shall be [†].
- 5.5 Omeros shall promptly provide Leicester with a copy of all sublicenses granted by Omeros in the Leicester IP and/or the Joint IP under this Agreement.
- 5.6 Following receipt from the University of the results of all Sponsored Research and the completion of all other necessary and beneficial research activities by Omeros and/or by others to support appropriate government regulatory submissions by Omeros, [†], Omeros shall use reasonable efforts, based on reasonable commercial prudence, to diligently develop and introduce to the market one or more Licensed Products and/or Licensed Research Products. Ongoing performance of research and/or development efforts to generate or further advance one or more Licensed Products and/or Licensed Research Products by Omeros, internally at Omeros and/or under contract with Leicester and/or a third party, shall be deemed to be diligent efforts under this Section 5.6.
- 5.7 It is Omeros’ current intent to commercially develop and seek regulatory clearance to clinically test and then market an inhibitor of MASP-2 and/or MAp19 activity following

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Leicester's identification of selective and high-affinity inhibitors of MASP-2 and MAp19 activity and demonstration by Leicester of the therapeutic benefit of such inhibitors in animal models. Within three months of the identification by Omeros of a Licensed Product or Licensed Research Product that is determined by Omeros to be a viable and optimal clinical development candidate, Omeros will submit a development plan to Leicester that sets forth Omeros' planned activities and estimated timing for the development, regulatory approval and market introduction of one or more Licensed Products and/or Licensed Research products. Assuming anticipated and adequate progress is made in the Sponsored Research [†], Omeros anticipates the identification of an initial potential candidate for a Licensed Product or Licensed Research Product that is a potential clinical development candidate within two years of the commencement of the Sponsored Research. The foregoing statements within this Section 5.7 and such development plan are or will be provided as indications of current or future intentions only, and shall have no binding effect on Omeros, nor shall it give rise to any right or obligation to either party, and any modification, alteration or failure to meet any of these intentions shall have no impact on this Agreement.

6 **Payments**

- 6.1 Quarterly royalty and sublicense revenue payments shall be made in British Pounds Sterling by Omeros to Leicester within sixty (60) days of the end of the quarter. Payments shall be computed based on a conversion from any other denomination to British Pounds Sterling for any revenues received or costs and expenses incurred by Omeros during the relevant quarter or other reporting period, as provided herein, using the prevailing exchange rate in effect at the date and time that funds are transferred from Omeros' account to Leicester's account (in the case of payment by wire transfer) or at the date and time of issuance of a check by Omeros (in the case of payment by check). Each quarterly payment shall be accompanied by a report specifying (a) the source of the royalties itemized by product and country, (b) any Omeros IP Legal Fees or Third Party License Fees that were deducted from gross proceeds to determine Net License Proceeds or Net Sublicense Proceeds as provided in Sections 1.10 or 1.11 of this Agreement, and (c) the total of all discounts, returns, credits and commissions deducted from gross proceeds to determine Net License Proceeds or Net Sublicense Proceeds as provided in Sections 1.10 or 1.11 of this Agreement. Following the two-year anniversary of the Effective Date of this Agreement, in the event that Omeros receives no such quarterly royalty and sublicense revenue in any given quarter, it shall nevertheless submit a quarterly report to that effect to Leicester within sixty (60) days of the end of the quarter.
- 6.2 Leicester reserves the right to employ a certified public accountant to review and reconcile the directly relevant accounting records and procedures of Omeros as they relate to the determination of royalties or sublicense revenue fees under Section 5 herein during reasonable business hours and no more than twice a year, and Omeros agrees to make available at Omeros' place of business all such directly relevant accounting records for that purpose within 30 (thirty) days of written request by Leicester. The cost of such review shall be borne by Leicester, unless it is found that Omeros under-paid a quarterly royalty or sublicense revenue fees for any quarter by an amount of 10% (ten percent) or greater, in which case the cost of such review shall be borne by Omeros.

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6.3 In the event any royalty or sublicense revenue fee payments due under Section 5 herein are not timely paid by Omeros, Omeros shall pay to Leicester interest charges on such late payments at a rate of [†] per annum.

6.4 Notwithstanding anything to the contrary herein, Omeros shall have no obligation to pay any royalties or sublicense revenue fees under Section 5 for any product based on any patent claim that has been declared invalid or unenforceable by a court or governmental body of competent jurisdiction or based on any patent claim that is not enforceable in the jurisdiction(s) where such products are manufactured, used, sold, offered for sale, imported or distributed.

7 **License Progress**

7.1 Omeros shall on an annual basis, commencing on the one-year anniversary of the Effective Date of this Agreement and annually thereafter, deliver to Leicester within thirty (30) days after the end of the respective year a written progress report detailing the status of Omeros' efforts to fund, patent, develop and commercialize Licensed Products and Licensed Research Products.

8 **Patent Prosecution**

8.1 Omeros shall have the sole right at its discretion to apply for, prosecute and maintain patents for inventions included within the Leicester IP and the Joint IP ("Patent Filings") in the name of the legally appropriate inventors and/or parties to this agreement and/or jointly with third parties as may be legally appropriate, provided however that (a) Omeros shall bear all cost and expense for all such Patent Filings, subject to the right to deduct Omeros IP Legal Fees as set forth herein, (b) Omeros shall keep Leicester timely informed of the progress of all Patent Filings and timely provide Leicester copies of all official documentation related to such Patent Filings, (c) at Omeros' discretion and until such time that Omeros provides a written request for transfer of responsibility, Leicester shall continue at Omeros' cost with the prosecution of any patent applications for the Leicester IP it may have filed prior to the Effective Date of this Agreement, subject to consultation with and direction from Omeros prior to taking any substantive action, but in any event Omeros shall assume responsibility for prosecuting the patent application attached as Exhibit A hereto within two months following the later of the filing of such patent application by Leicester or the Effective Date of this Agreement, and (d) Omeros shall exert commercially reasonable efforts to diligently pursue all Patent Filings to issuance or final determination of unpatentability, provided however that if Omeros determines at its sole discretion to not make Patent Filings for any commercially significant inventions within the Leicester IP or the Joint IP in any countries of commercial significance, or abandons any Patent Filing prior to issuance or final determination of unpatentability, Omeros shall give Leicester advance written notice of such determination, Leicester shall have the right thereafter to elect upon written notice to Omeros to pursue such Omeros abandoned Patent Filings at Leicester's sole expense,

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and such Omeros abandoned Patent Filings shall be excluded from the scope of the licenses granted under this Agreement.

- 8.2 Omeros shall reimburse Leicester for Leicester's reasonable documented legal fees and costs paid by Leicester for any patent applications prepared and/or filed or prosecuted by Leicester for inventions within the Leicester IP prior to the effective date of this Agreement or in accordance with Section 8.1 above. Payment for such reimbursed expenses shall be made within thirty (30) days of Omeros' having received a receipt-documented invoice from Leicester, provided however that Leicester represents that all such legal fees and costs incurred by Leicester prior to the effective date of this Agreement shall not exceed [†].
- 8.3 Leicester shall promptly provide written disclosure to Omeros of any inventions, improvements, or applications included within the Leicester IP or Joint IP conceived, developed, made or arising before or during the term of this Agreement. Leicester will provide all reasonable assistance, including review of documents and the execution of all documents and causing Leicester's employees to review and execute all documents, necessary to make, prosecute, maintain and enforce the Patent Filings, all for no additional consideration but with reimbursement by Omeros of Leicester's reasonable expenses for such assistance.
- 8.4 Leicester shall promptly provide written disclosure to Omeros of any and all potentially material prior art known prior to the Effective Date of this Agreement or that becomes known during the License Term of this Agreement to any Leicester employee that is associated with this Agreement, the Sponsored Research, the Leicester IP or the Joint IP.

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9 **Representations, Warranties and Other Obligations of Omeros**

- 9.1 Omeros represents and warrants that it has the requisite corporate power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder.
- 9.2 Omeros has and will maintain reasonably adequate insurance coverage for employment practices and general liability for all its activities under this Agreement. Prior to Omeros' marketing of any Licensed Product, Licensed Research Products, or product encompassed by the Joint IP, or making any such products available for use in any human patients, Omeros will obtain and maintain reasonably adequate product liability insurance.

10 **Representations, Warranties and Other Obligations of Leicester**

- 10.1 Leicester has disclosed to Omeros the existence of the [†] and information as to the development of the Leicester IP, and Leicester warrants that it has made reasonable efforts to ascertain the details of such development and that it reasonably believes the same to be true. [†].
- 10.2 [†]
- 10.3 [†]
- 10.4 Leicester represents and warrants, subject to the disclosure referred to in Section 10.1, that it is the owner of all right, title and interest in any and all inventions included within the Leicester IP and the Joint IP made or to be made wholly or jointly by Leicester employees, including without limitation those made by Dr. Schwaeble and Dr. Stover, and shall cause Dr. Schwaeble and Dr. Stover to each execute this Agreement to confirm their agreement to be bound to the same extent as Leicester with respect to all relevant provisions of this Agreement.
- 10.5 Leicester represents and warrants that it is the owner of all right, title and interest in any and all inventions that were made wholly or jointly by Dr. Fujita that are included within the Leicester IP, has obtained an assignment from Dr. Fujita together with a release of all such rights from Fukushima, has provided to Omeros a true copy of such assignment and release, is under no restriction or obligation with respect to Dr. Fujita or Fukushima that is inconsistent in any way with Leicester's obligations under this Agreement, and that Omeros shall have no obligation to compensate Dr. Fujita or Fukushima as the result of Omeros' exercise of its rights and fulfillment of its obligations under this Agreement.
- 10.6 Subject to [†] as discussed in Section 10.1 above, Leicester represents and warrants to Omeros that as far as it is aware, after having used reasonable efforts to ascertain relevant facts and having formed a reasonable belief as to their truth, it has the lawful right to grant the licenses conveyed under this Agreement, and that the Leicester IP and the Joint IP are unencumbered by any third party obligation, commitment, restriction or license. [†].

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- 10.7 [†], Leicester warrants that it is not aware of any third party rights that would be infringed as a result of Omeros' fulfilling the terms of this Agreement.
- 10.8 Leicester has and will maintain reasonably adequate insurance coverage for employment practices and general liability for all its activities under this Agreement.
- 10.9 THE WARRANTIES SET FORTH EXPRESSLY IN THIS AGREEMENT ARE THE SOLE WARRANTIES MADE BY EITHER PARTY TO THE OTHER AND THERE ARE NO OTHER WARRANTIES, REPRESENTATIONS OR GUARANTEES OF ANY KIND WHATSOEVER, EITHER EXPRESS OR IMPLIED, REGARDING THE LICENSED PRODUCTS, THE LICENSED RESEARCH PRODUCTS, OR OTHER PRODUCTS, INCLUDING WITHOUT LIMITATION ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.
- 11 **Confidentiality**
- 11.1 Leicester and Omeros hereby affirm and incorporate by reference the terms of the Mutual Nondisclosure Agreement between the parties dated September 23, 2003 concerning the subject matter of this Agreement, a copy of which is attached hereto as Exhibit C, except to the extent that the terms of such nondisclosure agreement may conflict with the terms of this Agreement, in which case the terms of this Agreement shall prevail. The parties further agree that the mutual obligations of nondisclosure and non-use set forth in such Mutual Nondisclosure Agreement shall subsist for a period of five (5) years after the termination of this Agreement.
- 11.2 The terms of this Agreement shall be maintained in strict confidence by both Leicester and Omeros, and may not be disclosed by either party without the consent of the other party, except as may be required under a court order or decree or as required to comply with any governmental law, rule or regulation, and Omeros may disclose the terms of this Agreement to Omeros' current and potential employees, directors, consultants, shareholders, investors and corporate partners.
- 12 **Indemnification**
- 12.1 Each party (the "Indemnifying Party") shall indemnify, hold harmless and defend the other party and its employees, officers, directors, consultants and agents (the "Indemnified Party") against any and all claims, suits, losses, liabilities, damages, costs, fees, and expenses ("Claims") resulting from or arising directly out of the Indemnifying Party's breach of any representation, warranty or obligation under this Agreement, or the Indemnifying Party's exercise of the rights and obligations under this license or any sublicense, except that such obligation to indemnify, hold harmless and defend shall not extend to any Claims to the extent such Claims result from or arise directly from the negligence or misconduct of the Indemnified Party. This indemnification does not include any indemnity in relation to product performance or product liability, and furthermore does not include any incidental, consequential or special damages.

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13 **Enforcement of Patent Rights**

- 13.1 If either party learns of the infringement of any patent or other intellectual property right included in the Leicester IP or the Joint IP, that party shall promptly notify the other party of such infringement and will provide the other party with all evidence of infringement in the notifying party's possession. Both parties shall use their best efforts in cooperation with each other to terminate third party infringement without litigation.
- 13.2 Omeros shall have the sole right at its discretion to enforce the Leicester IP and the Joint IP against third party infringers, including the initiation of any civil action in Omeros' name, at Omeros' sole cost, in which event any award, judgment, settlement or damages collected shall belong solely to Omeros without duty to account to Leicester. In the event that it is necessary for Omeros to join Leicester as a party to any such civil action, Leicester shall join such action for no additional compensation but at Omeros' sole expense, and any award, judgment, settlement or damages collected shall belong solely to Omeros without duty to account to Leicester.
- 13.3 If Omeros unreasonably declines to initiate enforcement of the Leicester IP and the Joint IP against any third party infringer within ninety (90) days of a written demand from Leicester to do so, then Leicester shall have the sole right at its discretion to enforce the Leicester IP and the Joint IP against such third party infringer, including the initiation of any civil action in Leicester's name, at Leicester's sole cost, in which event any award, judgment, settlement or damages collected shall belong solely to Leicester without duty to account to Omeros.

14 **Term and Termination**

- 14.1 Unless terminated earlier as set forth in Section 14.2 or 14.3 herein below, this Agreement shall subsist so long as there is any pending patent application within the Leicester IP or the Joint IP, any patent application in the process of being prepared for filing as agreed to by Omeros and Leicester or any valid and subsisting claim included within any patent, utility model or inventor's certificate within the Leicester IP or the Joint IP (the "License Term").
- 14.2 Omeros may terminate this Agreement by providing ninety (90)-days advance written notice of termination under this Section 14.2 to Leicester, with or without cause, [†].
- 14.3 Either party may terminate this Agreement at any time in the event that the other party (a) breaches any material obligation of this Agreement by first submitting written notice of breach to the breaching party, which breach is not substantially cured within ninety (90) days of the receipt of such notice, followed by written notice of termination then being sent to the breaching party, or (b) declares or is adjudged by a court of competent jurisdiction to be insolvent, bankrupt or in receivership, and such insolvency, bankruptcy or receivership materially limits such party's ability to perform its obligation under this Agreement, excluding reorganizations entered into by such party with the consent of the other party, which consent shall not be unreasonably withheld.

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- 14.4 Omeros may at any time terminate its sponsorship of the Sponsored Research by providing ninety (90)-days advance written notice of termination under this Section 14.4 to Leicester, with or without cause, at any time, in which event Sections 2.1 — 2.3 herein shall cease to be effective, and Sections 2.4 and 2.5 shall cease to be effective after all reports are provided and accepted and all payments are made for Sponsored Research performed in accordance with the applicable Research Plan prior to such notice, but the remainder of this Agreement shall continue in full force and effect for the License Term, including all rights and obligations of both parties hereunder. In the event of Omeros' termination of its sponsorship of the Sponsored Research under this Section 14.4, Omeros shall pay to Leicester any and all non-cancelable sums reasonably incurred or committed to by Leicester prior to receipt of the notice of termination.
- 14.5 The provisions of Sections 2.6 (Publication), 3 (Ownership of Intellectual Property), 4.2 - 4.6 (License as applicable to Joint IP and right of first refusal), 8 (Patent Prosecution as applicable to Joint IP), 9 and 10 (Representations and Warranties and Other Obligations), 11 (Confidentiality), 12 (Indemnification), 13 (Enforcement as applicable to Joint IP), 15 (Use of Names) and 16 (Miscellaneous) above shall survive expiration or termination of this Agreement for the period set forth therein or, if no period is set forth therein, then indefinitely.
- 15 **Use of Names**
- 15.1 Nothing contained in this Agreement confers any right to either party to use in advertising, publicity, or other promotional activities any name, trade name, trademark, or other designation of the other party hereto, and neither party shall make such use without the prior written consent of the other party, provided however Omeros may through written, oral or electronic communication disclose the existence of this Agreement and the names of Leicester, Dr. Schwaeble, Dr. Stover, Dr. Fujita and other of Leicester's employees and consultants to Omeros' current and potential employees, directors, consultants, shareholders, investors and corporate partners, and as required to comply with any governmental law, rule or regulation.
- 16 **Miscellaneous**
- 16.1 This Agreement including all appendices and exhibits attached thereto or incorporated by reference therein constitutes the entire understanding of the parties hereto regarding the subject matter of this Agreement, and no other representation, agreement, promise or undertaking altering, modifying, taking from or adding to the terms of this Agreement shall have any effect unless the same is reduced to writing and duly executed by the parties hereto. In the event of any conflict between the main body of this Agreement and any attachments thereto or documents incorporated by reference therein, the provisions of the main body of this Agreement shall control.
- 16.2 Either party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.

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- 16.3 The laws of the state of Delaware, United States, without regard to its conflict-of-laws provisions, shall govern this Agreement, its interpretation and its enforcement, and any disputes arising out of or related to this Agreement.
- 16.4 The parties agree that, except as provided herein below, any claim or controversy arising out of or relating to this Agreement or breach thereof shall be settled by arbitration in the state of Delaware, United States, in accordance with the commercial rules of the American Arbitration Association by a panel of three arbitrators, one selected by each party and the third selected by the other two arbitrators. In any such arbitration proceeding, judgment upon the award rendered by the arbitrator shall be final and binding upon the parties and may be entered by either party in any court or forum of competent jurisdiction as provided herein below. Notwithstanding the foregoing, both parties agree that any claims or controversies concerning the validity or enforceability of any intellectual property, or the actual or threatened disclosure or misuse of confidential information, may alternately be resolved by a civil action in any court of competent jurisdiction as provided herein below, and both parties further agree that each shall retain the right to seek injunctive relief in any court of competent jurisdiction as provided herein below to prevent a breach, threatened breach or continuing breach of this Agreement which would cause irreparable injury (e.g., breaches of confidentiality or the like).
- 16.5 Any civil action prosecuted or instituted by either party as permitted herein above with respect to any matters arising out of or related to this Agreement shall be brought in either the United States District Court located in the state of Delaware, United States (if federal subject matter jurisdiction therein lies) or the Superior Court for the state of Delaware, United States (if there is no subject matter jurisdiction in federal court), and each party hereby consents to the jurisdiction and venue of such courts for such purposes.
- 16.6 In the event that it is necessary for either party of this Agreement to take legal action to enforce any of the terms, conditions or rights contained herein, or to defend any such action, then the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys fees, costs and expenses related to such legal action.
- 16.7 In the event that any portion of this Agreement is held invalid or unenforceable by a court of law, that provision will be construed and reformed to permit enforcement of the provision to the maximum extent permissible consistent with the parties' original intent, and if such construction is not possible, such provision shall be struck from this Agreement, and the remainder of the Agreement shall remain in full force and effect as if such provision had never been part of this Agreement.
- 16.8 For the purposes of this Agreement, the parties hereto are independent contractors, and nothing in this Agreement shall be construed to place them in the relationship of partners, principal and agent, employer/employee or joint venturers. Except as provided expressly herein, each party agrees that it shall have no authority to bind or obligate the other party, nor shall any party hold itself out as having such authority.

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- 16.9 Neither party will be liable for failure or delay in performing any obligation under this Agreement, or will be considered in breach of this Agreement, if such failure or delay is due to a natural disaster or any cause reasonably beyond such party's control, provided that such party resumes performance as soon as possible following the end of the event that caused such delay or failure of performance.
- 16.10 Neither party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other party's prior written consent, which consent will not be unreasonably withheld. This Section shall not be construed in any way to limit Omeros' rights to grant, at Omeros' sole discretion, sublicenses hereunder. Leicester consents to Omeros' assignment of this Agreement in whole or in part in connection with the merger, consolidation or transfer of all or substantially all of that portion of Omeros' assets to which this Agreement relates. Subject to these restrictions, this Agreement will be binding upon and will inure to the benefit of the parties' permitted successors and assignees.
- 16.11 Any notice required or permitted to be given hereunder by either party shall be in writing and shall be (a) delivered personally, (b) sent by registered mail, return receipt requested, postage prepaid, (c) sent by an internationally recognized courier service guaranteeing next-day delivery, charges prepaid, or (d) delivered by facsimile (with the original promptly sent by any of the foregoing manners) to the addresses or facsimile numbers of the other party set forth below, or at such other addresses as may from time to time be furnished by similar notice by either party. The effective date of any notice hereunder shall be the date of receipt by the receiving party.

If to Omeros:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
U.S.A.

Attention: Gregory A. Demopoulos, M.D.,
Chairman & CEO

And copy to: Marcia S. Kelbon,
Patent & General Counsel

Fax: (206) 264.7856
Phone: (206) 623.4688

If to Leicester:

University of Leicester
University Road
Leicester, LE1 7RH
United Kingdom

Attention: Research and
Business Development Office

Fax: +44 (0) 116.252.2028
Phone: +44 (0) 116.252.2347

- 16.12 This Agreement may be executed in one or more counterparts, each of which will be considered an original, and all of which will constitute the same instrument.

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IN WITNESS WHEREOF, Omeros and Leicester have each acknowledged and accepted this Agreement by causing it to have been signed by their respective duly authorized officials.

OMEROS CORPORATION

UNIVERSITY OF LEICESTER

By: /s/ Gregory A. Demopoulos
Name: Gregory A. Demopoulos, M.D.
Title: Chairman & CEO
Date: 7/6/04
Fax: 206.264.7856

By: /s/ Clare O'Neill
Name: Clare O'Neill
Title: Business Development Manager
Date: 10th June 2004
Fax: 0044 116 252 2028

The above Exclusive License and Sponsored Research Agreement is acceptable to the undersigned investigators, who agree to abide by the terms set forth therein.

WILHELM J. SCHWAEBLE, PH.D.

CORDULA M. STOVER, PH.D.

Signed: /s/ Wilhelm J. Schwaeble
Title: Professor of Immunology
Date: 10/06/04
Fax: 0044-116-252-5030

Signed: /s/ Cordula M. Stover
Title: Lecturer in Immunology
Date: 10 June 04
Fax: 0044-116-252-5030

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EXHIBIT A

**To the Exclusive License and Sponsored Research Agreement
Between Omeros Corporation and the University of Leicester
PATENT APPLICATION**

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EXHIBIT B

**To the Exclusive License and Sponsored Research Agreement
Between Omeros Corporation and the University of Leicester**

RESEARCH PLAN

1st-Year Research Program Outline — Omeros and University of Leicester

The following are the research aims of the Sponsored Research program for the first year. All activities to meet the aims are to be carried out by Leicester ("Dr. Schwaeble's lab") except for those aims noted for performance by Omeros, other investigators or contractors. Aims indicated as to be performed by Omeros or third parties are provided herein for reference purposes only and shall not be interpreted as any obligation on the part of Omeros. Specific aims and corresponding timeline may be modified as mutually agreed in writing by Dr. Wilhelm Schwaeble and Omeros.

Aims as set forth will extend into a second year of the Sponsored Research Program.

Specific Aims:

[†] [Redaction continues for three pages]

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EXHIBIT C

To the Exclusive License and Sponsored Research Agreement

Between Omeros Corporation and the University of Leicester

MUTUAL CONFIDENTIALITY AGREEMENT

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EXCLUSIVE LICENSE AND SPONSORED RESEARCH AGREEMENT

between

OMEROS CORPORATION and MEDICAL RESEARCH COUNCIL

This license agreement (the "Agreement") is made effective the 31st day of October 2005 (the "Effective Date") between Omeros Corporation, a Washington corporation having a principal place of business at 1420 Fifth Avenue, Suite 2600, Seattle WA 98101 USA ("Omeros") and Medical Research Council, a United Kingdom governmental institution having a place of business at 20 Park Crescent, London, United Kingdom, W1B 1AL ("MRC").

WHEREAS MRC owns rights to certain technology related to mannan-binding lectin associated serine protease-2 ("MASP-2"), which technology was developed in part by Anthony C. Willis ("Mr. Willis") working in an MRC laboratory under the direction of Professor Kenneth B. M. Reid ("Dr. Reid"), both employees of MRC;

WHEREAS Omeros holds an exclusive, worldwide license to rights owned by the University of Leicester ("Leicester") related to the MASP-2 technology due to the development in part of the MASP-2 technology by Leicester's employees;

WHEREAS Omeros wishes to undertake an exclusive license to MRC's rights in the MASP-2 technology, and to sponsor further research by MRC to develop the MASP-2 technology at MRC, under the direction of Dr. Reid, working in collaboration with Omeros and Leicester; and

WHEREAS MRC wishes to grant Omeros an exclusive license in MRC's rights to the MASP-2 technology in return for potential royalty payments and sublicense revenue sharing, and to accept payment for such sponsored research;

NOW THEREFORE, in consideration for the mutual covenants and obligations set forth herein as well as other good and valuable consideration, the parties hereby agree as follows:

1 **Definitions**

- 1.1 Reference to "MRC" and "Omeros" in regards to any intellectual property right developed by the respective party shall be construed to refer to the respective party as well as the respective party's employees, officers, directors, consultants and agents.
- 1.2 "Intellectual Property Rights" shall mean all inventions, ideas, discoveries, issued, reissued or reexamined patents, pending and future patent applications, continuation, continuation-in-part and divisional patent applications, utility models, inventor's certificates, trade secrets, know-how, copyrights and trademarks.
- 1.3 "Sponsored Research" shall mean all research activities carried out by MRC and/or its employees (as may be agreed by MRC and Omeros) with the financial sponsorship, in whole or in part, by Omeros in accordance with Section 2 herein below or as otherwise agreed.

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- 1.4 "MRC IP" shall mean all Intellectual Property Rights owned or held by MRC, including without limitation all such Intellectual Property Rights arising from the work of Mr. Willis, Dr. Reid and/or other MRC employees, prior to the Effective Date of this Agreement, or developed or obtained by MRC after the Effective Date of this Agreement both (a) independently of Omeros (as determined by inventorship under US law with respect to any patents and patent applications) and (b) independently of the Sponsored Research, provided always that any of the Intellectual Property Rights described above in this section 1.4 are directly related to compositions, antibodies and/or methods for the inhibition of MASP-2 and/or the diagnosis and/or treatment of MASP-2 mediated disorders and/or deficiency syndromes, as well as methods, polynucleotides, polypeptides, sequences and tools related to the development and production of MASP-2 antibodies, including without limitation murine, human, humanized and recombinant antibodies, MASP-2 inhibitors, [†].
- 1.5 "Omeros IP" shall mean all Intellectual Property Rights owned or held by Omeros prior to the Effective Date of this Agreement, or developed or obtained by Omeros after the Effective Date of this Agreement independently of MRC (as determined by inventorship under US law with respect to any patents and patent applications), including without limitation all such Intellectual Property Rights (a) related to MASP-2 obtained by Omeros under license from Leicester (including without limitation all MASP-2 and MASP19 rights conveyed under the Omeros-Leicester Agreement of 10 June 2004) or developed by Omeros independently of MRC by Omeros and (b) related to methods and pharmaceuticals or other agents to inhibit pain, inflammation, cartilage loss, vasospasm, smooth muscle spasm, restenosis, or tumor cell adhesion, and/or to accelerate recovery of joint motion and function, for use in surgical procedures (including without limitation arthroscopic, cardiovascular, urologic and general surgical procedures), other medical procedures, and/or for treatment of cartilaginous disorders, and drug delivery methods and systems.
- 1.6 "Joint IP" shall mean (a) all Intellectual Property Rights in technology that is developed jointly (as determined by inventorship with respect to any patents and patent applications) by Omeros and MRC (as may be agreed by MRC and Omeros) during the Sponsored Research Term (as that term is defined in Section 2.2 herein), and (b) all Intellectual Property Rights arising from and as the direct result of the Sponsored Research. Joint IP may or may not also be jointly developed with Leicester or other third party, which will not change the nature of the Intellectual Property Rights as Joint IP so long as the first sentence of this Section applies. Should any MRC employee enter into a consulting agreement with Omeros for general scientific consulting such as in the field of inflammation, then to the extent that such scientific consulting services may pertain to MASP-2, the results of such scientific consulting services will be treated as part of the Joint IP. However, the parties acknowledge herein that research by MRC employees on behalf of Omeros related to MASP-2 will be carried out in major part through the Sponsored Research.

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- 1.7 [†]
- 1.8 “Licensed Products” shall mean all antibodies, inhibitors and all other products that, were it not for the license granted to Omeros under this Agreement, infringe, or the use, manufacture, offer for sale or sale of which infringe any valid and subsisting claim(s) of any issued patent or any patentable claim(s) of any pending patent application included within the MRC IP in the country or countries in which such products are offered for sale, sold, manufactured or used, excluding all products that would be included within the Licensed Products in accordance with the above definition only because they are products that [†].
- 1.9 “Net License Proceeds” shall mean the total of the gross monetary amounts invoiced and collected by Omeros for Licensed Products (or that portion of the value of any combination product attributed to a Licensed Product included therein) used, manufactured, directly sold or directly distributed by Omeros, less (a) the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; commissions to third party sales agents; and credits to customers because of rejections or returns and (b) any accrued Omeros IP Legal Fees (as defined below) not previously deducted. For purposes of this paragraph, the acquisition of Licensed Products from Omeros as part of an acquisition of all or a substantial part of the assets of Omeros’ business to which this Agreement pertains shall not be considered a manufacture, sale or distribution.
- 1.10 “Net Sublicense Proceeds” shall mean the total of all sublicense royalties or sublicense fees received by Omeros from third parties to which Omeros grants a sublicense under the MRC IP for the manufacture, sale or distribution of Licensed Products, and which were not included in the Net License Proceeds, less any accrued Omeros IP Legal Fees not previously deducted, provided however that the Net Sublicense Proceeds shall not include any fees or payments from such third parties to Omeros to support research and development efforts, to purchase equity in Omeros, or for any other purpose other than as compensation for sublicense rights.
- 1.11 “Omeros IP Legal Fees” shall mean the sum of all legal fees and costs incurred by Omeros to (a) evaluate, apply for, prosecute and maintain any Intellectual Property Rights included within the MRC IP, including without limitation any such fees and costs paid by Omeros as reimbursement to MRC for such fees and costs incurred by MRC, and (b) obtain or assist MRC in obtaining or attempting to obtain clear, defensible, lawful and uncontested title to the MRC IP, including without limitation all such fees and costs incurred in [†].
- 1.12 “Third Party License Fees” shall mean all royalties or other fees paid by Omeros to third parties for a license from such third parties under Intellectual Property Rights owned or held by such third parties for the manufacture, use, offer for sale, sale or distribution of Licensed Products, but shall exclude that portion of any such third party royalties

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(including without limitation royalties payable to Leicester) or other fees paid by Omeros attributed to items sold in combination with the Licensed Products, which items are not Licensed Products.

2 **Sponsored Research**

- 2.1 MRC shall perform research to be conducted by or under the direction of Dr. Reid and another MRC senior research investigator (the "MRC Co-investigator") working under the direction of Dr. Reid as may be agreed between MRC and Omeros (Dr. Reid and the MRC Co-investigator collectively "MRC Investigators"), directed to advancing the technology included in the MRC IP or related technology concerning the characterization and inhibition of MASP-2, supported by the financial sponsorship of Omeros, and without the use of third party sponsorship that would provide any intellectual property rights in the results of the Sponsored Research to such third party, in accordance with one or more research plans ("Research Plans") agreed to in advance in writing between MRC and Omeros. An initial Research Plan is attached hereto as Exhibit A. The Research Plans may involve collaborative research efforts by Omeros, MRC and/or Leicester as may be agreed between MRC and Omeros. No Research Plan or any amendment thereto shall be effective until executed by MRC and Omeros, and upon mutual execution shall be automatically incorporated into this Agreement. Each Research Plan shall define scientific aims, objectives and activities, a budget and a timeline for performance of Sponsored Research during the corresponding time period.
- 2.2 The Sponsored Research shall be completed over a term (the "Sponsored Research Term") of thirty four months (34 months) commencing 1 November 2005 or as may otherwise be mutually agreed in writing. If Omeros or MRC wishes to terminate the Sponsored Research Term early, such party shall provide the other party notice of non-extension at least ninety (90) days prior to the end of any given year of the Sponsored Research term, i.e., by 3 August of such year. In the event of a breach of this Agreement by MRC during the Sponsored Research Term, Omeros may terminate the Sponsored Research Term as provided in accordance with Section 14.4 below at its sole discretion, without penalty. If Omeros should terminate the Sponsored Research Term as provided in accordance with Section 14.4 below for any other reason before completion of the full Sponsored Research Term, or upon completion of the full Sponsored Research Term, Omeros will reimburse MRC for any legally required severance payable to the MRC Co-investigator due solely to the termination or conclusion of the Sponsored Research, not to exceed [†], provided, however that MRC will utilize its best efforts to minimize or avoid the need for any such payment, including without limitation efforts to find other support for the MRC Co-investigator, and provided further that MRC shall provide Omeros with documentation of the legal requirement for and amount of any such severance. The Sponsored Research Term shall run independently of the License Term (as defined herein below) of this Agreement. Termination of this Agreement shall result in termination of the Sponsored Research Term, but termination of the Sponsored Research Term, such as in accordance with this Section 2.2 or Section 14.4 herein, shall not affect the overall status of this Agreement or the License Term.

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- 2.3 MRC shall supply all necessary personnel, administrative management, facilities, equipment and supplies to enable timely completion of the Sponsored Research, including both of the MRC Investigators, for the duration of the Sponsored Research Term. Reimbursement for MRC's costs and expenses for the Sponsored Research shall be provided only to the extent agreed to in writing in the applicable Research Plan. Each Research Plan will be completed diligently by MRC using best efforts in accordance with prevailing professional standards and all applicable laws, regulations and MRC's official policies. Should the MRC Investigators become unavailable to complete any Research Plan, MRC and Omeros may agree on a substitute investigator, and in the event that a mutually acceptable substitute is not available, either party may terminate the Sponsored Research Term.
- 2.4 Within thirty (30) days of the end of each quarter of the Sponsored Research Term, MRC shall submit a status report in written and electronic form ("Status Report") summarizing the results of the research completed during that quarter, except that annually within thirty (30) days of the end of each year of the Sponsored Research Term or at such other point in time as may be mutually agreed in writing, MRC shall submit a final status report in written and electronic form ("Final Report") detailing the results of the research completed during such year of the Sponsored Research Term. Upon Omeros' request, MRC shall complete all requested corrections and make reasonable revisions to each Status Report and/or Final Report to place it into a form suitable to meet Omeros' objectives, including potential use of any Status Report and/or any Final Report as part of any regulatory submissions.
- 2.5 In full and complete consideration for the Sponsored Research completed by MRC during the Sponsored Research Term in accordance with the Research Plan(s), Omeros shall pay MRC a total of [†] over the Sponsored Research Term in accordance with the annual schedule set forth in Exhibit A, unless the Sponsored Research Terms is terminated earlier in accordance with the provisions of this Section 2, in which case no further scheduled payments shall be payable, or unless a change in the level of Sponsored Research work is agreed to in writing in subsequent Research Plans, and subject to the following potential adjustment based on the British national pay scale. The salary portion of the compensation amount payable during each year includes a projected increase for changes in the British national standard pay scale, and shall be adjusted up or down annually to reflect actual changes in the British national standard pay scale. Compensation for each year of the Sponsored Research Term shall be payable at the rate of twenty five percent (25%) of the annual amount per quarter, with a first quarterly payment due and payable upon the start of the year, second and third quarterly payments due and payable four and eight months, respectively, from the start of the year, and a fourth quarterly payment due and payable upon the later of the end of the year or acceptance of a Final Report for such year; provided, however, that no payment shall be due for any quarter prior to the receipt and acceptance by Omeros of a Status Report or any Final Report, as appropriate, for the respective quarter or year. All undisputed payments that have become due and payable shall be paid within thirty (30) days of receipt of an invoice from MRC.

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2.6 Omeros and the MRC Investigators shall collaborate on any proposed scientific publications of Sponsored Research data and results, including a discussion of authorship and contents. MRC shall furnish Omeros with copies of any publication or written or oral disclosure that is proposed by MRC, including, without limitation, disclosures in papers or abstracts or at research seminars, lectures, professional meetings, or poster sessions, at least sixty (60) days prior to the proposed date for submission for publication or disclosure. During such 60-day period, Omeros shall have the right to review and comment on such publication for accuracy and protection of confidential information. Additionally, upon Omeros' written request during the foregoing 60-day period, the proposed submission for publication or disclosure shall be delayed until Omeros has completed the filing of patent applications directed to information contained in such proposed publication or disclosure or based on Omeros' reasonable determination that publication should be delayed due to other business considerations, but in no event will such delay exceed an additional ninety (90) days following the initial 60-day period without MRC's written consent, which consent shall not be unreasonably withheld. Omeros shall have the right, in its sole discretion, to use, disclose, disseminate and publish (with due acknowledgement of authorship) all data and results arising out of the Sponsored Research for any and all purposes, including without limitation in and for submissions to any regulatory agencies and in marketing any products including, but not limited to, Licensed Products.

3 **Ownership of Intellectual Property**

3.1 All MRC IP shall remain owned or held by MRC to the same extent as would be the case were it not for this Agreement.

3.2 All Omeros IP shall remain owned or held by Omeros to the same extent as would be the case were it not for this Agreement.

3.3 All Joint IP shall be jointly owned by Omeros and MRC, i.e., Omeros and MRC each shall hold a 50% undivided joint ownership interest in all Joint IP, provided however that Omeros and MRC recognize that third party collaborators such as Leicester may also have an ownership interest in intellectual property included in the Joint IP, which third party ownership interest shall not be impacted or determined by this Agreement.

4 **Grant Of License**

4.1 MRC hereby grants to Omeros for the term of this Agreement a royalty-bearing, world-wide exclusive license in the MRC IP for the research, development, manufacture, use, sale, offering for sale, distribution, exportation and importation of any and all products and the practice of all methods within the MRC IP, including without limitation the exclusive right to develop, manufacture, use, sell, offer for sale, distribute, export and import the Licensed Products for all purposes including without limitation the research, development and production of antibody or other MASP-2 inhibitor products.

4.2 MRC hereby grants to Omeros a fully paid-up, irrevocable, world-wide exclusive license in and to MRC's joint ownership interest in the Joint IP, for the manufacture, use, sale,

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offering for sale, distribution, exportation and importation of any and all products and the practice of all methods encompassed by the Joint IP.

- 4.3 Subject to publication approval and timing procedures consistent with Section 2.6 herein, MRC shall retain the right to use the MRC IP and the Joint IP for the purpose of conducting non-commercial, academic research, including research sponsored by not-for-profit entities, which shall not include the performance of research sponsored (directly or indirectly) by or on behalf of any for-profit entity that is in direct competition with Omeros in a technology, product or research tool that is the subject of the MRC IP or Joint IP.
 - 4.4 Omeros shall have the right to grant sublicenses in the MRC IP and the Joint IP under this Agreement subject, with respect to the MRC IP, to Omeros' obligations to share sublicense revenues as set forth in Section 5.
 - 4.5 As part of the licenses granted to Omeros under Sections 4.1 and 4.2, MRC agrees to transfer and provide and/or make available to Omeros upon request biological materials and any other research materials and know-how encompassed by or included within the MRC IP and/or the Joint IP to which MRC has appropriate rights and access, all such materials being provided on the basis of Omeros reimbursing MRC for MRC's actual cost in providing such materials but for no additional consideration.
 - 4.6 MRC also grants to Omeros a right of first refusal for an exclusive license in all of MRC's Intellectual Property Rights, for which Omeros has not already been granted a license hereunder, and for which MRC has all necessary rights to offer such first refusal, and MRC shall exert reasonable efforts to obtain such necessary rights, in (1) any commercially applicable technology that arises during the Term of this Agreement and is directly related to MASP-2 as more fully defined in the MRC IP and the Joint IP, and (2) any technology that has been developed through the contribution of both Omeros and MRC after the Sponsored Research Term.
- 5 **Royalties and Sublicense Revenue**
- 5.1 Omeros shall pay MRC on a quarterly basis a royalty for Licensed Products of [†] of that portion of the Net License Proceeds realized during each respective quarter from Licensed Products (the "Licensed Product Royalty"). Notwithstanding the above, if the total royalties owed by Omeros to all parties for Licensed Products, including without limitation the Licensed Product Royalty payable to MRC, royalties payable to Leicester, [†] and any "stacking fee(s)" or other royalties payable to third parties to develop, manufacture or commercialize the Licensed Products (all together the "Total Royalty Percentage"), exceeds [†] of the Net Licensed Proceeds for any quarter, then [†] of the difference between the Total Royalty Percentage and [†] shall be deducted from the Licensed Product Royalty payable to MRC for such quarter, provided, however that the Licensed Product Royalty for such quarter may not be reduced by such deductions to less than [†].
 - 5.2 Omeros shall pay MRC on a quarterly basis a share of that portion of the Net Sublicense

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Proceeds collected by Omeros on Licensed Products and collected by Omeros ("Sublicensed Product Revenue Share") from sublicensed third parties during each respective quarter, such Sublicensed Product Revenue Share being either (a) [†] for any sublicenses in connection with the Licensed Products granted hereunder prior to the earlier of (i) the establishment of MRC's clear, defensible, lawful and uncontested title in, or other mutually acceptable rights relative to, [†] or (ii) the second year anniversary of the Effective Date of this Agreement, or (b) [†] for any sublicenses in connection with the Licensed Products granted hereunder thereafter.

5.3 Omeros shall promptly provide MRC with a copy of all sublicenses granted by Omeros in the MRC IP and/or the Joint IP under this Agreement.

5.4 Following receipt from the University of the results of all Sponsored Research and the completion of all other necessary and beneficial research activities by Omeros and/or by others to support appropriate government regulatory submissions by Omeros, [†] Omeros shall use reasonable efforts, based on reasonable commercial prudence, to diligently develop and introduce to the market one or more Licensed Products. Ongoing performance of research and/or development efforts to generate or further advance one or more Licensed Products by Omeros, internally at Omeros and/or under contract with MRC and/or a third party, shall be deemed to be diligent efforts under this Section 5.4.

5.5 It is Omeros' current intent to commercially develop and seek regulatory clearance to clinically test and then market an inhibitor of MASP-2 activity following identification of selective and high-affinity inhibitors of MASP-2 activity and demonstration of the therapeutic benefit of such inhibitors in animal models, such identification and demonstration to be completed collaboratively by MRC, Leicester and/or Omeros. Within three months of the identification by Omeros of a Licensed Product that is determined by Omeros to be a viable and optimal clinical development candidate, Omeros will submit a development plan to MRC that sets forth Omeros' planned activities and estimated timing for the development, regulatory approval and market introduction of one or more Licensed Products. Assuming anticipated and adequate progress is made in the Sponsored Research [†], Omeros anticipates the identification of an initial potential candidate for a Licensed Product or Licensed Research Product that is a potential clinical development candidate within two years of the commencement of the Sponsored Research. The foregoing statements within this Section 5.5 and such development plan are or will be provided as indications of current or future intentions only, and shall have no binding effect on Omeros, nor shall it give rise to any right or obligation to either party, and any modification, alteration or failure to meet any of these intentions shall have no impact on this Agreement.

6 **Payments**

6.1 Quarterly royalty and sublicense revenue payments shall be made in British Pounds Sterling by Omeros to MRC within sixty (60) days of the end of the quarter. Payments shall be computed based on a conversion from any other denomination to British Pounds Sterling for any revenues received or costs and expenses incurred by Omeros during the

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relevant quarter or other reporting period, as provided herein, using the prevailing exchange rate in effect at the date and time that funds are transferred from Omeros' account to MRC's account (in the case of payment by wire transfer) or at the date and time of issuance of a check by Omeros (in the case of payment by check). Each quarterly payment shall be accompanied by a report specifying (a) the source of the royalties itemized by product and country, (b) any Omeros IP Legal Fees or Third Party License Fees that were deducted from gross proceeds to determine Net License Proceeds or Net Sublicense Proceeds as provided in Sections 1.9 or 1.10 of this Agreement, and (c) the total of all discounts, returns, credits and commissions deducted from gross proceeds to determine Net License Proceeds or Net Sublicense Proceeds as provided in Sections 1.9 or 1.10 of this Agreement. Following the two-year anniversary of the Effective Date of this Agreement, in the event that Omeros receives no such quarterly royalty and sublicense revenue in any given quarter, it shall nevertheless submit a quarterly report to that effect to MRC within sixty (60) days of the end of the quarter.

- 6.2 MRC reserves the right to employ a certified public accountant to review and reconcile the directly relevant accounting records and procedures of Omeros as they relate to the determination of royalties or sublicense revenue fees under Section 5 herein during reasonable business hours and no more than twice a year, and Omeros agrees to make available at Omeros' place of business all such directly relevant accounting records for that purpose within 30 (thirty) days of written request by MRC. The cost of such review shall be borne by MRC, unless it is found that Omeros under-paid a quarterly royalty or sublicense revenue fees for any quarter by an amount of 10% (ten percent) or greater, in which case the cost of such review shall be borne by Omeros.
- 6.3 In the event any royalty or sublicense revenue fee payments due under Section 5 herein are not timely paid by Omeros, Omeros shall pay to MRC interest charges on such late payments at a rate of [†] per annum.
- 6.4 Notwithstanding anything to the contrary herein, Omeros shall have no obligation to pay any royalties or sublicense revenue fees under Section 5 for any product based on any patent claim that has been declared invalid or unenforceable by a court or governmental body of competent jurisdiction or based on any patent claim that is not enforceable in the jurisdiction(s) where such products are manufactured, used, sold, offered for sale, imported or distributed.

7 **License Progress**

- 7.1 Omeros shall on an annual basis, commencing on the one-year anniversary of the Effective Date of this Agreement and annually thereafter, deliver to MRC within thirty (30) days after the end of the respective year a written progress report detailing the status of Omeros' efforts to fund, patent, develop and commercialize Licensed Products.

8 **Patent Prosecution**

- 8.1 Omeros shall have the sole right at its discretion to apply for, prosecute and maintain patents for inventions included within the MRC IP and the Joint IP ("Patent Filings") in

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the name of the legally appropriate inventors and/or parties to this agreement and/or jointly with third parties as may be legally appropriate, provided however that (a) Omeros shall bear all cost and expense for all such Patent Filings, subject to the right to deduct Omeros IP Legal Fees as set forth herein, (b) Omeros shall keep MRC timely informed of the progress of all Patent Filings and timely provide MRC copies of all official documentation related to such Patent Filings, and (c) Omeros shall exert commercially reasonable efforts to diligently pursue all Patent Filings to issuance or final determination of unpatentability, provided however that if Omeros determines at its sole discretion to not make Patent Filings for any commercially significant inventions within the MRC IP or the Joint IP in any countries of commercial significance, or abandons any Patent Filing prior to issuance or final determination of unpatentability, Omeros shall give MRC advance written notice of such determination, MRC shall have the right thereafter to elect upon written notice to Omeros to pursue such Omeros abandoned Patent Filings at MRC's sole expense (together with Leicester if applicable), and such Omeros abandoned Patent Filings shall be excluded from the scope of the licenses granted under this Agreement.

- 8.2 MRC shall promptly provide written disclosure to Omeros of any inventions, improvements, or applications included within the MRC IP or Joint IP conceived, developed, made or arising before or during the term of this Agreement. MRC will provide all reasonable assistance, including review of documents and the execution of all documents and causing MRC's employees to review and execute all documents, necessary to make, prosecute, maintain and enforce the Patent Filings, all for no additional consideration but with reimbursement by Omeros of MRC's reasonable expenses for such assistance.
- 8.3 MRC shall promptly provide written disclosure to Omeros of any and all potentially material prior art known prior to the Effective Date of this Agreement or that becomes known during the License Term of this Agreement to any MRC employee that is associated with this Agreement, the Sponsored Research, the MRC IP or the Joint IP.

9 **Representations, Warranties and Other Obligations of Omeros**

- 9.1 Omeros represents and warrants that it has the requisite corporate power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder.
- 9.2 Omeros has and will maintain reasonably adequate insurance coverage for employment practices and general liability for all its activities under this Agreement. Prior to Omeros' marketing of any Licensed Product, or product encompassed by the Joint IP, or making any such products available for use in any human patients, Omeros will obtain and maintain reasonably adequate product liability insurance.

10 **Representations, Warranties and Other Obligations of MRC**

- 10.1 MRC has disclosed to Omeros the existence of the [†] and information as to the development of the MRC IP, and MRC warrants that it has made reasonable efforts to ascertain the details of such development and that it reasonably believes the same to be true. [†].

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- 10.2 [†]
- 10.3 [†]
- 10.4 MRC represents and warrants, subject to the disclosure referred to in Section 10.1 with respect [†] and to any rights owned by Leicester, that MRC is the owner of all other right, title and interest in any and all inventions included within the MRC IP and the Joint IP made or to be made wholly or jointly by MRC employees, including without limitation those made by Mr. Willis and Dr. Reid, and shall cause Mr. Willis and Dr. Reid to each execute this Agreement to confirm their agreement to be bound to the same extent as MRC with respect to all relevant provisions of this Agreement.
- 10.5 Subject to [†] as discussed in Section 10.1 above and to any rights owned by Leicester, MRC represents and warrants to Omeros that as far as it is aware, after having used reasonable efforts to ascertain relevant facts and having formed a reasonable belief as to their truth, it has the lawful right to grant the licenses conveyed under this Agreement, and that the MRC IP and the Joint IP are unencumbered by any third party obligation, commitment, restriction or license. [†]
- 10.6 [†] and any rights owned by Leicester, MRC warrants that it is not aware of any third party rights that would be infringed as a result of Omeros' fulfilling the terms of this Agreement.
- 10.7 MRC has and will maintain reasonably adequate insurance coverage for employment practices and general liability for all its activities under this Agreement.
- 10.8 THE WARRANTIES SET FORTH EXPRESSLY IN THIS AGREEMENT ARE THE SOLE WARRANTIES MADE BY EITHER PARTY TO THE OTHER AND THERE ARE NO OTHER WARRANTIES, REPRESENTATIONS OR GUARANTEES OF ANY KIND WHATSOEVER, EITHER EXPRESS OR IMPLIED, REGARDING THE LICENSED PRODUCTS, OR OTHER PRODUCTS, INCLUDING WITHOUT LIMITATION ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.
- 11 **Confidentiality**
- 11.1 MRC and Omeros hereby affirm and incorporate by reference the terms of the Mutual Nondisclosure Agreement between the parties dated 9 May 2005 concerning the subject matter of this Agreement, a copy of which is attached hereto as Exhibit B, except to the extent that the terms of such nondisclosure agreement may conflict with the terms of this Agreement, in which case the terms of this Agreement shall prevail. The parties further agree that the mutual obligations of nondisclosure and non-use set forth in such Mutual Nondisclosure Agreement shall subsist for a period of five (5) years after the termination of this Agreement.

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11.2 The terms of this Agreement shall be maintained in strict confidence by both MRC and Omeros, and may not be disclosed by either party without the consent of the other party, except as may be required under a court order or decree or as required to comply with any governmental law, rule or regulation, and Omeros may disclose the terms of this Agreement to Omeros' current and potential employees, directors, consultants, shareholders, investors and corporate partners.

12 **Indemnification**

12.1 Each party (the "Indemnifying Party") shall indemnify, hold harmless and defend the other party and its employees, officers, directors, consultants and agents (the "Indemnified Party") against any and all claims, suits, losses, liabilities, damages, costs, fees, and expenses ("Claims") resulting from or arising directly out of the Indemnifying Party's breach of any representation, warranty or obligation under this Agreement, or the Indemnifying Party's exercise of the rights and obligations under this license or any sublicense, except that such obligation to indemnify, hold harmless and defend shall not extend to any Claims to the extent such Claims result from or arise directly from the negligence or misconduct of the Indemnified Party. This indemnification does not include any indemnity in relation to product performance or product liability, and furthermore does not include any incidental, consequential or special damages.

13 **Enforcement of Patent Rights**

- 13.1 If either party learns of the infringement of any patent or other intellectual property right included in the MRC IP or the Joint IP, that party shall promptly notify the other party of such infringement and will provide the other party with all evidence of infringement in the notifying party's possession. Both parties shall use their best efforts in cooperation with each other to terminate third party infringement without litigation.
- 13.2 Omeros shall have the sole right at its discretion to enforce the MRC IP and the Joint IP against third party infringers, including the initiation of any civil action in Omeros' name, at Omeros' sole cost, in which event any award, judgment, settlement or damages collected shall belong solely to Omeros without duty to account to MRC. In the event that it is necessary for Omeros to join MRC as a party to any such civil action, MRC shall join such action for no additional compensation but at Omeros' sole expense, and any award, judgment, settlement or damages collected shall belong solely to Omeros without duty to account to MRC.
- 13.3 If Omeros unreasonably declines to initiate enforcement of the MRC IP and the Joint IP against any third party infringer within ninety (90) days of a written demand from MRC to do so, then MRC shall have the sole right at its discretion to enforce the MRC IP and the Joint IP against such third party infringer, including the initiation of any civil action in MRC's name, at MRC's sole cost, in which event any award, judgment, settlement or damages collected shall belong solely to MRC without duty to account to Omeros.

14 **Term and Termination**

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- 14.1 Unless terminated earlier as set forth in Section 14.2 or 14.3 herein below, this Agreement shall subsist so long as there is any pending patent application within the MRC IP or the Joint IP, any patent application in the process of being prepared for filing as agreed to by Omeros and MRC or any valid and subsisting claim included within any patent, utility model or inventor's certificate within the MRC IP or the Joint IP (the "License Term").
- 14.2 Omeros may terminate this Agreement by providing ninety (90) days advance written notice of termination under this Section 14.2 to MRC, with or without cause, at any time [†].
- 14.3 Either party may terminate this Agreement at any time in the event that the other party (a) breaches any material obligation of this Agreement by first submitting written notice of breach to the breaching party, which breach is not substantially cured within ninety (90) days of the receipt of such notice, followed by written notice of termination then being sent to the breaching party, or (b) declares or is adjudged by a court of competent jurisdiction to be insolvent, bankrupt or in receivership, and such insolvency, bankruptcy or receivership materially limits such party's ability to perform its obligation under this Agreement, excluding reorganizations entered into by such party with the consent of the other party, which consent shall not be unreasonably withheld.
- 14.4 Omeros may at any time terminate its sponsorship of the Sponsored Research by providing ninety (90) days advance written notice of termination under this Section 14.4 to MRC, for cause as specified in Section 2.2 above or at any time due to failure to perform any Research Plan or other breach of this Agreement by MRC, or without cause as specified in, and subject to reimbursement of any severance fees that may be payable in accordance with, Section 2.2 above, in which event Sections 2.1 — 2.3 herein shall cease to be effective, and Sections 2.4 and 2.5 shall cease to be effective after all reports are provided and accepted and all payments are made for Sponsored Research performed in accordance with the applicable Research Plan prior to such notice, but the remainder of this Agreement shall continue in full force and effect for the License Term, including all rights and obligations of both parties hereunder. In the event of Omeros' termination of its sponsorship of the Sponsored Research, Omeros shall pay to MRC any and all non-cancelable sums reasonably incurred or committed to by MRC prior to receipt of the notice of termination.
- 14.5 The provisions of Sections 2.6 (Publication), 3 (Ownership of Intellectual Property), 4.2 — 4.6 (License as applicable to Joint IP and right of first refusal), 8 (Patent Prosecution as applicable to Joint IP), 9 and 10 (Representations and Warranties and Other Obligations), 11 (Confidentiality), 12 (Indemnification), 13 (Enforcement as applicable to Joint IP), 15 (Use of Names) and 16 (Miscellaneous) above shall survive expiration or termination of this Agreement for the period set forth therein or, if no period is set forth therein, then indefinitely.
- 15 **Use of Names**
- 15.1 Nothing contained in this Agreement confers any right to either party to use in

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advertising, publicity, or other promotional activities any name, trade name, trademark, or other designation of the other party hereto, and neither party shall make such use without the prior written consent of the other party, provided however Omeros may through written, oral or electronic communication disclose the existence of this Agreement and the names of MRC, Dr. Reid, Mr. Willis and other of MRC's employees and consultants to Omeros' current and potential employees, directors, consultants, shareholders, investors and corporate partners, and as required to comply with any governmental law, rule or regulation.

16 **Miscellaneous**

- 16.1 This Agreement including all appendices and exhibits attached thereto or incorporated by reference therein constitutes the entire understanding of the parties hereto regarding the subject matter of this Agreement, and no other representation, agreement, promise or undertaking altering, modifying, taking from or adding to the terms of this Agreement shall have any effect unless the same is reduced to writing and duly executed by the parties hereto. In the event of any conflict between the main body of this Agreement and any attachments thereto or documents incorporated by reference therein, the provisions of the main body of this Agreement shall control.
- 16.2 Either party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.
- 16.3 The laws of the state of Delaware, United States, without regard to its conflict-of-laws provisions, shall govern this Agreement, its interpretation and its enforcement, and any disputes arising out of or related to this Agreement.
- 16.4 The parties agree that, except as provided herein below, any claim or controversy arising out of or relating to this Agreement or breach thereof shall be settled by arbitration in the state of Delaware, United States, in accordance with the commercial rules of the American Arbitration Association by a panel of three arbitrators, one selected by each party and the third selected by the other two arbitrators. In any such arbitration proceeding, judgment upon the award rendered by the arbitrator shall be final and binding upon the parties and may be entered by either party in any court or forum of competent jurisdiction as provided herein below. Notwithstanding the foregoing, both parties agree that any claims or controversies concerning the validity or enforceability of any intellectual property, or the actual or threatened disclosure or misuse of confidential information, may alternately be resolved by a civil action in any court of competent jurisdiction as provided herein below, and both parties further agree that each shall retain the right to seek injunctive relief in any court of competent jurisdiction as provided herein below to prevent a breach, threatened breach or continuing breach of this Agreement which would cause irreparable injury (e.g., breaches of confidentiality or the like).
- 16.5 Any civil action prosecuted or instituted by either party as permitted herein above with respect to any matters arising out of or related to this Agreement shall be brought in either the United States District Court located in the state of Delaware, United States (if

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federal subject matter jurisdiction therein lies) or the Superior Court for the state of Delaware, United States (if there is no subject matter jurisdiction in federal court), and each party hereby consents to the jurisdiction and venue of such courts for such purposes.

- 16.6 In the event that it is necessary for either party of this Agreement to take legal action to enforce any of the terms, conditions or rights contained herein, or to defend any such action, then the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys fees, costs and expenses related to such legal action.
- 16.7 In the event that any portion of this Agreement is held invalid or unenforceable by a court of law, that provision will be construed and reformed to permit enforcement of the provision to the maximum extent permissible consistent with the parties' original intent, and if such construction is not possible, such provision shall be struck from this Agreement, and the remainder of the Agreement shall remain in full force and effect as if such provision had never been part of this Agreement.
- 16.8 For the purposes of this Agreement, the parties hereto are independent contractors, and nothing in this Agreement shall be construed to place them in the relationship of partners, principal and agent, employer/employee or joint venturers. Except as provided expressly herein, each party agrees that it shall have no authority to bind or obligate the other party, nor shall any party hold itself out as having such authority.
- 16.9 Neither party will be liable for failure or delay in performing any obligation under this Agreement, or will be considered in breach of this Agreement, if such failure or delay is due to a natural disaster or any cause reasonably beyond such party's control, provided that such party resumes performance as soon as possible following the end of the event that caused such delay or failure of performance.
- 16.10 Neither party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other party's prior written consent, which consent will not be unreasonably withheld. This Section shall not be construed in any way to limit Omeros' rights to grant, at Omeros' sole discretion, sublicenses hereunder. MRC consents to Omeros' assignment of this Agreement in whole or in part in connection with the merger, consolidation or transfer of all or substantially all of that portion of Omeros' assets to which this Agreement relates. Subject to these restrictions, this Agreement will be binding upon and will inure to the benefit of the parties' permitted successors and assignees.
- 16.11 Any notice required or permitted to be given hereunder by either party shall be in writing and shall be (a) delivered personally, (b) sent by registered mail, return receipt requested, postage prepaid, (c) sent by an internationally recognized courier service guaranteeing next-day delivery, charges prepaid, or (d) delivered by facsimile (with the original promptly sent by any of the foregoing manners) to the addresses or facsimile numbers of the other party set forth below, or at such other addresses as may from time to time be furnished by similar notice by either party. The effective date of any notice hereunder shall be the date of receipt by the receiving party.

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If to Omeros:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
U.S.A.

Attention: Gregory A. Demopoulos, M.D.,
Chairman & CEO

And copy to: Marcia S. Kelbon,
Patent & General Counsel

Fax: (206) 264.7856
Phone: (206) 623.4688

16.12 This Agreement may be executed in one or more counterparts, each of which will be considered an original, and all of which will constitute the same instrument.

IN WITNESS WHEREOF, Omeros and MRC have each acknowledged and accepted this Agreement by causing it to have been signed by their respective duly authorized officials.

OMEROS CORPORATION

By: /s/ Gregory A. Demopoulos

Name: Gregory A. Demopoulos, M.D.

Title: Chairman & CEO

Date: 11/16/07

Fax: 206.264.7856

If to MRC:

Medical Research Council
20 Park Crescent
London
United Kingdom
W1B 1AL

Attention: Graham Wagner,
Associate Director Licensing
and Agreements

Fax: +44.207.291.5325
Phone: +44.207.291.5317

MEDICAL RESEARCH COUNCIL

By: /s/ Graham Wagner

Name: Graham Wagner

Title: Associate Director Licensing Agreements

Date: 10th November 2005

Fax: +44 207 291 5325

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The above Exclusive License and Sponsored Research Agreement is acknowledged by the undersigned investigators, who agree to abide by the terms set forth therein.

PROFESSOR KENNETH B. M. REID

ANTHONY C. WILLIS

Signed: _____

Signed: _____

Title: Director, MRC Immunochemistry Unit

Title: _____

Date: _____

Date: _____

Fax: _____

Fax: _____

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EXHIBIT A

To the Exclusive License and Sponsored Research Agreement
Between Omeros Corporation and the Medical Research Council

RESEARCH PLAN

Sponsor: Omeros Corporation

Research Institution: Medical Research Council (MRC)

Investigator: Dr. Ken Reid

Research Period: First year, commencing 1 November 2005

Research Aims and Activities

Attachment 1 hereto sets for the research aims of the Sponsored Research program to be completed during the first year. All activities to meet specific aim 1 are to be carried out by MRC ("Dr. Reid's lab"). Aims indicated as to be performed by Omeros or third parties, and all animal models in specific aim 5, are provided herein for reference purposes only and shall not be interpreted as any obligation on the part of Omeros or MRC. Specific aims and the corresponding timeline may be modified as mutually agreed in writing by Dr. Ken Reid and Omeros.

Budget

The total consideration to be paid to MRC for all Sponsored Research to be carried out during the first through third years of the Sponsored Research Term, including without limitation full and complete payment for all services, materials, facilities, overhead and indirect costs, but excluding reimbursement for any legally required severance that may be payable as provided for in Section 2.2 of this Agreement above, is as follows:

Year 1 (1 November 2005 — 31 October 2006):

[†]

Year 2 (1 November 2006 — 31 October 2007):

[†]

Year 3 (1 November 2007 — 31 August 2008):

[†]

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EXHIBIT B

To the Exclusive License and Sponsored Research Agreement

Between Omeros Corporation and Medical Research Council

MUTUAL CONFIDENTIALITY AGREEMENT

OMEROS CORPORATION

MUTUAL CONFIDENTIALITY AGREEMENT

This Confidentiality Agreement ("Agreement") is entered into as of 9 May 2005 by and between OMEROS CORPORATION ("Omeros"), 1420 FIFTH AVENUE, SUITE 2600, SEATTLE WA 98101 USA and MEDICAL RESEARCH COUNCIL ("MRC"), 20 PARK CRESCENT, LONDON, UNITED KINGDOM, W1B 1AL.

In the course of business negotiations and transactions between the parties hereto, either or both parties and certain agents thereof (including without limitation, attorneys and consultants representing the parties) may disclose certain confidential and proprietary information pertaining to the mammalian gene and/or protein referred to as 'mannan-binding lectin serine protease 2' or 'MASP-2' as located, for example, on human chromosome 1p, the 19 kDa N-terminal CUB1-EGF domains of MASP-2 referred to as MAP19, as well as patent applications, license and research agreements, and research data concerning the same, for the sole purpose of evaluating a potential business relationship and/or performing in accordance with an agreement between the parties ("Purpose"). The parties want to provide for the protection of any such confidential and proprietary information disclosed by one party (the "disclosing party") to which the other party receiving the information (the "recipient") may have access. In consideration of continuing negotiations for or entering into business transactions, the parties agree:

1. **Covenant Not to Disclose.** For a period of at least five years from the date of last disclosure hereunder, the recipient of any Confidential Information will not at any time disclose or otherwise make known or available to any person, firm, corporation or other entity, or use for its own account or for any purpose other than the Purpose, any Confidential Information disclosed by the other party prior to or during the term of this Agreement, without the express prior written consent of the disclosing party. The recipient shall utilize reasonable procedures to safeguard Confidential Information, including releasing Confidential Information only to employees or consultants who have agreed to abide by the recipient's obligations hereunder on a "need-to-know" basis.

2. **Confidential Information.**

2.1 For information disclosed by Omeros, "Confidential Information" means any and all information relating to: (a) methods and pharmaceuticals or other agents to inhibit pain and inflammation, cartilage loss, vasospasm, smooth muscle spasm, restenosis, or tumor cell adhesion, and/or to accelerate recovery of joint motion and function, for use in surgical procedures (including without limitation arthroscopic,

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cardiovascular, urologic and general surgical procedures), other medical procedures, and/or for treatment of cartilaginous disorders, which have been developed or are owned or held by Omeros; (b) drug delivery systems and methods, which have been developed or are owned or held by Omeros; (c) methods, antibodies and other agents and compositions for the inhibition of the complement immune system, which have been developed or are owned or held by Omeros, and includes, without limitation, research and development information, know-how, inventions, trade secrets, technical data, formulae, treatment methods, license agreements, clinical trial design criteria, protocols, investigators' brochures, models, samples, processes, chemistry, manufacturing and controls information, regulatory information, and any type of product development, business, marketing or legal plans or strategies or financial information.

For information disclosed by MRC, "Confidential Information" means any and all information relating to MASP-2: methods, antibodies and other agents and compositions for the inhibition of the complement immune system in relation to MASP-2, which have been developed or are owned or held by MRC, and includes, without limitation, research and development information, know-how, inventions, trade secrets, technical data, formulae, treatment methods, license agreements, models, samples, processes, and any type of business, marketing or legal plans or strategies or financial information.

2.2 Confidential Information does not include information that the recipient can establish:

2.2.1 is or becomes generally available to the public other than as a result of a disclosure by the recipient;

2.2.2 was in the possession of the recipient prior to its being furnished to the recipient under this Agreement, provided that the source of such information was not known to the recipient to be bound by a confidentiality agreement with, or other contractual, legal, or fiduciary obligation of confidentiality to the disclosing party or any other party with respect to such information;

2.2.3 becomes available to the recipient on a non-confidential basis from a source other than the disclosing party, provided that such source is not bound by a confidentiality agreement with, or other contractual, legal, or fiduciary obligation of confidentiality to the disclosing party or any other party with respect to such information; or

2.2.4 was independently developed by the recipient without reference to the Confidential Information, provided that such independent development can reasonably be proven by the recipient by written records.

2.3 If the recipient is required by order of a court of law, administrative agency, or other governmental body to disclose any of the Confidential Information, the recipient will promptly provide the disclosing party with reasonable advance written notice if at all possible to enable the disclosing party the opportunity to seek a protective order or to otherwise prevent or limit such legally required disclosure, will use reasonable efforts to cooperate with the disclosing party to obtain such protection, and will disclose only the legally required portion of the Confidential Information. Any such

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legally required disclosure will not relieve recipient from its obligations under this Agreement to otherwise limit the disclosure and use of such information as Confidential Information.

3. **Limitations on Use.** In further recognition of the value of Confidential Information, the recipient acknowledges that it shall not engage in the reproduction of Confidential Information through the techniques of “reverse engineering”. The recipient shall not make any use, either directly or indirectly, of any Confidential Information to which the recipient has been, is or will be exposed, except in the ordinary course of business pursuant to this Agreement for the Purpose or as may be expressly authorized in a separate specific written agreement between the parties. Nothing in this Agreement shall be construed as giving recipient any license or other right under any intellectual property of the disclosing party. Neither party shall disclose the existence and nature of this Agreement or the fact that it is evaluating the other party’s Information, except that such disclosure to a party’s present and potential employees, consultants, officers, directors, shareholders and investors is permitted, and neither party shall use the name of the other party in any publicity or advertising without that party’s prior written approval.

4. **Return of Confidential Information.** When requested by the disclosing party or at the termination of the relationship giving rise to this Agreement, whichever first occurs, the recipient immediately shall deliver all Confidential Information and all copies thereof in its possession or in the possession of its employees, provided that the recipient’s legal counsel may retain one archival copy of the Confidential Information solely for purposes of ensuring compliance with this Agreement.

5. **Specific Performance.** The parties acknowledge that (a) the covenants set forth in Sections 1, 3 and 4 are essential elements of the transactions contemplated in this Agreement and that, but for the agreement to comply with such covenants, the parties would not have entered into such transactions, and that the parties have consulted with, or have had the opportunity to consult with, counsel and have been advised in all respects concerning the reasonableness of such covenants as to scope and limit of time; (b) the disclosing party will not have any adequate remedy at law if the recipient violates the terms of Sections 1, 3 and 4 fails to perform any of its other obligations hereunder; and (c) the disclosing party shall have the right, in addition to any other rights it may have, to obtain in any court of competent jurisdiction temporary, preliminary and permanent injunctive relief to restrain any breach, threatened breach, or otherwise to specifically enforce any of such covenants or any other obligations of the recipient if the recipient fails to perform any of its obligations under this Agreement.

6. **Term.** This Agreement and the obligations of nondisclosure and nonuse set forth herein shall terminate five (5) years after the date of the last disclosure of Confidential Information under this Agreement. Prior to termination of this Agreement, either party may deliver written notice to the other party that it no longer wishes to receive Confidential Information under this Agreement, after receipt of which any information subsequently sent in writing or orally disclosed by either party shall be deemed non-confidential.

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7. **Miscellaneous.** This Agreement shall be binding upon and inure to the benefit of the parties' successors and assigns. The waiver of any breach of any provision of this Agreement or failure to enforce any provision hereof shall not operate or be construed as a waiver of any subsequent breach by any party. The invalidity of all or any part of any section of this Agreement shall not render invalid the remainder of this Agreement or the remainder of such section. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable. In any litigation or disputes arising out of this Agreement, the substantially prevailing party will be entitled to recover all reasonable costs and attorneys' fees, including costs and fees on appeal. The provisions of this Agreement shall not be construed as limiting any rights or remedies that either party may otherwise have under the applicable law.

8. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

DATED as of 9 May 2005.

OMEROS CORPORATION

By _____

Its _____

MEDICAL RESEARCH COUNCIL

By _____

Its _____

† _____
DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

FUNDING AGREEMENT

This Funding Agreement ("Agreement") is made as of December 18, 2006 (the "Effective Date") by and between The Stanley Medical Research Institute, a 501(c)(3) corporation organized under the laws of Connecticut and having a place of business at 8401 Connecticut Avenue, Suite 200 Chevy Chase, MD 20815 ("SMRI"), and Omeros Corporation, a corporation organized under the laws of Washington State and having its principal place of business at 1420 Fifth Avenue, Suite 2600 Seattle, WA 98101 ("Omeros") (together with SMRI, the "Parties" and each, a "Party").

WHEREAS, Omeros has a program for the development of a PDE10 inhibitor as a therapeutic candidate for the treatment of schizophrenia and/or other neuropsychiatric disorders; and

WHEREAS, SMRI desires to fund, with a combination of grant and equity financing, certain development work with respect to Omeros' PDE10 program on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and promises herein contained, the Parties agree as follows:

1 Certain Definitions.

1.1 Defined Terms. Following is a list of the defined terms used in this Agreement and, where applicable, the section references where they are defined.

"Administrative Expenses" shall have the meaning set forth on Exhibit A.

"Affiliate" means, with respect to a particular Party, a person, corporation, partnership, or other entity that controls, is controlled by or is under common control with such Party. For the purposes of the definition, the word "control" (including, with correlative meaning, the terms

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“controlled by” or “under common control with”) means the actual power, either directly or indirectly through one or more intermediaries, to direct or cause the direction of the management and policies of such entity, whether by the ownership of at least fifty percent (50%) of the voting stock of such entity, or by contract or otherwise.

“Combination Product” means any product containing both (i) the Product, and (ii) one or more other therapeutically active ingredients.

“Commercialization Expenses” shall have the meaning set forth on Exhibit A.

“Commercially Reasonable Efforts” shall mean the application of a material level of effort, expertise and resources that is generally consistent with industry standards for companies of Omeros’ size, capitalization and development stage to, as appropriate, research, develop and commercialize a Product where such research, development and commercialization are technically feasible, devoting the same degree of attention and diligence to such efforts that is substantially and materially consistent with industry standards for companies of Omeros’ size, capitalization and development stage and for products at a comparable stage of development, with the objective of launching Products in one or more countries as soon as commercially practicable.

“Commercial Sale” means sale of the Product by Omeros, its Affiliates or licensees, following Regulatory Approval. Sales for test marketing, sampling, promotional uses, clinical trial purposes or compassionate or similar use shall not be considered to constitute a Commercial Sale.

“Confidentiality Agreement” shall have the meaning set forth in Section 3.2.

“Cost of Goods Sold”, shall have the meaning set forth on Exhibit A.

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“Currency Adjustments” shall have the meaning set forth on Exhibit A.

“Direct Investment” means all internal and external expenses directly attributable to the Program, including, without limitation, all related research and development costs (including, without limitation, clinical, regulatory and Patents costs), program acquisition costs, FTE costs, dedicated equipment and laboratory supplies, and laboratory space.

“Early Royalties” shall have the meaning set forth in Section 2.6.

“FDA” means the United States Food and Drug Administration, or any successor entity.

“First Commercial Sale” means the first Commercial Sale to a third party.

“FTE” shall mean the equivalent of a full-time employee’s working days over a twelve (12) month period (including normal vacations, sick days and holidays). The portion of an FTE devoted by an employee to a Program over a year shall be determined by dividing the number of full days during any twelve (12)-month period devoted by such employee to the program by the total number of working days during the twelve (12)-month period.

“Grant Funds” shall mean grant funds paid to Omeros under the Agreement by SMRI.

“Intellectual Property Rights” means all of the following, whether U.S. or non-U.S.: (a) Patents; (b) trademarks, service marks, trade dress, logos, tradenames, service names, domain names, Internet websites and corporate names and registrations and applications for registration thereof; (c) copyrights, copyrightable works, and registrations and applications for registration thereof, including copyrights relating to computer programs; (d) mask works and registrations and applications for registration thereof; (e) trade secrets; (f) computer programs; (g) biological

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materials, bioassays, cell lines, clones, molecules, protocols, reagents, experiments, lab results, tests and all other tangible or intangible proprietary information; and (h) other proprietary rights whether or not relating to any of the foregoing (including without limitation associated goodwill and remedies against infringements thereof and rights of protection of an interest therein under the laws of all jurisdictions).

“Interruption” shall occur if at any time before the First Commercial Sale of a Product, Omeros, its Affiliates, licensees, sublicensees, transferees and/or successors, all cease to conduct, or to cause to have conducted Commercially Reasonable Efforts with respect to the research, development and/or commercialization of a Product, including without limitation regulatory, patent and business partnering activities concerning a Product, for a period of [†] consecutive days; provided, however, that any cessation of such activities due to a regulatory process, availability of compounds, materials or necessary processes, the procurement of Intellectual Property Rights, any dispute or legal proceeding concerning third party Intellectual Property Rights that are necessary to the research, development and/or commercialization of a Product, or any other material factor not reasonably within Omeros’, its Affiliates’, licensees’, transferees’ and/or successors’ control (e.g., strikes, terrorism, natural disasters, war), that renders the research, development and/or commercialization impracticable shall be excused and shall not constitute an Interruption.

“Interruption License” shall have the meaning set forth in Section 3.1.4.

“IPQ” shall have the meaning set forth in Section 2.3.1.

“JPAC” shall have the meaning set forth in Section 3.7.1.

“JPAC Reports” shall have the meaning set forth in Section 3.7.1.

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“Milestone” shall have the meaning set forth in Section 2.2.2.

“Net Income” shall have the meaning set forth on Exhibit A.

“Net Program Conveyance Proceeds” shall have the meaning set forth in Section 2.6.

“Net Sales” shall have the meaning set forth in on Exhibit A.

“Omeros Designee” shall have the meaning set forth in Section 3.7.1.

“Patents” means inventions, patents, patent applications (including provisional applications), patent disclosures and all related continuation, continuation-in-part, divisional, reissue, re-examination, utility, model, certificate of invention and design patents, registrations, applications for registrations and any term extension or other governmental action which provides rights beyond the original expiration date of any of the foregoing.

“PDE10” means phosphodiesterase 10.

“Phase 2 Clinical Trial” means a human clinical trial evaluating the efficacy and safety of the Product in any country that would satisfy the requirements of 21 CFR §312.21(b).

“Phase 3 Clinical Trial” means a human clinical trial evaluating the efficacy and safety of the Product in any country that would satisfy the requirements of 21 CFR §312.21(c).

“Product” means any therapeutic product developed under this Agreement that inhibits or modulates PDE10.

“Program” means research and development activities, including without limitation clinical and regulatory activities, relating to PDE10 and the development of the Product.

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“Program IP” shall have the meaning set forth in Section 3.1.1.

“Program Conveyance” shall have the meaning set forth in Section 2.6.

“Regulatory Approval” means an approval, if any, by the health regulatory authority in a given country or jurisdiction, required for the sale/marketing and, if necessary, pricing of the Product for use in humans for a given indication.

“Royalties” shall have the meaning set forth in Section 2.5.

“SEC” means the United States Securities and Exchange Commission, or any successor entity.

“Series E Shares” shall have the meaning set forth in Section 2.2.1(b).

“SMRI Designee” shall have the meaning set forth in Section 3.7.1.

“SMRI Royalty Share” shall have the meaning set forth in Section 2.5.

“SPA” shall have the meaning set forth in Section 2.2.1(b).

“Third Party Expenses” shall have the meaning set forth in Section 5.9.

“Third Party Royalties” shall have the meaning set forth on Exhibit A.

2 **The Funding.**

2.1 **The Funds.** SMRI shall provide Omeros with up to nine million dollars (\$9,000,000) of combined equity and grant funding set forth below.

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2.2 **Disbursement of Funds to Omeros.**

2.2.1 **Upfront Payment.** Upon execution of this Agreement, SMRI shall:

(a) make a cash payment of \$1.3M to Omeros as Grant Funds; and

(b) purchase \$1.3M of Omeros Series E preferred stock (the "**Series E Shares**") at a purchase price per share of \$5.00, pursuant to the Series E Preferred Stock Purchase Agreement dated March 16, 2004 as attached hereto as **Exhibit B** including the most recent Addendum thereto substantially in the form included in **Exhibit B** (collectively the "**SPA**"). Upon the purchase of such Series E Shares, SMRI shall also execute and become a party to that certain Amended and Restated Investors' Rights Agreement, attached hereto as **Exhibit C**, by and among Omeros and certain investors named therein.

2.2.2 **Milestones.** In addition to the Upfront Payment set forth above, SMRI may at its option make the following additional payments: (i) further equity investments in Omeros in accordance with **Section 2.3** below; and (ii) further grant funding upon achievement of the following milestones (the "**Milestones**").

<u>Stage</u>	<u>Payment Milestone</u>	<u>Equity</u>	<u>Grant Funding</u>
Preclinical Development	Upon achievement of a Product candidate that meets the following preclinical criteria: [†]	Up to \$1.2MM	Up to \$1.9MM
Phase 1 Clinical Program	Upon filing of Investigational New Drug Application with the FDA	Up to \$0.6MM	Up to \$2.7MM
Totals (including Upfront Equity and Grant Payments)		Up to \$3.1MM	Up to \$5.9MM

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2.2.3 **Achievement of Milestones.** Upon achievement of a Milestone, Omeros shall notify SMRI as set forth in Section 3.7.2 below. SMRI and Omeros shall meet promptly, in person or by teleconference, in order to determine whether SMRI will make and Omeros will accept a further equity investment plus associated grant funding with respect to such Milestone up to the amounts set forth in Section 2.2.2 as may be mutually agreed. SMRI shall make any agreed upon further payments of further equity investment plus associated grant funding to Omeros within thirty (30) days of determination of the JPAC that a Milestone has been satisfied and achieved. It is the intent of the Parties that the total equity investment(s) made by SMRI under this Agreement equal 34-35% of the total funding (including equity investments plus Grant Funds) provided by SMRI to Omeros under this Agreement.

2.3 **Equity for Milestone Payments.**

2.3.1 **Terms of Investment.** The equity purchased by SMRI for the Milestones shall be either (i) Series E Shares in accordance with the SPA, if purchased prior to Omeros' initial public offering ("IPO") or (ii) unregistered common stock of Omeros, registrable within 90 days of issuance and priced at the average closing ask price for Omeros' common stock for the five trading days preceding the closing of the equity investment, less a discount of 0 to 10%, such discount to be mutually agreed by Omeros and SMRI, if purchased after the IPO. Omeros shall provide SMRI written notice in the event that it files a Form S-1 with the United States Securities and Exchange Commission (the "SEC") within ten (10) days following such filing.

2.3.2 **Option to Purchase Equity Early.** During a thirty (30)-day period following receipt by SMRI of notification of Omeros' filing of Form S-1 with the SEC, SMRI shall have the right to purchase Series E Shares at a purchase price of five dollars (\$5.00) per share, provided, such equity

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investment is made concurrent with payment by SMRI to Omeros of the corresponding grant funding.

2.4 **Additional Funding.** SMRI may optionally purchase additional equity in Omeros and/or provide Omeros with additional grant funding, subject to the mutual agreement of the Parties. Such additional investment may be in an amount equal to as much as [†] of the total costs associated with the Phase 2 Clinical Trials and Phase 3 Clinical Trials for the Product candidate. The parties agree to negotiate in good faith concerning such additional funding; provided, however, SMRI shall not be obligated to make such additional equity investment or pay such additional grant funding, and Omeros shall not be obligated to sell such additional equity or accept such additional grant funding.

2.5 **SMRI Royalty.** In consideration of SMRI's payment of the Grant Funds and its agreement to license Program IP to Omeros, except as provided in Section 2.6, beginning the first calendar year after the First Commercial Sale occurs, Omeros shall pay SMRI royalties ("Royalties") equal to [†] of Omeros' Net Income in any given year (the "SMRI Royalty Share") subject to maximum payment amounts as follows:

<u>Royalties</u>	<u>Royalty Equal to the following multiple of Grant Funds</u>
1. For any portion of Grant Funds paid within [†] of date of receipt by Omeros of such portion of the Grant Funds	[†]
2. For any portion of the Grant Funds remaining after payments in subparagraph 1 above that are repaid within [†] of date of receipt by Omeros of such portion of the Grant Funds	[†]
3. For any portion of the Grant Funds remaining after payment in subparagraph 2 above that are repaid within [†] of the date of receipt by Omeros of such portion of the Grant Funds	[†]

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Omeros shall pay the SMRI Royalty Share within sixty (60) days of the end of each calendar quarter. Omeros may prepay the royalty set forth in the table above, at any time, without penalty or premium, at its option. If there are no Commercial Sales of the Product, or if Omeros terminates the Program for any reason, Omeros shall have no obligation to pay Royalties thereafter.

SMRI shall have the right to audit Omeros' financial statements to the extent directly relevant to the computation of Omeros' Net Income and the SMRI Royalty, at reasonable times following advance request and no more frequently than once per year. SMRI shall bear the fees and expenses in connection with any such audit, except that if an error in Omeros' Net Income of more than five percent (5%) is discovered from any such audit, then Omeros shall bear the reasonable costs of such audit.

2.6 Assignment and Sublicensing. In the event that Omeros conveys to a third party all or substantially all of its rights to and title in the Program, by assignment, sale, exclusive license/sublicense or other conveyance, including all rights related to the Product and the Program IP (a "Program Conveyance") without reservation of any commercialization right, separate from and independently of the assignment, sale, exclusive license/sublicense or other conveyance of any other of Omeros' programs or assets, for a net amount after deducting (a) all of Omeros' costs associated with such sale and (b) Omeros' Direct Investment ("Net Program Conveyance Proceeds"), that exceeds Omeros' Direct Investment, Omeros shall make early payment of the SMRI Royalty up to a maximum amount equal to [†] of the total of the Net Program Conveyance Proceeds (the "Early Royalties"). The Early Royalties shall not exceed the total of the Grant Funds multiplied by the applicable multiple set forth in Section 2.5. The obligation to pay royalties remaining after any Early Royalty payment in accordance with the preceding sentence of this Section 2.6 shall be

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assumed by any third party assignee or other successor of title to the Program as provided in Sections 5.2 and 5.3, and shall be retained by Omeros in the case of any license/sublicense of the Program.

3 Intellectual Property; Confidentiality; Indemnification; Covenants.

3.1 Intellectual Property.

3.1.1 **Ownership.** All Intellectual Property Rights created, conceived or reduced to practice in connection with the Program and during the course of this Agreement by Omeros and/or by SMRI (the "Program IP"), as well as all of Omeros' pre-existing Intellectual Property Rights related to PDE10, shall be owned by Omeros. SMRI shall, and hereby does, grant an exclusive license to Omeros to any and all of SMRI's other right, title and interest in and related to any Program IP (and shall require and cause SMRI's employees and contractors to assign all of their rights, title and interest in and to any Program IP to SMRI. Further, SMRI shall execute and deliver (and shall require and cause its employees and contractors to execute and deliver), upon the request of Omeros, any assignments, powers of attorney, declarations or other instruments, and take any actions, as may be necessary or desirable to confirm Omeros' ownership of the Program IP and to assist Omeros in applying for, prosecuting, maintaining and enforcing the Program IP including any Patent included therein.

3.1.2 **No Rights in Omeros' Intellectual Property.** Except as provided in Section 3.1.4, there shall be no license, express or implied, granted to SMRI in connection with this Agreement to any of Omeros' Intellectual Property, including without limitation, the Program IP.

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3.1.3 **Abandonment.** Notwithstanding any contrary provision contained herein, prior to Omeros (or any Affiliate, licensee, sublicensee, transferee or successor of Omeros) abandoning any Patent or patent application related to the Program IP (including abandonment for failure to pay any required fees), Omeros shall promptly notify SMRI, or cause SMRI to be notified, of such pending abandonment, whereupon SMRI shall have the right and opportunity to assume title to the applicable Patent and/or patent application and to maintain the issued patent or continue the prosecution of the patent application at SMRI's own expense. Omeros hereby agrees to exercise its good faith efforts to obtain such consents, on SMRI's behalf, as may be necessary, advisable and/or appropriate for SMRI to exercise its rights under this Section 3.1.3. Thereafter, prior to SMRI (or any Affiliate, licensee, sublicensee, transferee or successor of SMRI) abandoning any such assumed Patent or patent application related to the Program and any Product, Omeros shall have the right and opportunity to reassume title to such assumed Patent or patent application under the same conditions as provided for SMRI above in this subsection 3.1.3.

3.1.4 **Interruption License.** Effective as of the Effective Date, Omeros hereby grants to SMRI with respect to the Program the following option to take a license (the "Interruption License"), which shall become exercisable by SMRI in the event of an Interruption:

(a) An exclusive (even as to Omeros except for research purposes) worldwide license, with the right to sublicense, under the Program IP to develop, manufacture, have manufactured, use, sell, offer to sell and import Products, together with a nonexclusive worldwide license, with the right to sublicense, to any other Intellectual Property Right in the Program solely to the extent necessary for SMRI to develop, manufacture, have manufactured, use, sell, offer to sell and import Products.

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(b) In the event that Omeros transfers all or substantially all of its rights and obligations to develop and commercialize a Product to a third party by virtue of a Program Conveyance, Omeros shall use reasonable good faith efforts to obtain reversion rights from the third party. The time required for such rights to revert to Omeros shall be excused and shall not constitute an Interruption. Upon reversion to Omeros of such rights in the Product, the Interruption License shall again become exercisable by SMRI in the event of an Interruption, in which case such reversion rights shall flow to the benefit of SMRI. Except for such reversion rights that Omeros might obtain from any third party, such third party shall not be subject to the obligations of the Interruption License.

(c) The Interruption License shall be deemed to constitute intellectual property as defined in Section 365(n) of the U.S. Bankruptcy Code. Omeros agrees that SMRI, as a licensee of such rights, shall retain and may exercise all of its rights and elections under the U.S. Bankruptcy Code; provided, however, that nothing in this Agreement shall be deemed to constitute a present exercise of such rights and elections.

(d) In connection with this Section 3.1.4, Omeros shall deliver to SMRI, within thirty (30) days of the occurrence of an Interruption, all materials and data generated in the performance of the Program, and all other materials and data that Omeros may own and/or control that are required by SMRI to use and practice and applicable technology.

(e) In the event that the Interruption License becomes effective, in lieu of any other royalties pursuant to this Agreement (other than royalties or payments under Sections 2.5 and 2.6 previously paid by Omeros to SMRI in accordance with this Agreement), the Parties shall share equally any amount SMRI receives with respect to the Program or any Product (including amounts received in connection with sublicenses of the Interruption License), provided that, SMRI's share

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shall increase and Omeros' share shall decrease by [†] SMRI spends in addition to the Grant Funds and equity investment pursuant to this Agreement with respect to the research, development and/or commercialization of the Product after the effective date of the Interruption License, except that, in no event shall Omeros' share decrease below [†]. Thus, for example, if SMRI's expenditures after the effective date of the Interruption License are [†], SMRI's share will increase to [†] and Omeros' share will decrease to [†].

3.2 **Confidentiality; Use of Names.** The terms and existence of this Agreement, as well as any information disclosed to SMRI by Omeros in connection with this Agreement and the Program, including without limitation the Program reporting pursuant to Section 3.7, shall be considered "Confidential Information" and subject to, and governed by, the terms of that certain Confidentiality Agreement by and between SMRI and Omeros dated August 8, 2006 (the "Confidentiality Agreement"); provided, however, that each party shall be permitted to disclose the terms and existence of this Agreement to its respective employees, officers, directors, consultants and professional advisors, and Omeros shall be permitted to disclose the terms and existence of this Agreement to its current and prospective shareholders, investors and commercial partners. Except as permitted above in this Section 3.2 with respect to disclosure of the existence and terms of this Agreement, neither party shall use the other party's name without the other party's written consent, including without limitation for any promotional or marketing purposes.

3.3 **Indemnification.** Omeros agrees to indemnify, defend, and hold SMRI harmless from and against any liability, losses, damages, and expense (including reasonable attorney's fees and costs) arising from any third party claim, action or proceeding to the extent shown by a court of competent jurisdiction to have arisen from: (a) injuries to persons or damages which occur on Omeros'

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premises, (b) the negligence or intentional misconduct of Omeros, except in each of (a) and (b), to the extent caused by the negligence or intentional misconduct of SMRI, and (c) the knowing infringement of any patent by Omeros. In the event of an Interruption and exercise by SMRI of its option to take an Interruption License under Section 3.1.4 herein, SMRI agrees to indemnify, defend, and hold Omeros harmless from and against any liability, losses, damages, and expense (including reasonable attorney's fees and costs) arising from any third party claim, action or proceeding to the extent shown by a court of competent jurisdiction to have arisen from: (a) injuries to persons or damages which occur on SMRI's premises, (b) the negligence or intentional misconduct of SMRI, except in each of (a) and (b), to the extent caused by the negligence or intentional misconduct of Omeros, and (c) the knowing infringement of any patent by SMRI.

3.4 **Insurance.** Omeros shall maintain at its own expense, with a reputable insurance carrier reasonably acceptable to SMRI, coverage for Omeros, its Affiliates, and their respective employees written on a per occurrence basis, commensurate with a reasonable assessment of the risks associated with the research efforts being conducted by Omeros, which insurance will name SMRI as an additional insured. Such insurance shall include without limitation errors and omissions insurance encompassing claims relating to the performance and lack of performance of Omeros' obligations under this Agreement and comprehensive general liability insurance for claims relating to the performance and lack of performance of Omeros' obligations under this Agreement and comprehensive general liability insurance for claims for damages arising from bodily injury (including death) and property damages arising out of acts or omissions of an Omeros Party which will be specifically endorsed to cover Omeros' indemnification obligations under Section 3.3. Maintenance of such insurance coverage will not relieve Omeros of any responsibility under this Agreement for damages in excess of insurance limits or otherwise. On or prior to the Effective Date,

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Omeros shall provide SMRI with an insurance certificate from the insurer(s) evidencing each insurance coverage and the insurer's agreement to notify SMRI at least sixty (60) days in advance of any cancellation or modification of such insurance coverage. At its request, SMRI may review Omeros' insurance coverage with relevant Omeros officials from time to time.

3.5 **DISCLAIMER OF WARRANTY; LIMITATION OF LIABILITY.** THE PARTIES RECOGNIZE THAT RESEARCH AND DEVELOPMENT IS INHERENTLY UNCERTAIN AND NONE OF THE PARTIES HERETO MAKE ANY REPRESENTATIONS, WARRANTIES, OR GUARANTIES OF ANY KIND WITH RESPECT TO THE SUCCESS OF THE PROGRAM OR THE PRODUCT. EXCEPT WITH RESPECT TO BREACHES OF THE CONFIDENTIALITY AGREEMENT OR THE INTELLECTUAL PROPERTY PROVISIONS OF SECTION 3.1 ABOVE, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY HERETO, OR TO ANY THIRD PARTY, FOR ANY LIABILITY, DAMAGES, OR EXPENSE INCLUDING SPECIAL, DIRECT, INDIRECT, CONSEQUENTIAL DAMAGES OR OTHER ECONOMIC LOSS IN CONNECTION WITH THIS AGREEMENT.

3.6 **Operation of the Program.**

3.6.1 **General.** Subject to Section 3.6.2 below, Omeros shall (i) use Commercially Reasonable Efforts to achieve the milestones set forth herein and ultimately commercialize a Product, (ii) use the Grant Funds furnished by SMRI solely for the Program in Omeros' sole discretion; provided that, it is Omeros' intention to expend amounts on the Program that exceed the Grant Funds and amounts of SMRI's equity investment under this Agreement.

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3.6.2 **Personnel; Outsourcing.** Omeros will maintain an in-house chemist to supervise, and consulting chemists to assist with, the Program, which chemists shall be reasonably acceptable to and approved by SMRI, such approval not to be unreasonably conditioned, withheld or delayed. SMRI agrees that [†], Omeros' Senior Group Leader, Medicinal Chemistry, with support from consultants [†], are acceptable to SMRI for purposes of this Section 3.6.2. Further, SMRI shall have the right to approve contract research organizations and consultants selected for outsourced chemistry work, such approval not to be unreasonably conditioned, withheld or delayed.

3.7 **Joint Program Advisory Committee; Program Reporting.**

3.7.1 **Composition and Purposes.** During the term of the Research Program, a Joint Program Advisory Committee ("JPAC") shall facilitate communication between the Parties, and make recommendations, with respect to the Program. The JPAC shall consist of four (4) members, two (2) of whom shall be designated by Omeros (the "Omeros Designees"), and two (2) of whom shall be designated by SMRI (the "SMRI Designees"). Each party (a) shall select a Program Coordinator from among its designees to the JPAC (who may be changed at any time or from time to time by such Party), and (b) may change any of its designees to the JPAC at any time or from time to time. The Program Coordinator of Omeros shall serve as the Chairperson of the JPAC. The initial Omeros Designees and the initial SMRI Designees shall be identified by the respective Parties within thirty (30) days of the execution of this Agreement.

Without limiting the generality of the foregoing, the JPAC shall:

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(a) consider, review, reevaluate and discuss the research plan, evaluate any proposed revisions to the research plan, and give its recommendations regarding any proposed amendments to the research plan;

(ii) monitor the progress of the Program, and make recommendations to Omeros' research team as needed on next steps to implement the Program;

(iii) determine whether the Milestones have been satisfied and achieved; and

(iv) provide periodic meeting reports on the status of the Program to SMRI (the "JPAC Reports"), which JPAC Reports shall not include the chemical structure of any Products or Product candidates in recognition of the serious harm to the Program and Omeros that could result from the disclosure of such structures.

3.7.2 Meetings. The JPAC shall meet no less frequently than once in each six (6) month period during the Research Program; provided, however, that the JPAC shall meet more frequently if requested by either Program Coordinator. The first meeting of the JPAC shall be held within ninety (90) days of the Effective Date. Meetings of the JPAC shall be held at such times and locations as may be mutually agreed upon by the Program Coordinators, which times and locations shall be communicated in writing (including, without limitation, by email) to the other members of the JPAC with reasonable advance notice of the meeting. Members of the JPAC may attend each meeting either in person or by means of telephone or other telecommunications device that allows all participants to hear and speak at such meeting simultaneously. At least ten (10) business days prior to each meeting, Omeros shall deliver (including by email) to SMRI a written report detailing the progress made on the Program since the last meeting of the JPAC. Within twenty (20) days after the

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date of each meeting, the Omeros Designees shall prepare and deliver (including by email) to the SMRI Designees written minutes of such meeting setting forth in detail all discussions and/or recommendations of the JPAC made at such meeting, which such minutes shall be subject to the prior approval of SMRI's Program Coordinator, but which minutes shall not include the chemical structure of any Products or Product candidates.

3.7.3 **Expenses.** Each Party shall pay its own expenses (including travel and lodging expenses) incurred in connection with its participation on the JPAC.

3.7.4 **Reporting.** After the completion of the Program and until the First Commercial Sale, Omeros shall report in writing on an annual basis on the progress of the Program.

3.8 **Board.** At Omeros' request and discretion, [†], will join Omeros' Board of Directors. It is understood that, if [†] joins Omeros' Board, he would attend some Board Meetings by videoconference or teleconference. Omeros would provide [†] with Directors' and Officers' liability coverage and an indemnification agreement (attached hereto as Exhibit D) consistent with coverage and indemnification provided to other members of Omeros' Board. Such coverage and/or indemnification agreement may be amended in connection with Omeros' IPO. In keeping with legal requirements for Washington corporations, [†] will be subject to the normal fiduciary and confidentiality obligations of a board member. It is anticipated that Omeros will keep SMRI informed of the progress of the Program through the JPAC Reports.

4 **Term and Termination.**

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4.1 **Term.** The term of this Agreement shall commence on the Effective Date and shall extend, unless sooner terminated in accordance with the provisions of this Section 4, until the date that Omeros has fulfilled its Grant Funds repayment obligations, if any, pursuant to this Agreement.

4.2 **Mutual Agreement.** The Parties may terminate this Agreement at any time by written agreement of Omeros and SMRI.

4.3 **Termination for Breach.**

4.3.1 In the event that Omeros shall be in material breach or default of a material obligation under this Agreement or the Confidentiality Agreement and shall fail to remedy such breach or default within sixty (60) days after receipt of written notice thereof given by SMRI, SMRI shall be entitled to terminate this Agreement upon written notice to Omeros at any time after such sixty (60) day period.

4.3.2 In the event that SMRI shall be in material breach or default of a material obligation under this Agreement or the Confidentiality Agreement and shall fail to remedy such breach or default within sixty (60) days after receipt of written notice thereof given by Omeros, Omeros shall be entitled to terminate this Agreement upon written notice to SMRI at any time after such sixty (60) day period.

4.4 **Survival.** Termination of this Agreement for any reason shall not release a Party from any liability which at the time of such termination has already accrued to the other Party, including Omeros' remaining obligations, if any, to complete repayment of the Grant Funds pursuant to this Agreement. The terms of Sections 2.5, 2.6, 3.1, 3.2, 3.4, Section 5 and this Section 4.4 shall survive any termination or expiration of this Agreement, except that the terms of Subsection 3.1.4

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(Interruption License) shall not survive the termination of this Agreement under Section 4.3.2 of this Agreement due to SMRI's material breach or default. Except as otherwise provided in this Section 4.4, all rights and obligations of the Parties under this Agreement shall terminate upon the expiration or termination of this Agreement.

5 **Miscellaneous.**

5.1 **Notice.** Any notice or other communication required by this Agreement shall be made in writing and given by prepaid, first class, certified mail, return receipt requested, and shall be deemed to have been served on the date received by the addressee at the following address or such other address as may from time to time be designated by the recipient Party in writing:

If to SMRI:

The Stanley Medical Research Institute
8401 Connecticut Avenue, Suite 200
Chevy Chase, MD 20815
Attn: Executive Director

With copies to:

Bingham McCutchen
3000 K Street, N.W., Suite 300
Washington, DC 20007
Attn: Kenneth I. Schaner, Esq.

If to Omeros:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attn: Chief Executive Officer

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With copies to:
Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attn: General Counsel

5.2 **Assignment.** This Agreement may not be assigned by either Party without the prior written consent of the other Party, except that Omeros may assign this Agreement, without such prior written consent, to a third party that succeeds to all or substantially all of Omeros' business and assets relating to this Agreement whether by sale, merger, acquisition, change of control, operation of law or otherwise; provided that any such permitted assignee or transferee shall be bound by the terms and conditions of this Agreement except as provided in Subsection 3.1.4(b) above.

5.3 **License.** Omeros may, at its sole discretion, license any or all of the rights in the Product and/or the Program to any third party. Should Omeros choose to enter into such a licensing arrangement, the Parties shall remain bound to the terms and conditions of this Agreement.

5.4 **Disclosure.** In the event that Omeros terminates the Program due to lack of commercial viability of the Product, Omeros shall, subject to applicable legal and regulatory requirements, disclose such termination to its shareholders.

5.5 **Entire Agreement.** This Agreement together with the Confidentiality Agreement set forth the entire agreement between the Parties with respect to the subject matter herein and replace and supersede all prior discussions and agreements between them with respect to such subject matter hereof. This Agreement and the Confidentiality Agreement may not be changed or modified except by written agreement of the Parties.

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5.6 **Relationship of the Parties.** Nothing in this Agreement shall be construed to create a partnership or joint venture between the Parties, nor shall any Party's employees or agents be considered the employees or agents of any other. Neither Party shall have any express or implied right or authority to assume or create any obligation on behalf of, or in the name of, the other Party or to bind the other Party to any contract, agreement or other obligation with any third party.

5.7 **Governing Law.** This Agreement and performance by the parties hereunder shall be construed in accordance with the laws of the State of Washington, U.S.A., without regard to provisions on the conflicts of laws.

5.8 **Publicity.** Omeros shall have the sole right to issue a press release announcing the transactions contemplated by this Agreement, subject to SMRI's prior approval of the text of such press release, which shall not be unreasonably conditioned, withheld or delayed.

5.9 **Expenses.** All fees and expenses incurred in connection with this Agreement, including all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties ("Third Party Expenses") incurred by a party in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby, shall be the obligation of the respective party incurring such fees and expenses, [†]. No broker fees shall be paid in connection with any funding provided to Omeros by SMRI.

5.10 **Headings; Signatures.** Headings included herein are for convenience only, do not form a part of this Agreement and shall not be used in any way to construe or interpret this Agreement. Any reference to "third party" in this Agreement shall mean any person or entity which is not a Party, including, without limitation, any affiliate of any Party. This Agreement may be executed in

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counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. This Agreement may be executed by facsimile signature.

5.11 **Waiver.** No waiver by a Party of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the Party giving such waiver. No waiver by a Party with respect to any default, misrepresentation, or breach of warranty or covenant hereunder shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

5.12 **Validity of Agreement.** Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

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IN WITNESS WHEREOF, the Parties have caused their duly authorized representatives to execute this Agreement.

THE STANLEY MEDICAL
RESEARCH INSTITUTE

OMEROS CORPORATION

By: /s/ Michael B. Knable

By: /s/ Gregory A. Demopoulos

Name: Michael B. Knable, DO

Name: Gregory A. Demopoulos, M.D.

Title: Executive Director

Title: Chairman & CEO

Date: 12/18/06

Date: 12/15/06

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Signature Page to Funding Agreement

Exhibit Index

<u>Exhibit</u>	<u>Description</u>
Exhibit A	Certain Defined Terms
Exhibit B	Form of Stock Purchase Agreement
Exhibit C	Form of Investors' Rights Agreement
Exhibit D	Form of Indemnification Agreement

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Exhibit Index to Funding Agreement

EXHIBIT A

DEFINED TERMS RELATING TO NET INCOME AND COMMERCIALIZATION EXPENSES

“Net Income” means income resulting from the Commercial Sale of the Product by Omeros, or its Affiliate or sublicensee, and shall be equal to Net Sales minus Commercialization Expenses minus an assumed income tax rate of thirty percent (30%) after taking into account the deduction accorded Omeros for purposes of calculating taxable income for royalties payable to SMRI pursuant to this Agreement.

“Net Sales” means the amount invoiced or otherwise billed by Omeros or its Affiliates or its licensees for sales of the Product to a third party purchaser, less the following to the extent included in such billing or otherwise actually allowed or incurred with respect to such sales:

- (a) trade and quantity discounts other than early pay cash discounts and which effectively reduce the selling price and are appropriately deducted from sales under appropriate accounting principles, consistently applied;
- (b) returns, rebates, chargebacks and other allowances;
- (c) retroactive price reductions that are actually allowed or granted;
- (d) sales commissions paid to third party distributors and/or selling agents, in amounts customary to the trade;
- (e) a fixed amount equal to [†] of the amount invoiced to cover bad debt, sales or excise taxes, early payment cash discounts, transportation and insurance, custom duties, and other governmental charges; and
- (f) the standard inventory cost of devices or delivery systems used for dispensing or administering the Product (such as syringes and inhalation devices, but excluding packaging).

With respect to sales of Combination Products, Net Sales in any country shall be calculated on the basis of the gross invoice price of the Product sold in that country in the absence of the one or more additional therapeutically active ingredients contained in the Combination Products. In the event that the Product is sold in a country only as a Combination Product, Net Sales shall be calculated on the basis of the gross invoice price of the Combination Product multiplied by a fraction, the numerator of which shall be the average gross invoice price (converted to United States Dollars) of the Product in any country(ies) in which the Product is sold in the absence of the one or more additional therapeutically active ingredients contained in the Combination Product and the denominator of which shall be the average gross invoice price (converted to United States Dollars) of the Combination Product in those same countries. In the event that the Product is sold only as the Combination Product in a country and only as the Product alone in any and all other countries in which the Product is sold, the Net Sales for the Combination Product shall be calculated based on the average gross invoice price (converted to United States Dollars) of the Product sold in such other

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country(ies). The deductions set forth in paragraphs (a) through (f) above will be applied in calculating Net Sales for a Combination Product. In the event that the Product is not sold anywhere in the world as the Product alone and is sold only as a Combination Product, Omeros shall reasonably determine the value of the Product relative to the other therapeutically active ingredients contained in the Combination Product.

“Commercialization Expenses” means Cost of Goods Sold, plus Marketing Expenses plus Administrative Expenses, plus Third Party Royalties plus Currency Adjustments.

“Cost of Goods Sold” If the Product is manufactured by one or more third parties, The Cost of Goods Sold shall equal the actual costs incurred and payable to such third part(ies) by Omeros for such manufacture (including importation, transportation, handling and logistic charges for delivery to Omeros to the extent incurred by Omeros and any applicable royalties, other than Third Party Royalties, payable by Omeros). Cost of Goods Sold shall also include any inventory-related costs incurred prior to First Commercial Sale to ensure supply of the Product for First Commercial Sale. If the Product is manufactured by Omeros, then the “Cost of Goods Sold” shall mean Omeros’ actual fully burdened cost for manufacturing the Product, determined in accordance with generally accepted accounting principles, consistently applied.

“Marketing Expenses” means all direct selling, promotional and medical expenses (including costs of post-approval clinical studies of the Product) incurred with respect to detailing, distribution and sampling and marketing of the Product.

“Administrative Expenses” means indirect expenses incurred in supporting the commercialization of the Product following commercial launch of the Product.

“Third Party Royalties” means any royalty or other fee payments to any third party paid directly on the manufacture, importation, use, offer for sale or sale of the Product in order to avoid infringement of any third party right with respect to the manufacture, importation, use, offer for sale or sale of the Product.

“Currency Adjustments” means quarterly adjustments to actual amounts received by Omeros for that portion of Net Sales of the Product received in currencies other than United States Dollars.

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EXHIBIT B

OMEROS CORPORATION

TWELFTH ADDENDUM TO SERIES E PREFERRED STOCK
PURCHASE AGREEMENT

This Twelfth Addendum to Series E Preferred Stock Purchase Agreement (this "Addendum") is made as of the _____ day of _____ by and among Omeros Corporation, a Washington corporation (the "Company"), and the individuals and entities listed on Exhibit A attached hereto (the "Additional Purchasers").

RECITALS

On March 16, 2004, the Company entered into a Series E Preferred Stock Purchase Agreement (the "Purchase Agreement") with certain investors set forth on Exhibit A attached thereto. The Purchase Agreement provides in Section 1.2(c) thereof that additional investors may, under conditions set forth therein, become parties to the Purchase Agreement at any time on or before April 13, 2004 (unless extended by the Company's Board of Directors). Pursuant to Section 1.2(c) of the Agreement, the Board of Directors has authorized the Additional Purchasers to become parties to the Purchase Agreement as of the date of this Addendum.

AGREEMENT

In consideration of the mutual promises, covenants and conditions hereinafter set forth, the parties hereto mutually agree as follows:

1. Authorization and Sale of Preferred Stock.

1.1 Authorization of Preferred Stock. The Company will, prior to the Closing (as defined in Section 2.1 below), authorize the issuance pursuant to this Addendum of up to _____ shares of its Series E Preferred Stock (the "Additional Shares"). The rights, preferences, privileges and restrictions of the Series E Preferred Stock are as set forth in the Company's Amended and Restated Articles of Incorporation attached as Exhibit B to the Purchase Agreement, as amended by the Articles of Amendment attached as Attachment 1 to this Addendum (the "Restated Articles").

1.2 Sale of Preferred Stock. Subject to the terms and conditions hereof, at the Closing the Company will issue and sell to each Additional Purchaser, and each Additional Purchaser severally agrees to purchase from the Company, that number of Additional Shares specified opposite such Additional Purchaser's name on Exhibit A hereto, at a cash purchase price of \$5.00 per share. Each of the Additional Purchasers, by their signatures to the Agreements (as defined in the Purchase Agreement), shall (i) become parties to the Agreements, (ii) be considered a "Purchaser" or "Investor," as the case may be, for all purposes under the Agreements and (iii) have all the rights and obligations of a Purchaser or Investor, as the case may be, hereunder and

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thereunder. The Additional Shares acquired by the Additional Purchasers hereunder shall be considered "Stock" for all purposes under the Purchase Agreement, as amended.

2. Closing; Delivery.

2.1 **Closing.** The closing of the purchase and sale of the Additional Shares hereunder (the "Closing") shall be held at the offices of Wilson Sonsini Goodrich & Rosati, P.C., 701 fifth Avenue, Suite 5100, Seattle, Washington, at 10:00 a.m., on _____, or at such other time and place as the Company and the Additional Purchasers may agree.

2.2 **Delivery.** At the Closing, the Company will deliver to each Additional Purchaser a certificate representing the number of Additional Shares set forth opposite such Additional Purchaser's name on Exhibit A, against payment of the purchase price therefor by each Additional Purchaser by check payable to the Company or by wire transfer to the Company's bank account.

3. Disclosure; Capitalization.

3.1 **Disclosure.** Each Additional Purchaser hereby acknowledges receipt of the Purchase Agreement and the exhibits thereto. The Company affirms to each Additional Purchaser that:

(i) The representations and warranties of the Company set forth in Section 2 of the Purchase Agreement were true and accurate when made;

(ii) Those representations and warranties, which are incorporated herein by this reference and made a part hereof, remain true and accurate in all material respects as of the date hereof, except (A) for changes resulting from the transactions contemplated in the Purchase Agreement and (B) as set forth in the Schedule of Exceptions to Representations and Warranties attached hereto as Exhibit B.

(iii) The conditions to closing set forth in Section 4 of the Purchase Agreement and in Section 5 hereof have been satisfied, provided that the conditions set forth in Section 4.1 of the Purchase Agreement shall include references to changes in the Company's representations and warranties and the Company's status, respectively, as set forth herein and in the Exhibits attached hereto, and resulting from the consummation of the transactions contemplated by the Purchase Agreement.

3.2 **Capitalization.** Immediately prior to the Closing, the authorized capital of the Company shall consist of:

(i) _____ shares of Preferred Stock, of which (i) _____ shares have been designated Series A Preferred Stock, all of which are issued and outstanding immediately prior to the Closing, (ii) _____ shares have been designated Series B Preferred Stock, all of which are issued and outstanding immediately prior to the Closing, (iii) _____ shares have been designated Series C Preferred Stock, all of which are issued and outstanding immediately prior to the Closing, (iv) _____ shares have been designated Series D Preferred Stock, of which _____

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shares are issued and outstanding immediately prior to the Closing and (v) _____ shares have been designated Series E Preferred Stock, _____ of which are issued and outstanding immediately prior to the Closing. The rights, privileges and preferences of the Preferred Stock are as stated in the Restated Articles. All of the outstanding shares of Preferred Stock have been duly authorized, fully paid and nonassessable and issued in compliance with all applicable federal and state securities laws.

(ii) _____ shares of Common Stock, _____ shares of which are issued and outstanding immediately prior to the Closing. All of the outstanding shares of Common Stock have been duly authorized, fully paid and are nonassessable and issued in compliance with all applicable federal and state securities laws.

(iii) The Company has reserved _____ shares of Common Stock for issuance to officers, directors, employees and consultants of the Company pursuant to its 1998 Stock Option Plan duly adopted by the Board of Directors and approved by the Company's shareholders (the "Stock Plan"). Of such reserved shares of Common Stock, _____ shares have been issued pursuant to restricted stock purchase agreements, options to purchase _____ shares have been granted and are currently outstanding, and _____ shares of Common Stock remain available for issuance to officers, directors, employees and consultants pursuant to the Stock Plan. The Company has terminated its 1994 Stock Option Plan and all options granted thereunder.

(iv) Except for outstanding options issued pursuant to the Stock Plan, options to purchase _____ shares of Common Stock issued pursuant to Stock Option Agreements outside the Stock Plan, warrants to purchase _____ shares of Common Stock, _____ shares of Common Stock issuable for assumed options originally issued by nura, inc. under nura, inc.'s 2003 Stock Option Plan, _____ shares of Common Stock and _____ shares of Series E Preferred Stock issuable for assumed warrants originally issued by nura, inc. to Oxford Finance, a warrant to purchase _____ shares of Series D Preferred Stock, certain rights of first offer set forth in the Investors' Rights Agreement (as defined in the Purchase Agreement) and potential obligations on the part of the Company to issue warrants to purchase shares of Series E Preferred Stock at the Closing and any subsequent Closing(s) (as defined in the Purchase Agreement), there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal or similar rights) or agreements, orally or in writing, for the purchase or acquisition from the Company of any shares of its capital stock. The Company is not a party or subject to any agreement or understanding, and, to the best of the Company's knowledge, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company.

4. **Representations and Warranties of Additional Purchasers.** Each Additional Purchaser acknowledges that such Additional Purchaser has reviewed the representations and warranties set forth in Section 3 of the Purchase Agreement and agrees with the Company that such representations and warranties, which are incorporated herein by this reference and made a part hereof, are true and correct as of the date hereof as they relate to such Additional Purchaser's purchase of the Additional Shares hereunder.

† _____
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5. **Conditions to Additional Purchasers' Obligations at Closing.** The obligation of each Additional Purchaser to purchase the Additional Shares at the Closing is subject to the fulfillment to such Additional Purchaser's satisfaction at or prior to the Closing of the following conditions:

5.1 **Representations and Warranties Correct; Performance of Obligations.** The representations and warranties made by the Company in Section 3 hereof shall be true and correct when made, and shall be true and correct on the date of the Closing with the same force and effect as if they had been made on and as of said date, subject to changes contemplated by this Addendum; and the Company shall have performed all obligations and conditions herein required to be performed or observed by it at or prior to the Closing.

5.2 **Consents and Waivers.** The Company shall have obtained any and all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Addendum.

6. **Conditions to Company's Obligations at Closing.** The obligations of the Company under Sections 1.1 and 1.2 of this Addendum are subject to the fulfillment at or before the Closing of each of the following conditions:

6.1 **Representations and Warranties.** The representations and warranties of each Additional Purchaser contained in Section 4 hereof shall be true at the Closing.

6.2 **Consents and Waivers.** The Company shall have obtained any and all consents and waivers necessary or appropriate for the Additional Purchasers to become parties to the Investors' Rights Agreement and for the consummation of the transactions contemplated by this Addendum.

7. **Miscellaneous.**

7.1 **Incorporation by Reference.** The provisions set forth in Section 7 of the Purchase Agreement are incorporated herein by this reference and made a part hereof.

7.2 **Notices.** Any notice required or permitted by this Addendum shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by telegram or fax, or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, addressed to the party to be notified at such party's address as set forth on the signature page or Exhibit A hereto, or as subsequently modified by written notice, and if to the Company, with a copy to Craig Sherman, Wilson Sonsini Goodrich & Rosati, P.C., 701 Fifth Avenue, Suite 5100, Seattle, Washington 98104.

7.3 **Counterparts.** This Addendum may be executed in any number of counterparts, each of which may be executed by less than all of the Additional Purchasers, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument.

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7.4 **Advice of Counsel.** Each Purchaser acknowledge that, in executing this Addendum, such party has had the opportunity to seek the advice of independent legal counsel, and either has received such advice or has elected not to do so, and in either case, has read and understood all of the terms and provisions of this Addendum. This Addendum shall not be construed against any party by reason of the drafting or preparation hereof.

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The parties hereto have executed this Twelfth Addendum as of the date first set forth above.

OMEROS CORPORATION

By: _____
Gregory A. Demopoulos, M.D.
Chairman of the Board, President and
Chief Executive Officer

Address: 1420 Fifth Avenue
Suite 2600
Seattle, WA 98101

Fax: (206) 264-7856

† _____
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**SIGNATURE PAGE TO OMEROS CORPORATION
TWELFTH ADDENDUM TO SERIES E PREFERRED STOCK PURCHASE AGREEMENT**

ADDITIONAL PURCHASERS:

By: _____

Name: _____
(print)

Title: _____
(if appropriate)

Address:

Fax:

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**SIGNATURE PAGE TO OMEROS CORPORATION
TWELFTH ADDENDUM TO SERIES E PREFERRED STOCK PURCHASE AGREEMENT**

EXHIBIT C
OMEROS CORPORATION
AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT
October 15, 2004

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OMEROS CORPORATION
AMENDED AND RESTATED
INVESTORS' RIGHTS AGREEMENT

This Amended and Restated Investors' Rights Agreement (this "Agreement") is made as of the 15th day of October, 2004 by and among Omeros Corporation, a Washington corporation (the "Company"), the investors listed on Exhibit A hereto (the "Series E Investors"), H. Raymond Cairncross, Gregory A. Demopoulos, M.D., George Kargianis, and Pamela Pierce Palmer, M.D., Ph.D., each of whom is herein referred to as a "Founder," the holders of Series A Preferred Stock of the Company (the "Series A Preferred Stock") listed on Exhibit B hereto (the "Series A Investors"), the holders of Series B Preferred Stock of the Company (the "Series B Preferred Stock") listed on Exhibit C hereto (the "Series B Investors"), the holders of Series C Preferred Stock of the Company (the "Series C Preferred Stock") listed on Exhibit D hereto (the "Series C Investors"), the holders of the Series D Preferred Stock of the Company (the "Series D Preferred Stock") listed on Exhibit E hereto (the "Series D Investors," and together with the Series A Investors, the Series B Investors, the Series C Investors and the Series E Investors, the "Investors"), and the holders of Common Stock of the Company (the "Common Stock") listed on Exhibit F hereto (the "Common Shareholders").

RECITALS

The Company, the Founders, the Common Shareholders and the Investors are parties to the Amended and Restated Investors' Rights Agreement dated as of March 16, 2004, as amended on March 19, 2004 (the "Prior Agreement"). The Company issued and sold to the Series E Investors shares of its Series E Preferred Stock pursuant to the Series E Preferred Stock Purchase Agreement (the "Purchase Agreement") dated March 16, 2004 and Addendum Agreements thereto. A condition to the Series E Investors' obligations under the Purchase Agreement and the Addendum Agreements thereto was that the Company, the Founders, the Common Shareholders and the Investors enter into the Prior Agreement in order to provide the Investors with (i) certain rights to register shares of Common Stock issuable upon conversion of the Preferred Stock held by the Investors, (ii) certain rights to receive or inspect information pertaining to the Company, (iii) a right of first offer with respect to certain issuances by the Company of its securities and (iv) a right of first refusal upon proposed sales of the Company's securities held by the Investors and the Common Shareholders. The Company, the Investors, the Founders and the Common Shareholders each desire to amend and restate the Prior Agreement in its entirety as set forth herein in order to, among other things, provide certain of such rights to additional Investors.

AGREEMENT

The parties hereby agree as follows:

1. **Registration Rights.** The Company and the Investors covenant and agree as follows:

1.1 **Definitions.** For purposes of this Section 1:

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(a) The terms “register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act of 1933, as amended (the “Securities Act”), and the declaration or ordering of effectiveness of such registration statement or document;

(b) The term “Registrable Securities” means (i) the shares of Common Stock issuable or issued upon conversion of the Series A, Series B, Series C, Series D and Series E Preferred Stock, (ii) the shares of Common Stock issued to the Founders (the “Founders’ Stock”), *provided, however*, that for the purposes of Section 1.2, 1.4 and 1.13 the Founders’ Stock shall not be deemed Registrable Securities and the Founders shall not be deemed Holders, and (iii) any other shares of Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the shares listed in (i) and (ii); *provided, however*, that the foregoing definition shall exclude in all cases any Registrable Securities sold by a person in a transaction in which his or her rights under this Agreement are not assigned. Notwithstanding the foregoing, Common Stock or other securities shall only be treated as Registrable Securities if and so long as they have not been (A) sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction, or (B) sold in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions, and restrictive legends with respect thereto, if any, are removed upon the consummation of such sale;

(c) The number of shares of “Registrable Securities then outstanding” shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities;

(d) The term “Holder” means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.12 of this Agreement;

(e) The term “Form S-3” means such form under the Securities Act as in effect on the date hereof or any successor form under the Securities Act;

(f) The term “SEC” means the Securities and Exchange Commission; and

(g) The term “Qualified IPO” means a firm commitment underwritten public offering by the Company of shares of its Common Stock pursuant to a registration statement under the Securities Act, which results in aggregate gross proceeds to the Company of at least \$10,000,000.

1.2 Request for Registration.

(a) If the Company shall receive at any time after the earlier of (i) three (3) years after the Closing (as defined in the Purchase Agreement) or (ii) six (6) months

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after the effective date of the first registration statement for a public offering of securities of the Company (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or an SEC Rule 145 transaction), a written request from the Holders of at least thirty percent (30%) of the Registrable Securities then outstanding that the Company file a registration statement under the Securities Act covering the registration of Registrable Securities with an anticipated aggregate gross offering price in excess of \$10,000,000, then the Company shall, within ten (10) days of the receipt thereof, give written notice of such request to all Holders and shall, subject to the limitations of subsection 1.2(b), use its best efforts to effect as soon as practicable, and in any event within 60 days of the receipt of such request, the registration under the Securities Act of all Registrable Securities which the Holders request to be registered within twenty (20) days of the mailing of such notice by the Company in accordance with Section 4.3.

(b) If the Holders initiating the registration request hereunder ("Initiating Holders") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in subsection 1.2(a). The underwriter will be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. In such event, the right of any Holder to include his Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in subsection 1.5(e)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting. Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof, including the Initiating Holders, in proportion (as nearly as practicable) to the amount of Registrable Securities of the Company owned by each Holder; *provided, however*, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(c) Notwithstanding the foregoing, if the Company shall furnish to Holders requesting a registration statement pursuant to this Section 1.2 a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be filed and it is therefore essential to defer the filing of such registration statement, the Company shall have the right to defer such filing for a period of not more than 120 days after receipt of the request of the Initiating Holders; *provided, however*, that the Company may not utilize this right more than once in any twelve-month period.

(d) In addition, the Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 1.2:

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(i) After the Company has effected one (1) registration pursuant to this Section 1.2 and such registration has been declared or ordered effective;

(ii) During the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the effective date of, a registration subject to Section 1.3 hereof; *provided* that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective; or

(iii) If the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 1.4 below.

1.3 **Company Registration.** If (but without any obligation to do so) the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock under the Securities Act in connection with the public offering of such securities solely for cash (other than a registration relating solely to the sale of securities to participants in a Company stock plan or a transaction covered by Rule 145 under the Securities Act, a registration in which the only stock being registered is Common Stock issuable upon conversion of debt securities which are also being registered, or any registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 4.3, the Company shall, subject to the provisions of Section 1.8, cause to be registered under the Securities Act all of the Registrable Securities that each such Holder has requested to be registered.

1.4 **Form S-3 Registration.** In case the Company shall receive from any Holder or Holders of not less than twenty percent (20%) of the Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within 15 days after receipt of such written notice from the Company; *provided, however*, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 1.4: (i) if Form S-3 is not available for such offering by the Holders; (ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if

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any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than \$2,500,000; (iii) if the Company shall furnish to the Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such Form S-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than 120 days after receipt of the request of the Holder or Holders under this Section 1.4; provided, however, that the Company shall not utilize this right more than once in any twelve month period; (iv) if the Company has, within the twelve (12) month period preceding the date of such request, already effected one (1) registration on Form S-3 for the Holders pursuant to this Section 1.4; (v) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance; or (vi) during the period ending one hundred eighty (180) days after the effective date of a registration statement subject to Section 1.3.

(c) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. Registrations effected pursuant to this Section 1.4 shall not be counted as demands for registration or registrations effected pursuant to Sections 1.2 or 1.3, respectively.

1.5 **Obligations of the Company.** Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to one hundred twenty (120) days. The Company shall not be required to file, cause to become effective or maintain the effectiveness of any registration statement that contemplates a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for up to one hundred twenty (120) days.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; provided that the Company shall not be required in

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connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances, such obligation to continue for so long as the Company is obligated to maintain the effectiveness of such registration statement.

(g) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed.

(h) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(i) Use its best efforts to furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

1.6 **Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be required to effect the registration of such Holder's Registrable Securities. The Company shall have no obligation with respect to any registration requested pursuant to Section 1.2 or Section 1.4 of this Agreement if, as a result of the application of the preceding sentence, the number of shares or the anticipated aggregate offering price of the

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Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in subsection 1.2(a) or subsection 1.4(b)(ii), whichever is applicable.

1.7 Expenses of Registration.

(a) **Demand Registration.** All expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications pursuant to Section 1.2, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company, and the reasonable fees and disbursements of one counsel for the selling Holders selected by them with the approval of the Company, which approval shall not be unreasonably withheld, shall be borne by the Company; *provided, however*, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses), unless the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2; *provided, however*, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Section 1.2.

(b) **Company Registration.** All expenses other than underwriting discounts and commissions incurred in connection with registrations, filings or qualifications of Registrable Securities pursuant to Section 1.3 for each Holder (which right may be assigned as provided in Section 1.12), including (without limitation) all registration, filing, and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for the selling Holder or Holders selected by them with the approval of the Company, which approval shall not be unreasonably withheld, shall be borne by the Company.

(c) **Registration on Form S-3.** All expenses incurred in connection with a registration requested pursuant to Section 1.4, including (without limitation) all registration, filing, qualification, printers' and accounting fees and the reasonable fees and disbursements of one counsel for the selling Holder or Holders selected by them with the approval of the Company, which approval shall not be unreasonably withheld, and counsel for the Company, but not including any underwriters' discounts or commissions associated with Registrable Securities, shall be borne by the Company.

1.8 Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it (or by other persons entitled to select the underwriters), and then only in such

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quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling shareholders according to the total amount of securities entitled to be included therein owned by each selling shareholder or in such other proportions as shall mutually be agreed to by such selling shareholders), but in no event shall (i) any shares being sold by a shareholder exercising a demand registration right similar to that granted in Section 1.2 be excluded from such offering, (ii) the amount of securities of the selling Holders of Preferred Stock included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities, in which case (except as provided in (i) above) the selling shareholders may be excluded entirely if the underwriters make the determination described above and no other shareholder's securities are included or (iii) any securities held by a Founder be included if any securities held by any selling Holder are excluded. For purposes of the preceding parenthetical concerning apportionment, for any selling shareholder which is a holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and shareholders of such holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling shareholder," and any pro-rata reduction with respect to such "selling shareholder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling shareholder," as defined in this sentence.

1.9 **Delay of Registration.** No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.10 **Indemnification.** In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, directors and shareholders of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein,

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or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and the Company will pay to each such Holder, underwriter or controlling person, as incurred, any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable to any Holder, underwriter, controlling person or other aforementioned person for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter, controlling person or other aforementioned person.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will pay, as incurred, any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this subsection 1.10(b), in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this subsection 1.10(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided, that in no event shall any indemnity under this subsection 1.10(b) exceed the net proceeds from the offering received by such Holder, except in the case of willful fraud by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.10 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.10, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly notified, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the reasonable fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified

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party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 1.10, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.10.

(d) If the indemnification provided for in this Section 1.10 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense as well as any other relevant equitable considerations; *provided* that in no event shall any contribution by a Holder under this subsection 1.10(d) exceed the net proceeds from the offering received by such Holder, except in the case of willful fraud by such Holder. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

(f) The obligations of the Company and Holders under this Section 1.10 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1, and otherwise.

1.11 **Reports Under Securities Exchange Act of 1934.** With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after ninety (90) days after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public so long as the Company remains subject to the periodic reporting requirements under Sections 13 or 15(d) of the Exchange Act;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the Exchange Act, as is necessary to enable the Holders to

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utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form.

1.12 **Assignment of Registration Rights.** The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities that (i) is a subsidiary, parent, partner, limited partner, retired partner or shareholder of a Holder; (ii) is a Holder's family member or trust for the benefit of an individual Holder; or (iii) after such assignment or transfer, holds at least 200,000 shares of such securities, *provided* the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; and *provided, further*, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act. For the purposes of determining the number of shares of Registrable Securities held by a transferee or assignee, the holdings of transferees and assignees of a partnership who are partners or retired partners of such partnership (including spouses and ancestors, lineal descendants and siblings of such partners or spouses who acquire Registrable Securities by gift, will or intestate succession) shall be aggregated together and with the partnership; *provided* that all assignees and transferees who would not qualify individually for assignment of registration rights shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices or taking any action under Section 1.

1.13 **Limitations on Subsequent Registration Rights.** From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities (except as otherwise provided in Section 4.2 hereof), enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder (a) to include such securities in any registration filed under Section 1.2 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of his securities will not reduce the amount of the Registrable Securities of the Holders which is included or (b) to make a demand for registration of such securities.

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1.14 **“Market Stand-Off” Agreement.** Each Holder, Founder, Investor and Common Shareholder (collectively, the “Shareholders”) hereby agrees that, during the period of duration (up to, but not exceeding, 180 days) specified by the Company and an underwriter of Common Stock or other securities of the Company, following the effective date of a registration statement of the Company filed under the Securities Act, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Common Stock included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers Common Stock (or other securities) to be sold on its behalf to the public in an underwritten offering; and

(b) all officers and directors of the Company, all one-percent or greater securityholders, and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Shareholder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period, and each Shareholder agrees that, if so requested, such Shareholder will execute an agreement in the form provided by the underwriter containing terms which are essentially consistent with the provisions of this Section 1.14.

Notwithstanding the foregoing, the obligations described in this Section 1.14 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms which may be promulgated in the future, or a registration relating solely to an SEC Rule 145 transaction on Form S-4 or similar forms which may be promulgated in the future.

1.15 **Termination of Registration Rights.** No Holder shall be entitled to exercise any right provided for in this Section 1 after the earlier of (i) five (5) years following the consummation of a Qualified IPO, or (ii) such time as Rule 144 or another similar exemption under the Securities Act is available for the sale of all of such Holder’s shares during a consecutive three (3)-month period without registration.

2. **Covenants of the Company.**

2.1 **Delivery of Financial Statements.** The Company shall deliver to each Holder of at least 200,000 shares of Registrable Securities (other than a Holder reasonably deemed by the Company to be a competitor of the Company):

(a) as soon as practicable, but in any event within ninety (90) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of shareholder’s equity as of the end of such year, and a statement of cash flows for such year, such year-end financial reports to be in reasonable

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detail, prepared in accordance with generally accepted accounting principles (“GAAP”), and audited and certified by an independent public accounting firm of nationally recognized standing selected by the Company;

(b) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited profit or loss statement, a statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter; and

(d) as soon as practicable, but in any event thirty (30) days prior to the end of each fiscal year, a budget and business plan for the next fiscal year, prepared on a quarterly basis, and, as soon as prepared, any other budgets or revised budgets prepared by the Company.

2.2 **Inspection.** The Company shall permit each Holder of at least 200,000 shares of Registrable Securities (except for a Holder reasonably deemed by the Company to be a competitor of the Company), at such Holder’s expense, to visit and inspect the Company’s properties, to examine its books of account and records and to discuss the Company’s affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Investor; *provided, however*, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

2.3 **Right of First Offer.** Subject to the terms and conditions specified in this Section 2.3, the Company hereby grants to each Major Investor (as hereinafter defined) a right of first offer with respect to future sales by the Company of its Shares (as hereinafter defined). For purposes of this Section 2.3, a “Major Investor” shall mean any person who holds at least 200,000 shares of Series B, Series C, Series D and/or Series E Preferred Stock (or Common Stock issued upon conversion of such shares of Series B, Series C, Series D and/or Series E Preferred Stock), as adjusted for stock dividends, stock splits, reclassifications and the like. For purposes of this Section 2.3, Major Investor includes any general partners and affiliates of a Major Investor. A Major Investor that chooses to exercise the right of first offer may designate as purchasers under such right itself or its partners or affiliates in such proportions as it deems appropriate.

Each time the Company proposes to offer any shares of, or securities convertible into or exercisable for any shares of, any class of its capital stock (for purposes of this Section 2.3, the “Shares”), the Company shall first make an offering of such Shares to each Major Investor in accordance with the following provisions:

(a) The Company shall deliver a notice by certified mail (“Notice”) to the Major Investors stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered, and (iii) the price and terms, if any, upon which it proposes to offer such Shares.

(b) Within 15 calendar days after delivery of the Notice, the Major Investor may elect to purchase or obtain, at the price and on the terms specified in the Notice, up

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to that portion of such Shares which equals the proportion that the number of shares of Common Stock issued and held, or issuable upon conversion and exercise of all convertible or exercisable securities then held, by such Major Investor bears to the total number of shares of Common Stock then outstanding (assuming full conversion and exercise of all convertible securities, warrants or options). The Company shall promptly, in writing, inform each Major Investor that purchases all the shares available to it (each, a "Fully-Exercising Investor") of any other Major Investor's failure to do likewise. During the ten (10)-day period commencing after receipt of such information, each Fully-Exercising Investor shall be entitled to obtain that portion of the Shares for which Major Investors were entitled to subscribe but which were not subscribed for by the Major Investors that is equal to the proportion that the number of shares of Common Stock issued and held, or issuable upon conversion and exercise of all convertible or exercisable securities then held, by such Fully-Exercising Investor bears to the total number of shares of Common Stock then outstanding (assuming full conversion and exercise of all convertible or exercisable securities, warrants or options).

(c) The Company may, during the 45-day period following the expiration of the period provided in subsection 2.3(b) hereof, offer the remaining unsubscribed portion of the Shares to any person or persons at a price not less than, and upon terms no more favorable to the offeree than those specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within 60 days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Major Investors in accordance herewith.

(d) The right of first offer in this paragraph 2.3 shall not be applicable (i) to the issuance or sale of shares of Common Stock (or options therefor) to employees, officers, consultants and directors, vendors or others with whom the Company conducts business pursuant to a stock option plan or restricted stock plan approved by the Board of Directors for the primary purpose of soliciting or retaining their services, (ii) to or after consummation of a Qualified IPO, (iii) to the issuance of securities pursuant to the conversion or exercise of convertible or exercisable securities, (iv) to the issuance of securities in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise, or similar transaction, the terms of which are approved by the Board of Directors of the Company, (v) to the issuance of securities to financial institutions or lessors in connection with commercial credit arrangements, equipment financings, or similar transactions, or that are for other than primarily equity financing purposes, (vi) to the issuance or sale of the Series E Preferred Stock or warrants to purchase the Series E Preferred Stock, (vii) to the issuance of securities that, with unanimous approval of the Board of Directors of the Company, are not offered to any existing shareholder of the Company, or (viii) to the issuance of securities in connection with a transaction approved by the Board of Directors of the Company to an entity as a component of a business relationship with such entity also involving material manufacturing, marketing, distribution, product development and/or technology licensing arrangements. In addition to the foregoing, the right of first offer in this paragraph 2.3 shall not be applicable with respect to any Investor and any subsequent securities issuance, if (i) at the time of such subsequent securities issuance, the Investor is not an "accredited investor," as that term is then defined in Rule 501(a) under the Securities Act, and (ii) such subsequent securities issuance is otherwise being offered only to accredited investors.

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2.4 Termination of Covenants.

(a) The covenants set forth in Sections 2.1 through Section 2.3 shall terminate as to each Holder and be of no further force or effect (i) immediately prior to the closing of a Qualified IPO, or (ii) when the Company shall sell, convey, or otherwise dispose of or encumber all or substantially all of its property or business or merge into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) or effect any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, provided that this subsection (ii) shall not apply to a merger effected exclusively for the purpose of changing the domicile of the Corporation.

(b) The covenants set forth in Sections 2.1 and 2.2 shall terminate as to each Holder and be of no further force or effect when the Company first becomes subject to the periodic reporting requirements of Sections 13 or 15(d) of the Exchange Act, if this occurs earlier than the events described in Section 2.4(a).

3. Restrictions on Transfer.

3.1 Notice of Sales; Right of First Refusal.

(a) Should any Shareholder propose to accept one or more bona fide offers (collectively, a "Purchase Offer") from any person(s) or entity(ies) to purchase any shares of the Company's capital stock or portions thereof held by such Shareholder (for purposes of this Section 3, the "Shares") (other than as set forth in Section 3.4 hereof), such Shareholder shall promptly deliver a notice (the "Notice") to the Company stating the terms and conditions of such Purchase Offer including, without limitation, the number of shares of the Company's capital stock to be sold or transferred, the nature of such sale or transfer, the consideration to be paid, and the name and address of each prospective purchaser or transferee. The Company shall then have the right, exercisable by notice to the selling Shareholder within thirty (30) days after receipt of the Notice (the "Initial Company Refusal Period"), to exercise a first right to purchase all or a portion of such Shares (the "Initial Company Right of First Refusal") on the same terms and conditions as described in the Notice.

(b) If the Company does not exercise the Initial Company Right of First Refusal in full and the sale of the Shares by such Shareholder has been approved by a two-thirds majority of the Board of Directors of the Company pursuant to Section 3.3 hereof, then promptly after the expiration of the Initial Company Refusal Period, the Company shall send a written notice, which notice shall include the Notice from the selling Shareholder (together the "Second Notice"), to each Investor stating that the Company has chosen not to exercise, in full or in part, the Initial Company Right of First Refusal. The Company shall then have the right, exercisable by notice to the selling Shareholder within thirty (30) days after the date of the Second Notice (the "Subsequent Company Refusal Period"), to exercise a first right to purchase all or a portion of such Shares (the "Subsequent Company Right of First Refusal") on the same terms and conditions as described in the Notice. Each Investor shall have the secondary right, subject to the Subsequent Company Right of First Refusal, exercisable by notice to the selling Shareholder and to the Company within twenty (20) days after the Second Notice (the "Refusal Period"), to exercise a right to purchase such Shares not purchased by the Company (the "Right").

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of First Refusal”) on the same terms and conditions as described in the Notice and on a pro rata basis, based upon the number of shares of Common Stock issued and held, or issuable upon conversion and exercise of all convertible or exercisable securities then held, by such Investor relative to the aggregate number of shares of Common Stock issued and held, or issuable upon conversion and exercise of all convertible or exercisable securities then held, by all Investors; *provided* that if fewer than all Investors elect to participate, the Shares that would otherwise be allocated to non-participating Investors shall be allocated to each participating Investor in a manner such that each participating Investor is entitled to purchase at least such Investor’s pro rata portion of such unallocated or such different number of Shares as the participating Investors shall mutually agree. Upon expiration of the Subsequent Company Refusal Period, the Company will provide notice to all Investors as to whether or not the Subsequent Company Right of First Refusal has been exercised by the Company, and to the extent that it has not, as to whether or not the Right of First Refusal has been exercised by one or more of the Investors.

3.2 **Failure to Exercise.** The failure by the Company or an Investor to exercise the rights under Section 3.1 or Section 3.3 to purchase any portion of Shares in a sale of Shares made by a Shareholder shall not affect the Company’s or such Investor’s rights to purchase any portion of Shares in subsequent sales of Shares by any Shareholder.

3.3 **No Transfers without Board Approval.** Except for transfers to the Company pursuant to Section 3.1 and except as permitted pursuant to Section 3.4, no Shareholder may transfer any shares of capital stock of the Company (including without limitation to Investors pursuant to Section 3.1(b)) without first obtaining the written consent to such transfer from a two-thirds majority of the Company’s Board of Directors, such two-thirds majority in its good faith judgment, having determined that such transfer would not be detrimental to the interests of the Company and its shareholders. In addition, as a condition precedent to any such transfer, the transferee must agree in writing to be bound by the terms of this Section 3.3 as if such transferee were a Shareholder under this Section 3.3, and to be bound by all other provisions of this Agreement applicable to the transferor.

3.4 **Permitted Transactions.** The provisions of Section 3.1 and Section 3.3 of this Agreement shall not pertain or apply to:

- (a) any pledge of the Company’s capital stock made by a Shareholder pursuant to a bona fide loan transaction which creates a mere security interest;
- (b) any bona fide gift;
- (c) any transfer to a Shareholder’s ancestors, descendants or spouse or to a trust for their benefit;
- (d) any sale or transfer of shares of Common Stock among the Shareholders;
- (e) any sale or transfer by a Shareholder of up to 5% of the total number of shares of Common Stock held by such Shareholder on the date of this Agreement in any twelve-month period; *provided* that the pledgee, transferee or donee (collectively, the

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“Permitted Transferees”) shall furnish the other Shareholders with a written agreement to be bound by and comply with all provisions of this Agreement applicable to the Shareholders; or

(f) any transfer by a Shareholder that is a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his or her spouse or to the siblings, lineal descendants or ancestors of such partner or his or her spouse.

3.5 **Prohibited Transfers.** Any attempt by a Shareholder to transfer shares of the Company in violation of Section 3 hereof shall be void, and the Company agrees it will not effect such a transfer nor will it treat any alleged transferee as the holder of such shares without the written consent of the holders of a two-thirds majority of the Shareholders, voting as a single class on a fully diluted, as-converted basis, and the written consent of a two-thirds majority of the Board of Directors of the Company.

3.6 **Legended Certificates.** Each certificate representing shares of the Series A, Series B, Series C, Series D and Series E Preferred Stock and Common Stock now owned by the Shareholders or issued to any Permitted Transferee pursuant to Section 3.4 shall bear the following legend:

“THE SALE, PLEDGE, HYPOTHECATION OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN RESTRICTIONS AGREEMENT BY AND BETWEEN THE SHAREHOLDER, THE CORPORATION AND CERTAIN HOLDERS OF COMMON AND PREFERRED STOCK OF THE CORPORATION. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION.”

The foregoing legend shall be removed upon termination of this Agreement in accordance with the provisions of Section 3.7.

3.7 **Termination.** The obligations and restrictions contained in this Section 3 shall terminate upon the earliest to occur of any one of the following events (and shall not apply to any transfer by a Shareholder in connection with any such event):

- (a) the liquidation, dissolution or indefinite cessation of the business operations of the Company;
- (b) the execution by the Company of a general assignment for the benefit of creditors or the appointment of a receiver or trustee to take possession of the property and assets of the Company;
- (c) the consummation of a Qualified IPO; or
- (d) the sale, conveyance, disposal, or encumbrance of all or substantially all of the Company’s property or business or the Company’s merger into or

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consolidation with any other corporation (other than a wholly-owned subsidiary corporation) or if the Company effects any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of; provided that this Section 3.7(d) shall not apply to a merger effected exclusively for the purpose of changing the domicile of the Company.

4. **Miscellaneous.**

4.1 **Successors and Assigns.** Except as otherwise provided in this Agreement, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties (including transferees of any of the Preferred Stock or any Common Stock issued upon conversion thereof). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

4.2 **Amendments and Waivers.** Any term of this Agreement may be amended or waived only with the written consent of the Company and the holders of a majority of the Registrable Securities then outstanding, not including the Founders' Stock; provided that if such amendment has the effect of affecting the Founders' Stock (i) in a manner different than securities issued to the Investors and (ii) in a manner adverse to the interests of the holders of the Founders' Stock, then such amendment shall require the consent of the holder or holders of a majority of the Founders' Stock. Notwithstanding the foregoing, subsequent Purchasers (as defined under the Purchase Agreement) of the Company's Series E Preferred Stock under the Purchase Agreement or any Addendum Agreement thereto will be added as a party to this Agreement as an Investor without having to obtain the consents set forth above and shall be bound by and entitled to the terms, benefits and conditions herein by the execution and delivery of a signature page to this Agreement. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, and the Company.

4.3 **Notices.** Unless otherwise provided, any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon delivery, when delivered personally or by overnight courier or sent by telegram or fax with electronic confirmation received, or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address or fax number as set forth on the signature page or Exhibits hereto or as subsequently modified by written notice.

4.4 **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this Agreement, (b) the balance of this Agreement shall be interpreted as if such provision were so excluded and (c) the balance of this Agreement shall be enforceable in accordance with its terms.

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4.5 **Governing Law.** This Agreement and all acts and transactions pursuant hereto shall be governed, construed and interpreted in accordance with the laws of the State of Washington, without giving effect to principles of conflicts of laws.

4.6 **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.7 **Titles and Subtitles.** The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

4.8 **Aggregation of Stock.** All shares of the Preferred Stock held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

4.9 **Entire Agreement.** This Agreement (including the Exhibits hereto, if any) constitutes the entire understanding among the parties with regard to the subjects hereof and thereof.

4.10 **Telecopy Execution and Delivery.** A facsimile, telecopy or other reproduction of this Agreement may be executed by one or more parties hereto, and an executed copy of this Agreement may be delivered by one or more parties hereto by facsimile or similar electronic transmission device pursuant to which the signature of or on behalf of such party can be seen, and such execution and delivery shall be considered valid, binding and effective for all purposes. At the request of any party hereto, all parties hereto agree to execute an original of this Agreement as well as any facsimile, telecopy or other reproduction hereof.

4.11 **Arbitration.** The parties agree to attempt in good faith to negotiate a settlement of any and all controversies, claims, or disputes arising out of, relating to, or resulting from this Agreement. If, after such good faith negotiation, the parties are not able to reach a settlement, any and all of such controversies, claims, or disputes arising out of, relating to, or resulting from this Agreement shall be subject to binding arbitration. Such arbitration shall take place in Seattle, Washington and will be administered by the American Arbitration Association ("AAA") in accordance with its Rules for the Resolution of Commercial Disputes. The parties agree that the arbitrator shall have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. The parties also agree that the arbitrator shall have the power to award any remedies, including attorneys' fees and costs, available under applicable law, provided that the prevailing party in any arbitration shall be entitled to its reasonable attorneys fees and costs. The decision of the arbitrator shall be in writing. Arbitration shall be the sole, exclusive and final remedy for any dispute under this Agreement and the decision of the arbitrator may be entered by a party in any court or forum, state or federal, being of competent jurisdiction. Accordingly, no party will be permitted to pursue court action regarding this Agreement except as expressly permitted in the preceding sentence. Notwithstanding the foregoing, each party retains the right to seek injunctive relief to prevent a

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breach, threatened breach or continuing breach of this Agreement that would cause irreparable injury to such party.

4.12 **Termination and Supersession.** This Agreement replaces and supersedes the Prior Agreement, and the Prior Agreement is hereby terminated.

[Signature Page Follows]

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The parties have executed this Amended and Restated Investors' Rights Agreement as of the date first above written.

COMPANY:

OMEROS CORPORATION

By: _____

Gregory A. Demopoulos, M.D.
Chairman of the Board, President and
Chief Executive Officer

Address: 1420 Fifth Ave., Suite 2600
Seattle, WA 98101

Fax: (206) 264-7856

† _____
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COMMISSION

**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

SERIES E INVESTOR:

(Investor)

By: _____

Name: _____
(print)

Title: _____
(if applicable)

Address :

Fax:

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

FOUNDERS:

H. Raymond Cairncross

Address:

Fax:

Gregory A. Demopolos, M.D.

Address:

Fax:

George Kargianis

Address:

Fax:

Pamela Pierce Palmer, M.D., Ph.D.

Address:

Fax:

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
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SERIES A INVESTOR:

(Investor)

By: _____

Name: _____

(print)

Title: _____

Address: _____

Fax: _____

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

SERIES B INVESTOR:

(Investor)

By: _____

Name: _____

(print)

Title: _____

Address: _____

Fax: _____

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

SERIES C INVESTOR:

(Investor)

By: _____

Name: _____

(print)

Title: _____

Address: _____

Fax: _____

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

SERIES D INVESTOR:

(Investor)

By: _____

Name: _____
(print)

Title: _____

Address:

Fax:

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
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COMMON SHAREHOLDER:

(Common Shareholder)

By: _____

Name: _____
(print)

Title: _____

Address:

Fax:

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT**

EXHIBIT D

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "Agreement") is made as of _____, ____ by and between Omeros Corporation, a Washington corporation (the "Company") and _____ ("Indemnitee").

RECITALS

- A. Indemnitee is an officer or director of the Company and in such capacity is performing valuable services for the Company.
- B. The Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance, the significant cost of such insurance and the general reduction in the coverage of such insurance.
- C. The Company and Indemnitee further recognize the substantial increase in litigation subjecting officers and directors to expensive litigation risks at the same time that such liability insurance has been severely limited.
- D. As of the date hereof, the Company has provisions for indemnification of its directors and officers in Article VIII of its Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by the Washington Business Corporation Act (the "Statute").
- E. The Bylaws and the Statute specifically provide that they are not exclusive, and thereby contemplate that contracts may be entered into between the Company and the members of its Board of Directors and its officers with respect to indemnification of such directors and officers.
- F. The Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Statute or a successor statute.
- G. In order to induce Indemnitee to continue to serve as an officer and/or director, as the case may be, of the Company, the Company has agreed to enter into this Agreement with Indemnitee.

AGREEMENT

In consideration of the recitals above, the mutual covenants and agreements herein contained, and Indemnitee's continued service as an officer and/or director, as the case may be, of the Company after the date hereof, the parties to this Agreement agree as follows:

1. Indemnity of Indemnitee

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(a) **Scope.** The Company agrees to hold harmless and indemnify Indemnitee to the full extent permitted by law, notwithstanding that such indemnification is not specifically authorized by this Agreement, the Company's Articles of Incorporation, the Bylaws, the Statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Washington corporation to indemnify a member of its board of directors or an officer, such changes, to the extent that they would expand Indemnitee's rights hereunder, shall be within the purview of Indemnitee's rights and the Company's obligations hereunder, and, to the extent that they would narrow Indemnitee's rights hereunder, shall be excluded from this Agreement; provided, however, that any change that is required by applicable laws, statutes or rules to be applied to this Agreement shall be so applied regardless of whether the effect of such change is to narrow Indemnitee's rights hereunder.

(b) **Nonexclusivity.** The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Articles of Incorporation, the Bylaws, any agreement, any vote of shareholders or disinterested directors, the Statute, or otherwise, whether as to action in Indemnitee's official capacity or otherwise.

(c) **Additional Indemnity.** If Indemnitee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnitee from and against any and all losses, claims, damages, liabilities, expenses (including attorneys' fees), judgments, fines, ERISA excise taxes or penalties, amounts paid in settlement (if such settlement is approved in advance by the Company, which approval shall not be unreasonably withheld) actually and reasonably incurred by Indemnitee in connection with such Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful (collectively, "**Damages**").

(d) **Definition of Proceeding.** For purposes of this Agreement, "**Proceeding**" shall mean any actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal, in which Indemnitee is, was or becomes involved by reason of the fact that Indemnitee is or was a director, officer, employee or agent of the Company or that, being or having been such a director, officer, employee or agent, Indemnitee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively a "**Related Company**"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnitee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an action to enforce the provisions of this Agreement, Proceeding shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnitee unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

(e) **Determination of Entitlement.** In the event that a determination of Indemnitee's entitlement to indemnification is required pursuant to Section 23B.08.550 of the

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Statute or any successor thereto or pursuant to other applicable law, the appropriate decision-maker shall make such determination; provided, however, that Indemnitee shall initially be presumed in all cases to be entitled to indemnification, that Indemnitee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnitee written notice of a determination that Indemnitee is not entitled to indemnification within twenty (20) days of the Company's receipt of Indemnitee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification and Company hereby agrees not to assert otherwise.

(f) Survival. The indemnification provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnitee has ceased to be a director, officer, employee, trustee or agent of the Company or a Related Company.

2. Expense Advances

(a) Generally. The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnitee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right is referred to hereinafter as an "Expense Advance"). Any Expense Advance to be made under this Agreement shall be paid by the Company to Indemnitee within twenty (20) days following delivery of a written request therefor by Indemnitee to the Company.

(b) Conditions to Expense Advance. The Company's obligation to provide an Expense Advance is subject to the following conditions:

(i) Undertaking. If the Proceeding arose in connection with Indemnitee's service as a director or officer of the Company (and not in any other capacity in which Indemnitee rendered service, including service to any Related Company), then Indemnitee or his or her representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnitee's financial ability to make repayment, by or on behalf of Indemnitee to repay all Expense Advances if and to the extent that it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties and the question that Indemnitee is not entitled to be indemnified for such Expense Advance under this Agreement or otherwise.

(ii) Cooperation. Indemnitee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnitee's power.

(iii) Affirmation. Indemnitee shall furnish, upon request by the Company and if required under applicable law, a written affirmation of Indemnitee's good faith belief that any applicable standards of conduct have been met by Indemnitee.

3. Procedures for Enforcement

(a) Enforcement. In the event that a claim for indemnity, an Expense Advance or otherwise is made hereunder and is not paid in full within sixty (60) days (twenty

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(20) days for an Expense Advance) after written notice of such claim is delivered to the Company, Indemnitee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action").

(b) **Presumptions in Enforcement Action.** In any Enforcement Action the following presumptions (and limitation on presumptions) shall apply:

(i) The Company shall conclusively be presumed to have entered into this Agreement and assumed the obligations imposed on it hereunder in order to induce Indemnitee to continue as an officer and/or director, as the case may be, of the Company;

(ii) Neither (A) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's shareholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnitee is proper in the circumstances nor (B) an actual determination by the Company, its Board of Directors, independent or special legal counsel or shareholders that Indemnitee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnitee is not entitled to indemnification hereunder; and

(iii) If Indemnitee is or was serving as a director, officer, employee, trustee or agent of a corporation of which a majority of the shares entitled to vote in the election of its directors is held by the Company or in an executive or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the request of the Company.

(c) **Attorneys' Fees and Expenses for Enforcement Action.** In the event Indemnitee is required to bring an Enforcement Action, the Company shall indemnify and hold harmless Indemnitee against all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); provided, however, that the Company shall not be required to provide such indemnity for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith or was frivolous.

4. Limitations on Indemnity; Mutual Acknowledgment

(a) **Limitation on Indemnity.** No indemnity pursuant to this Agreement shall be provided by the Company:

(i) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto;

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(ii) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of officers' and directors' liability insurance maintained by the Company;

(iii) On account of Indemnitee's conduct which is finally adjudged to have been intentional misconduct, a knowing violation of law or the RCW 23B.08.310 or any successor provision of the Statute, or a transaction from which Indemnitee derived benefit in money, property or services to which Indemnitee is not legally entitled; or

(iv) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

(b) **Mutual Acknowledgment.** The Company and Indemnitee acknowledge that, in certain instances, federal law or public policy may override applicable state law and prohibit the Company from indemnifying Indemnitee under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the Securities and Exchange Commission (the "SEC") has taken the position that indemnification is not permissible for liabilities arising under certain federal securities laws, and federal legislation prohibits indemnification for certain ERISA violations. Furthermore, Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

5. Notification and Defense of Claim

(a) **Notification.** Promptly after receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not relieve the Company from any liability which it may have to Indemnitee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

(b) **Defense of Claim.** With respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(i) The Company may participate therein at its own expense;

(ii) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense thereof, the Company shall not be liable to Indemnitee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnitee in connection with the defense thereof unless (A) the employment of counsel by Indemnitee has been authorized by the Company, (B) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such action, or (C) the Company shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company.

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The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (B) above;

- (iii) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;
- (iv) The Company shall not settle any action or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's written consent; and
- (v) Neither the Company nor Indemnitee will unreasonably withhold its, his or her consent to any proposed settlement.

(c) **Notice to Insurers.** If, at the time of the receipt of a notice of a claim pursuant to Section 5(a) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.

6. Severability. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6. If this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

7. No Employment Rights. Nothing contained in this Agreement is intended to create in Indemnitee any right to continued employment.

8. Officer and Director Liability Insurance. The Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses from wrongful acts, or to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of director and officer liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's directors, if Indemnitee is a director; or of the Company's officers, if Indemnitee is not a director of the Company but is an officer; or of the Company's key employees, if

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Indemnitee is not an officer or director but is a key employee. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or if Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company.

9. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the expenses, judgments, fines or penalties actually or reasonably incurred in the investigation, defense, appeal or settlement of any civil or criminal action, suit or proceeding, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such expenses, judgments, fines or penalties to which Indemnitee is entitled.

10. Miscellaneous

(a) **Governing Law.** This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Washington, without giving effect to principles of conflict of law.

(b) **Entire Agreement, Enforcement of Rights.** This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) **Construction.** This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(d) **Notices.** Any notice, demand or request required or permitted to be given under this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by telegram or forty-eight (48) hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address as set forth below or as subsequently modified by written notice.

(e) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(f) **Successors and Assigns.** This Agreement shall be binding upon Indemnitee and upon the Company, its successors and assigns, and shall inure to the benefit of Indemnitee, Indemnitee's heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns.

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(g) Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company to effectively bring suit to enforce such rights.

[Signature page follows]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

OMEROS CORPORATION

By: _____
[Name]
[Title]

Address:

AGREED TO AND ACCEPTED:

[Name]

(Signature)

Address:

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**SIGNATURE PAGE TO OMEROS CORPORATION'S
INDEMNIFICATION AGREEMENT**

DATED 20 April 2007

Scottish Biomedical Limited
Telford Pavilion, Todd Campus,
West of Scotland Science Park,
Glasgow, G20 0XA, Scotland, U.K.

“Scottish Biomedical” or “SB”

and

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101, U.S.A.

“Omeros”

SERVICES AND MATERIALS AGREEMENT

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BUSINESS TERMS AND CONDITIONS / MATERIAL TRANSFER AND USE AGREEMENT

1 BASIS OF THE SALE

- 1.1 SB shall provide the Services and Materials as set out in the attached Schedules A and B (and C if mutually agreed), subject to these conditions, which shall govern the contract for the provision of the Services and Materials to the exclusion of any other terms and conditions subject to which any request or provision for the Services and Materials is made or purported to be made by Omeros or Scottish Biomedical.
- 1.2 Whereas nura, inc. and Scottish Biomedical entered into agreements on the 25th February 2005 and 8th August 2005, some of which terms continue to apply to the parties and their work under this agreement, as modified by an amendment referenced in the following Section 1.3.
- 1.3 Whereas Omeros and SB agree to execute, concurrent with execution of this Services and Material Agreement, the Assignment and Amendment to the prior agreement of 25th February 2005, attached hereto as Exhibit I.
- 1.4 Whereas Omeros acquired nura, inc. on 7th September 2006
- 1.5 These parties, SB and Omeros, now wish to extend their work together as outlined with this Agreement.
- 1.6 No variation to these conditions shall be binding unless agreed in writing between the authorised representatives of Scottish Biomedical and Omeros.
- 1.7 Scottish Biomedical's employees or agents are not authorised to make any representations concerning the Services unless confirmed by an authorized official of Scottish Biomedical in writing.
- 1.8 Omeros' employees or agents are not authorised to make any representations concerning the Services unless confirmed by the Chief Executive Officer of Omeros in writing.

WARRANTIES

- 1.9 Scottish Biomedical warrants that it will perform the Services and supply the Materials in accordance with this Agreement including all attached Schedules and with reasonable care and skill, and in accordance with all applicable laws and regulations for the location of the provision of such Services and Materials, but does not guarantee, except where described herein, any particular outcome or results will arise as a result of the provision of the Services or that the Materials will be fit for any specific purpose.
- 1.10 Save as set out in Clause 2 Scottish Biomedical neither gives nor makes any express warranty to Omeros.
- 1.11 EXCEPT AS EXPRESSLY PROVIDED HEREIN, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS, SCOTTISH BIOMEDICAL AND OMEROS EACH DISCLAIMS ALL IMPLIED REPRESENTATIONS, WARRANTIES, CONDITIONS, OBLIGATIONS OR DUTIES OF EVERY NATURE (INCLUDING, WITHOUT LIMITATION, ANY EQUITABLE, COMMON LAW OR STATUTORY WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, QUALITY, MERCHANTABILITY AND / OR SATISFACTORINESS) IN RESPECT OF THE SERVICES AND MATERIALS, ON THE PART OF SCOTTISH BIOMEDICAL, AND IN RESPECT OF ANY COMPOUNDS PROVIDED FOR ANALYSIS, ON THE PART OF OMEROS. ACCORDINGLY, ALL SUCH IMPLIED REPRESENTATIONS, WARRANTIES, CONDITIONS, OBLIGATIONS OR DUTIES ARE EXCLUDED TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS. NOTHING IN THIS

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AGREEMENT SHALL HOWEVER OPERATE TO LIMIT OR EXCLUDE ANY LIABILITY FOR FRAUD OR DEATH OR PERSONAL INJURY CAUSED BY EITHER PARTY'S NEGLIGENCE.

- 1.12 Each party agrees that the foregoing exclusions of express and/or implied warranties and the limitations and exclusions of liability set out in Clause 2 are in all respects fair and reasonable having regard to:-
- (a) the complexity and novelty of the Services and/or the Materials;
 - (b) the price / fees to be paid pursuant to this Agreement; and
 - (c) the relative resources of the parties.

2 LIMITATION OF LIABILITY

- 2.1 The following provisions set out Scottish Biomedical's entire liability (including any liability for the acts and omissions of its employees, agents or sub-contractors) to Omeros in respect of:
- 2.2 any breach of its contractual obligations arising under this Agreement;
- 2.2.1 any indemnity granted by Scottish Biomedical under this Agreement; and
- 2.2.2 any representation (other than fraudulent misrepresentation), statement or delictual or tortious act or omission including negligence arising under or in connection with this Agreement.
- 2.3 Other than in respect of death and personal injury caused by Scottish Biomedical's negligence, or in relation to any liability which by law may not be limited or excluded, or in relation to any liability due to Scottish Biomedical's gross negligence or wilful misconduct, Scottish Biomedical's liability with regard to any other matter, aspect, fact or thing arising from or relating to this Agreement shall in no event exceed the sums paid and due to be paid hereunder as at the date of the matter giving rise to the claim under the Schedules attached to this Agreement.
- 2.4 Other than in respect of death and personal injury caused by a party's negligence, or in relation to any other liability which by law may not be limited or excluded, or in relation to any liability due to a party's gross negligence or wilful misconduct, each party shall not be liable to the other party for any consequential or indirect loss or loss of profit, business, data, revenue, goodwill or anticipated savings which arises out of or in connection with this Agreement.

3 INTELLECTUAL PROPERTY

- 3.1 Omeros acknowledges that the background know-how, production and assay methodology supplied by Scottish Biomedical under this Agreement is the property of Scottish Biomedical.
- 3.2 Scottish Biomedical and Omeros each agree and acknowledge that any and all Results or other intellectual property generated or created under this Agreement are the sole and exclusive property of Omeros. Scottish Biomedical agrees to execute any assignments and declarations or render such other assistance as may be necessary to confirm Omeros' ownership of such Results and intellectual property, including any patents filed for or obtained based thereon. Such reasonable time (charged at [†]) and

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costs expended on Omeros' behalf in this regard shall be reimbursed to Scottish Biomedical through payment of invoices raised at the end of each month where there is such activity by Scottish Biomedical.

3.3 Scottish Biomedical agrees and acknowledges that all compounds and derivatives generated or provided by Scottish Biomedical under this Agreement or provided by Omeros for Scottish Biomedical's analysis under this Agreement are the sole and exclusive property of Omeros.

3.4 Scottish Biomedical agrees to transfer to Omeros, at no additional charge, all know-how, techniques, synthesis methods and materials developed by Scottish Biomedical for Omeros under this or any prior Agreement to enable Omeros to synthesis or cause to be synthesized all compounds and derivatives made by Scottish Biomedical for Omeros under this or any prior Agreement; provided, however, that if any of Scottish Biomedical's pre-existing proprietary know-how, techniques, methods or materials that were not developed for Omeros under this or any prior agreement are reasonably necessary to permit Omeros to carry out or cause such synthesis, then Omeros' right to use such pre-existing proprietary know-how, techniques, methods or materials shall be limited to a non-exclusive license for purposes of carrying out or causing such synthesis.

4 CONFIDENTIAL INFORMATION

4.1 The parties acknowledge and agree to observe their respective obligations of Confidentiality as included in their Mutual Confidentiality Agreement of October 4, 2006 ("Mutual CDA"), which Mutual CDA is hereby expressly incorporated into this Agreement. The parties shall, in accordance with the terms of the Mutual CDA, treat as secret and confidential, and take all proper precautions to protect any information disclosed by each of them to the other in connection with the provision of the Services / Materials including but not limited to any Results and the subject matter of any Patent or Know-how as well as information concerning the parties, this Agreement, and either of their businesses and activities generally or any such information which may come to its knowledge in whatever form or manner imparted or received. Subject as herein provided, and except as provided in the Mutual CDA, any disclosure of such information shall be limited to those employees, agents, servants or staff of both parties who need the information for the purposes of the provision of the Services / Materials and any such disclosures shall be on such terms as to preserve the effect of this Clause (Confidential Information). All compounds and derivatives generated or provided by Scottish Biomedical under this Agreement, or provided by Omeros for Scottish Biomedical's analysis under this Agreement, and all data and results generated under this Agreement shall be considered and treated as Omeros' Confidential Information.

5 TERMINATION

5.1 This Agreement shall terminate upon completion of eighteen months from commencement, commencement date being the date when this Agreement has been signed by both parties, subject always to any extension to the duration of the provision of the Services / Materials and License agreed between the parties in writing and subject to the provisions of the contract surviving termination including Warranties

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(Sections 1.9-1.12), Limitation of Liability (Section 2), Intellectual Property (Section 3), Confidential Information (Section 4), Governing Law (Section 7), Assignment (Section 9), Records Maintenance (Section 10) and the provisions of Sections 13-15. Termination of this Agreement shall not affect the status of all prior agreements between Omeros and Scottish Biomedical or any continuing obligations thereunder, including the Mutual CDA and the prior agreements dated 25th February 2005 (as amended by Exhibit I hereto) and 8th August 2005.

- 5.2 Either party may terminate this Agreement forthwith:
- 5.3 if the other party has a winding up order made against it or, except for the purposes of reconstruction, has a resolution for voluntary winding up passed in respect of it, or has a liquidator, receiver or administrator appointed over it;
- 5.4 in the event of non-performance or breach by the other party of any of its obligations in respect of the Services / Material provision after the giving of written notice by the party not in default to the defaulting party requiring performance of the obligations and the defaulting party remaining in breach of its obligations one (1) month after the receipt thereof.
- 5.5 Omeros may terminate this Agreement, with or without cause, upon forty-five (45) days prior written notice to Scottish Biomedical. Provided no other Service and Materials Module is ongoing, either party may terminate this agreement upon written notice to the other party or at the end of any Service and Materials Module described in the Schedules attached hereto. In the case of receipt of a notice of termination from Omeros, Scottish Biomedical shall stop work, and Omeros shall be responsible for payment of all Services and Materials performed, and all noncancellable obligations, as of the date of receipt of notice.

6 PAYMENT TERMS

As full and complete consideration for all Materials and Services provided and obligations undertaken in accordance with this Agreement, SB shall issue an invoice at the end of each month for the value of work completed as agreed for that month in the Schedules attached hereto.

All invoices shall be payable by Omeros within thirty (30) days of the date of receipt of invoice from SB, which "receipt" includes faxed copies of invoices.

Payment shall be deposited by electronic transfer to Scottish Biomedical's bank account, without deduction of charges:

[†]

Or such other bank account as may be nominated in writing by Scottish Biomedical to Omeros.

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7 **GOVERNING LAW**

This Agreement shall be governed and construed in accordance with the law of the state of Delaware, USA. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the US Federal courts located in the State of Delaware, USA, as regards any claim, dispute or matter arising out of or relating to this Agreement and its implementation and effect.

8 **SUBCONTRACTING**

Scottish Biomedical shall not subcontract out any of the Services under this Agreement without Omeros' written consent. Omeros hereby consents to Scottish Biomedical's subcontracting of certain PDE10 screening work to [†] as described in the attached schedules; provided, however, that Scottish Biomedical (i) receives [†]'s written agreement and undertaking to comply with the obligations of Sections 3 and 4 and other sections, as may be applicable, of this Agreement to the same extent as such obligations apply to Scottish Biomedical, (ii) provides Omeros with a copy of such written undertaking, and (iii) shall be responsible for all consideration owed to [†] and for [†] performance of its obligations in accordance with this Agreement.

9 **ASSIGNMENT**

Neither party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other party's prior written consent, which consent will not be unreasonably withheld. Scottish Biomedical consents to Omeros' assignment of this Agreement in whole or in part in connection with the merger, acquisition consolidation or transfer of all or substantially all of that portion of Omeros' assets to which this Agreement relates. Subject to these restrictions, this Agreement will be binding upon and will inure to the benefit of the parties' permitted successors and assignees.

10 **RECORDS MAINTENANCE**

Scottish Biomedical will maintain complete and accurate written and electronic records, accounts, notes, reports and data relating to its performance of the Services and provision of the Materials (the "Records"). Scottish Biomedical will without added charge retain all of the Records after Scottish Biomedical completes all Services performed and Materials provided for a period of five (5) years. Scottish Biomedical will notify Omeros at least two months before any Records are to be disposed. If at any time Omeros requests receipt of the original Records, Scottish Biomedical will send the original Records to Omeros at Omeros' expense.

11 **AUDITS AND INSPECTIONS**

Omeros' representatives may visit Scottish Biomedical's facilities at reasonable times and with reasonable frequency during normal business hours to observe the progress of the Services and to examine documents, facilities, Records, equipment, and any other relevant resources pertaining to the Services and Materials. If Scottish Biomedical receives a request from any regulatory agency to inspect any portion of Scottish Biomedical's facilities related to the performance of the Services or provision of the Materials, or receives any notice of deficiency from a regulatory agency, Scottish Biomedical will notify Omeros in advance and shall fully inform Omeros of the results of such inspection or notice.

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12 INDEPENDENT CONTRACTORS

The relationship of the parties under this Agreement is that of independent contractors, and this Agreement will not be construed to imply that either party is the agent, employee, or joint venture partner of the other.

13 USE OF NAMES

Except as may be required by law or regulation after first providing reasonable advance notice to the other party, neither party may disclose the existence of this Agreement or its terms, or use the other party's name in any promotional, advertising or other materials without the prior written consent of the other party. Scottish Biomedical hereby consents to Omeros' disclosure of this Agreement and Scottish Biomedical's name to Omeros' current and potential employees, consultants, directors, shareholders, investors and partners as having provided the Services and Materials.

14 THIRD PARTY INTELLECTUAL PROPERTY

Each party undertakes and agrees to respect the valid intellectual property rights of any third party that relates to the Services and the Materials, and will notify the other party if they are aware that the provision of any proposed Services or Materials infringes any known third party intellectual property rights.

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15 CONSTRUCTION

If any provision of this Agreement is held to be unenforceable, that provision will be construed and reformed to permit enforcement to the maximum extent permissible consistent with the parties' original intent, and the remainder of this Agreement will continue in full force and effect. Either party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.

SUBSCRIBED for and on behalf of SCOTTISH BIOMEDICAL LIMITED at

Glasgow on the 24th day of April 2007 by Stephen Hammond its Director before the following witness:

Witness Name:
Eric Smith
Occupation:
Accountant

/s/ Stephen Hammond

/s/ Eric Smith
Witness

SUBSCRIBED for and on behalf of OMEROS CORPORATION, 1420 Fifth

Avenue, Suite 2600, Seattle, WA 98101, at Seattle on the ___day of April 2007 by Gregory A. Demopoulos, M.D., its Chairman and Chief Executive Officer (authorised official), before the following witness:

Witness Name:
Marcia S. Kelbon
Address: 1420 Fifth Avenue, Suite 2600, Seattle, WA 98101...
Occupation:
Vice President, General Counsel
Omeros Corporation

/s/ Gregory A. Demopoulos

/s/ Marcia S. Kelbon
Witness

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SCHEDULE A
PROJECT SPECIFICATION

Detailed within is the project outline to be implemented for a lead optimization programme to identify novel PDE10 inhibitors for Omeros.

SB will undertake a PDE10 medicinal chemistry programme to identify potent and bio available PDE10 inhibitors which are specifically aimed at the generation of a Phase I clinical candidate (the "Project"). To achieve this SB aims to produce a compound that has:

- [†]
- [†]
- [†]
- [†]
- [†]

SB shall provide written monthly reports to Omeros summarizing [†]. The reports also shall summarize chemical routes used.

The Project activity will last for a minimum of 3 months, this being the duration of Module 1, unless terminated in accordance with the provisions of this Agreement.

[†]

[†]

Each subsequent "Module" shall be undertaken only upon mutual agreement in advance, including a monetary value computed in accordance with Schedule B, by a Module Schedule setting out the details, expected duration and deliverables (template at Schedule C). Each Module Schedule shall be signed by an authorised official of each party, preferably before the end of the current Module, but in any event before commencement of that subsequent Module for which fees will be paid by Omeros.

Unless otherwise agreed between Omeros and Scottish Biomedical, should there be any gap of greater than thirty (30) days between (i) Omeros' receipt from Scottish Biomedical and [†] of all final data, compounds and derivatives deliverable for any module and (ii) Omeros' execution of a Services and Materials Module (Schedule C) authorizing the commencement of the next module, then Scottish Biomedical reserves the right to re-state timescales and re-allocate / change the personnel it allocates to Omeros' work, depending on its other resource and business requirements. Any changes of personnel shall be with scientists with similar skill levels.

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Module	Description	Scheduled Duration throughout	Comments
All	Project Manager: Colin Dick.		
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]

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SCHEDULE B
PROJECT PLAN AND FEES

I. Project Plan

The previous collaboration between Nura and Scottish Biomedical resulted in the identification of novel patentable compounds that [†]. As described in greater detail in Schedule A, to optimise this advanced lead series we will begin to synthesise the [†] compounds, listed in Appendix 1 attached hereto, that will address the issues of metabolic stability and solubility.

A. Communication

Colin Dick will resume as Project Leader and will head Scottish Biomedical's Project Team with [†] as lead chemist. During the project, at the end of each week, photocopies of all chemistry lab books will be sent to Omeros as a pdf together with a summary of work completed and in progress.

The Project Team at SB will review the data and discuss future plans at a weekly teleconference with Omeros ([†]).

However, lines of communication are open between Omeros and Scottish Biomedical on an *ad hoc* basis.

B. Assay Specifications

[†]

C. Compound Purity Checks on SB Synthesized Compounds

[†]

II. Chemistry

A. Description

Scottish Biomedical's chemists will re-commence the project. [†]

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B. Monthly resource / fees

1. Module 1

[†]

2. Subsequent Modules

If subsequent modules are agreed, it is anticipated that chemistry staffing for the Service will be continuing at that level of resource. Therefore, unless otherwise agreed, the SB fee for chemistry work during any agreed modules after module 1 will be [†] per month, or a pro-rated portion of this fee for periods of less than a full month.

The above monthly fee for Module 1 and any subsequent modules includes, in addition to the SB chemists, all standard materials and consumables, plus appropriate Project Management of this element. This provision includes production of compounds / [†] where ordered by Omeros / teleconferences etc.

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III. Biology.

A. General Description

PDE Selectivity Testing at SB, PDE10 screening at [†], as described below.

SB has allowed for the equivalent of 1 full-time SB biologist to undertake all this work at SB, plus additional SB biology resources/personnel for [†].

B. Specific Description and Monthly resource / fees

1. PDE Selectivity Testing

a. Specific Description

[†]

b. Monthly resource / fees

i. Module 1

[†]

ii. Subsequent Modules

Thereafter – pricing on per compound / per well basis for any agreed subsequent modules, as follows:

The fee for select [†] testing per well is:

per batch* of :

[†] wells \$ [†] per well

[†] wells \$ [†] per well

[†] wells \$ [†] per well

* SB shall await Omeros instructions prior to commencing testing so as to control batch size, subject to any mutually agreed time constraints. Such instruction shall be issued by e-mail from [†] or such other Omeros personnel as may be subsequently designated by Omeros in writing.

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

2. PDE10 Screening at [†]

a. Specific Description

PDE10 screening will be carried out at [†], with SB to Project Manage the Collaboration.

Scottish Biomedical will assist the [†] in setting up and validating the reconstructed vector and subsequent protein production as well as instruction on the PDE assay.

b. Monthly resource / fees

i. Module 1:

[†]

ii. Subsequent Modules

Thereafter – pricing on per compound / per well basis for any agreed subsequent modules, as follows:

The fee for [†] testing per well is:

per batch* of :

[†] wells \$ [†] per well

[†] wells \$ [†] per well

[†] wells \$ [†] per well

* SB shall await Omeros instructions prior to commencing testing so as to control batch size, subject to any mutually agreed time constraints.

IV. Total fees (Chemistry + Biology)

A. Module 1 = 3 months

[†]

B. Subsequent Modules: Monthly fees from month 4 onwards:

The fee for each month from month 4 onwards, that may be agreed for any subsequent modules, is Chemistry at [†] (or pro-rated for any period of less than a full month) plus an invoice for all agreed PDE selectivity testing at SB per the above pricing and PDE10 screening at [†] per the above pricing completed during such month.

Should the Project continue beyond 1st April 2008 then all SB / [†] prices will increase for inflation by [†] with effect from that date.

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V. Testing of Compounds Supplied by Omeros

A. † Testing for compounds supplied by Omeros

Should Omeros wish to have † carried out by Scottish Biomedical separately from compound production then the fee is \$ †. This fee would cover an SB chemist to spend time to provide † knowledge to the project. Looking at synthetic feasibility/literature searching/patents for potential compounds

B. PDE Selectivity Testing by SB of Omeros supplied Compounds

1) The fee for PDE IC₅₀ testing, for select PDEs* per well is:

per batch** of :

† wells \$ † per well

† wells \$ † per well

† wells \$ † per well

* IC₅₀ testing for selected PDE1-5, 7-9, 11 to be completed at SB.

** SB shall await Omeros instructions prior to commencing testing so as to control batch size, subject to any mutually agreed time constraints.

C. PDE10 Screening at † of Omeros supplied Compounds

The fee for PDE10 IC₅₀ testing, per well is:

per batch* of :

† wells \$ † per well

† wells \$ † per well

† wells \$ † per well

* SB shall await Omeros instructions prior to commencing testing so as to control batch size, subject to any mutually agreed time constraints.

This rate is offered to Omeros whilst the project is ongoing as part of the overall project for simplicity. However should Omeros require such PDE10 screening following completion of the overall SB work then SB reserves the right to re-quote for this testing.

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SCHEDULE C
MODULE TEMPLATE
OMEROS CORPORATION
MODULE X
under the terms and conditions of
SERVICES AND MATERIALS AGREEMENT dated 20 April 2007

Module Title: _____

Module Initiation Date: _____

Service Provider: Scottish Biomedical Limited

1. **Scope of Work.** Scottish Biomedical will

2. **Deliverables.** Scottish Biomedical will, for each compound, deliver to Omeros: (a) a report summarizing the results of all testing completed; and (b) a copy of all original data.

3. **Timeline.** Scottish Biomedical will use reasonable efforts to provide test results within xxxxx weeks of receipt of compounds for testing from Omeros.

4. **Compensation.** As full and complete consideration for all Services provided and obligations undertaken under this Task Order, Omeros shall pay Scottish Biomedical US \$_____

Final payment shall be due upon _____. Where the module duration is > 1 month then SB shall invoice at the end of each month for the appropriate portion of the agreed fee within the module, and invoice the balance due for the module upon completion. All SB invoices shall be paid within thirty (30) days of receipt.

† _____
DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

The above Module is accepted and acknowledged by each party through the signature of its authorized representative below, and is effective as of (date) _____

SCOTTISH BIOMEDICAL LIMITED

OMEROS CORPORATION

By: _____

By: _____

Name: _____

Name: Gregory A. Demopoulos, M.D.

Title: _____

Title: Chairman & CEO

† _____
DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

Appendix 1

Proposed alterations to current catechols.

[†] [Redaction continues for three pages]

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EXHIBIT I
ASSIGNMENT AND AMENDMENT dated 20 April 2007
of the
SERVICES AND MATERIALS AGREEMENT dated 25 February 25 2005
By and between
SCOTTISH BIOMEDICAL LIMITED T/A “SCOTTISH BIOMEDICAL”
and NURA, INC.

This is an assignment and amendment (this “Amendment”) effective 20 April 2007, between Scottish Biomedical Limited T/A “Scottish Biomedical” (“Scottish Biomedical”), Omeros Corporation (“Omeros”) and nura, inc. (“Nura”) of the Services and Material Agreement dated February 25, 2005 (“this Agreement”, which term shall not be construed herein to refer to any former or subsequent agreement between any of the parties) between Scottish Biomedical and Nura, a copy of which is attached hereto as Exhibit A, related to Nura’s PDE10 program.

Whereas Omeros acquired Nura effective August 11, 2006, with Nura now being a wholly owned subsidiary of Omeros and all of Nura’s research programs having been transferred to Omeros; and

Whereas Omeros and Scottish Biomedical wish to have Scottish Biomedical provide additional services to Omeros related to Omeros’ PDE10 program on a fee basis under a separate agreement, and Omeros and Scottish Biomedical wish to amend this Agreement to clarify and provide for continuing obligations there under;

Therefore, in consideration of the above and other good and valuable consideration, the parties hereby agree as follows:

Assignment:

Nura hereby assigns to Omeros all of Nura’s rights and obligations under this Agreement, to be enjoyed by and binding on Omeros to the same extent as enjoyed by and binding on Nura, Omeros hereby accepts such assignment, and Scottish Biomedical hereby consents to and acknowledges such assignment. Nura shall have no further right or obligation under this Agreement or this Amendment.

Amendment:

Scottish Biomedical and Omeros agree that this Agreement is hereby amended as follows:

All references to Nura are to be understood and interpreted as referring to Omeros.

Subsection 5.1 of Section 5 (Termination) of this Agreement is amended to read as follows:

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

5.1 This Agreement shall terminate upon completion of twelve months from commencement, commencement date being the date when this Agreement was signed by both parties, subject always to any extension to the duration of the provision of the Services / Materials and License agreed between the parties and subject to the following provisions of this Agreement that shall survive termination: Section 3 (Intellectual Property); Section 4 (Confidential Information), Section 7 (Governing Law), Section 8 (Assignment) and the Module 2 Milestone and Royalty provisions (patent filings, clinical development, regulatory approval, commercial sales) set forth in the Project Specification Schedule to this Agreement.

Section 7 (Governing Law) of this Agreement is amended to read as follows:

7 GOVERNING LAW

This Agreement shall be governed and construed in accordance with the law of the state of Delaware, USA. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the US Federal courts located in the State of Delaware, USA, as regards any claim, dispute or matter arising out of or relating to this Agreement and its implementation and effect.

The following new **Section 8 (Assignment)** is added to this Agreement:

8 ASSIGNMENT

Neither party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other party's prior written consent, which consent will not be unreasonably withheld. Scottish Biomedical consents to Omeros' assignment of this Agreement in whole or in part in connection with the merger, acquisition consolidation or transfer of all or substantially all of that portion of Omeros' assets to which this Agreement relates. Subject to these restrictions, this Agreement will be binding upon and will inure to the benefit of the parties' permitted successors and assignees.

The **Project Specification Schedule, Module 2, Milestone and Royalty Table** of this Agreement is replaced with the following definitions and amended table to read as follows:

The costs for provision of this library are set forth in the following table, in which terms used are defined as follows:

"Scottish Biomedical Library Compound" refers to a compound screened and selected during the performance of this Agreement from Scottish Biomedical's compound library pre-existing prior to this Agreement.

"Scottish Biomedical Series" means a series of structurally related novel compounds initially synthesized by Scottish Biomedical during the performance of this Agreement which are derivatives of a Scottish Biomedical Library Compound.

"Derivative" means a novel compound initially synthesized by Scottish Biomedical, during the performance of this Agreement or during the performance of a separate agreement between Scottish Biomedical and Omeros, which is a chemical derivative of a Scottish Biomedical Library Compound.

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“Subject Patent Application” means, for each unrelated Scottish Biomedical Series, the first patent application filed by Omeros anywhere in the world claiming as novel chemical entities such Scottish Biomedical Series or a subset of such Scottish Biomedical Series.

“Net Revenue” means revenue received by Omeros (cash or monetary equivalents) less the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; commissions to third party sales agents; and credits to customers because of rejections or returns.

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[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]

[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]

Royalties

[†] of Omeros' Net Revenue realized from (i) sales by Omeros, and (ii) proceeds paid to Omeros from sales by third parties authorized by Omeros, of a Scottish Biomedical Library Compound in each country world-wide in which such Scottish Biomedical Library Compound is literally encompassed by one or more valid and subsisting claims to novel chemical entities included in a patent issued to Omeros in such country from a Subject Patent Application or foreign counterpart thereof; or

[†] of Omeros' Net Revenue realized from (i) sales by Omeros, and (ii) proceeds paid to Omeros from sales by third parties authorized by Omeros, of a Derivative in each country world-wide in which such Derivative is literally encompassed by one or more valid and subsisting claims to novel chemical entities included in a patent issued to Omeros in such country from a Subject Patent Application or foreign counterpart thereof.

For purposes of clarity, notwithstanding anything to the contrary above, Omeros and Scottish Biomedical agree that the above milestone and royalty payment provisions shall not apply to any compound synthesized or developed by [†] for which Omeros is required to pay milestones and/or royalties to [†] or [†] successor-in-interest.

Continued Agreement

All other provisions of this Agreement including all attachments thereto, as amended herein above, shall continue in full force and effect during the term of this Agreement.

This Amendment is accepted and acknowledged by each party, as of the Effective Date set forth herein above, through the signature of its authorized representative(s) below:

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

SCOTTISH BIOMEDICAL LIMITED

By: /s/ Stephen Hammond
Name: Stephen Hammond
Title: Chief Executive

OMEROS CORPORATION

By: /s/ Gregory A. Demopulos
Name: Gregory A. Demopulos, M.D.
Title: Chairman & CEO

NURA, INC.

By: /s/ Gregory A. Demopulos
Name: Gregory A. Demopulos, M.D.
Title: President

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

EXHIBIT A

Copy of SERVICES AND MATERIALS AGREEMENT dated 25 February 2005

By and between

SCOTTISH BIOMEDICAL LIMITED TIA "SCOTTISH BIOMEDICAL"

and NURA, INC.



† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

DATED (February 25/2005)

SCOTTISH BIOMEDICAL LIMITED TIA "SCOTTISH BIOMEDICAL"

and

Nura Inc. "The Client"

SERVICES AND MATERIALS AGREEMENT

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

SCOTTISH BIOMEDICAL
BUSINESS TERMS AND CONDITIONS / MATERIAL TRANSFER AND USE AGREEMENT

1 BASIS OF THE SALE

- 1.1 Scottish Biomedical shall provide the Services and Materials as set out in the Schedule, subject to these conditions, which shall govern the contract for the provision of the Services and Materials to the exclusion of any other terms and conditions subject to which any request for the Services and Materials is made or purported to be made by The Client.
- 1.2 No variation to these conditions shall be binding unless agreed in writing between the authorised representatives of Scottish Biomedical and The Client.
- 1.3 Scottish Biomedical's employees or agents are not authorised to make any representations concerning the Services unless confirmed by Scottish Biomedical in writing.
- 1.4 Scottish Biomedical shall grant a 12-month non-exclusive licence to The Client to use its production and assay methodology under the terms and conditions of this Agreement.
- 1.5 The Client shall not provide any Material originating from Scottish Biomedical to any third party whatsoever and shall not grant any sub-licenses over the assay methodology licensed to it by Scottish Biomedical, without the specific written permission of Scottish Biomedical. Scottish Biomedical hereby gives permission as part of these Terms that it or The Client shall supply Materials from Scottish Biomedical as part of this Agreement to ComGenex of Hungary.

WARRANTIES



† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

- 1.6 Scottish Biomedical warrants that it will perform the Services and supply the Materials with reasonable care and skill but does not guarantee any particular outcome or results will arise as a result of the provision of the Services or that the Materials will be fit for any specific purpose.
- 1.7 Save as set out in Clause 2 Scottish Biomedical neither gives nor makes any express warranty to The Client.
- 1.8 TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS, SCOTTISH BIOMEDICAL DISCLAIMS ALL IMPLIED REPRESENTATIONS, WARRANTIES, CONDITIONS, OBLIGATIONS OR DUTIES OF EVERY NATURE (INCLUDING, WITHOUT LIMITATION, ANY EQUITABLE, COMMON LAW OR STATUTORY WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, QUALITY, MERCHANTABILITY AND/OR SATISFACTORINESS) IN RESPECT OF THE SERVICES AND MATERIALS. ACCORDINGLY, ALL SUCH IMPLIED REPRESENTATIONS, WARRANTIES, CONDITIONS, OBLIGATIONS OR DUTIES ARE EXCLUDED TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAWS. NOTHING IN THIS AGREEMENT SHALL HOWEVER OPERATE TO LIMIT OR EXCLUDE ANY LIABILITY FOR FRAUD OR DEATH OR PERSONAL INJURY CAUSED BY SCOTTISH BIOMEDICAL'S NEGLIGENCE.
- 1.9 The Client agrees that the foregoing exclusions of express and/or implied warranties and the limitations and exclusions of liability set out in Clause 2 are in all respects fair and reasonable having regard to:-
- (a) the complexity and novelty of the Services and/or the Materials;
 - (b) the price / fees to be paid pursuant to this Agreement; and
 - (c) the relative resources of the parties.



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2 LIMITATION OF LIABILITY

- 2.1 The following provisions set out Scottish Biomedical's entire liability (including any liability for the acts and omissions of its employees, agents or sub-contractors) to The Client in respect of:
- 2.2 any breach of its contractual obligations arising under this Agreement;
- 2.2.1 any indemnity granted by Scottish Biomedical under this Agreement; and
- 2.2.2 any representation (other than fraudulent misrepresentation), statement or delictual or tortious act or omission including negligence arising under or in connection with this Agreement.
- 2.3 Other than in respect of death and personal injury caused by Scottish Biomedical's negligence, or in relation to any liability which by law may not be limited or excluded, Scottish Biomedical's liability with regard to any other matter, aspect, fact or thing arising from or relating to this Agreement shall in no event exceed the sums paid [and due to be paid] hereunder as at the date of the matter giving rise to the claim under the Final Proposal Document [or, where the Proposal consists of a series of Tasks, only in respect of the sums paid [and due to be paid] for the relevant Task(s)].
- 2.4 Other than in respect of death and personal injury caused by Scottish Biomedical's negligence, or in relation to any other liability which by law may not be limited or excluded, Scottish Biomedical shall not be liable for any consequential or indirect loss or loss of profit, business, data, revenue, goodwill or anticipated savings which arises out of or in connection with this Agreement.

3 INTELLECTUAL PROPERTY

- 3.1 The Client acknowledges that the production and assay methodology supplied under this Agreement is the property of Scottish Biomedical.



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3.2 Scottish Biomedical and The Client each agree and acknowledge that any Results or other intellectual property generated or created under this Agreement are the property of The Client; provided, however that all such Results and other intellectual property shall be subject to a first position security interest in favour of Scottish Biomedical securing The Client's payment obligations under this Agreement.

4 CONFIDENTIAL INFORMATION

4.1 The parties acknowledge and agree to observe their respective obligations of Confidentiality. The parties shall treat as secret and confidential, and take all proper precautions to protect, any information disclosed by each of them to the other in connection with the provision of the Services / Materials including but not limited to any Results and the subject matter of any Patent or Know-how as well as information concerning the parties, this Agreement, and either of their businesses and activities generally or any such information which may come to its knowledge in whatever form or manner imparted or received. Subject as herein provided, any disclosure of such information shall be limited to those employees, agents, servants or staff of both parties who need the information for the purposes of the provision of the Services / Materials and any such disclosures shall be on such terms as to preserve the effect of this Clause (Confidential Information).

4.2 The Client shall ensure that ComGenex observes these Confidentiality provisions.

5 TERMINATION

5.1 This Agreement shall terminate upon completion of twelve months from commencement, commencement date being the date when the Agreement has been signed by both parties, subject always to any extension to the duration of the provision of the Services / Materials and License agreed between the parties and subject to the provisions of the contract surviving



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termination including Confidential Information / Confidentiality / Milestone Payments and Royalty Fees.

- 5.2 Either party may terminate this Agreement forthwith:
- 5.3 if the other party has a winding up order made against it or, except for the purposes of reconstruction, has a resolution for voluntary winding up passed in respect of it, or has a liquidator, receiver or administrator appointed over it;
- 5.4 in the event of non-performance or breach by the other party of any of its obligations in respect of the Services / Material provision after the giving of written notice by the party not in default to the defaulting party requiring performance of the obligations and the defaulting party remaining in breach of its obligations one (1) month after the receipt thereof.
- 5.5 Upon termination The Client shall return to Scottish Biomedical all copies of the methodologies supplied to it under the Agreement and cease to use them.

6 PAYMENT TERMS

The Client shall be issued with an initial invoice on signing of the agreement to the value of 30% of the total due under the Agreement or 30% of the total initial order placed by The Client.

The Client shall be issued with a second invoice to the value of 30% of the total due mid-way through the agreed work programme, and then a final invoice shall be issued for the balance due under the Agreement (or total initial order) once all the Services and Materials have been completed / provided.

Each invoice shall be payable by The Client within 30 days of the date of invoice from Scottish Biomedical.

Payment shall be deposited by electronic transfer to Scottish Biomedical's bank account:



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[†]

[†]

GOVERNING LAW

This Agreement shall be governed and construed in accordance with the law of Scotland. Each party hereby irrevocably submits to the non-exclusive jurisdiction of the Scottish courts as regards any claim, dispute or matter arising out of or relating to this Agreement and its implementation and effect.



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SUBSCRIBED for and on behalf of
SCOTTISH BIOMEDICAL LIMITED
at Glasgow on the day of

2005

by its Director before the following

witness:-

/s/ Stephen Hammond

Witness Name

/s/ illegible signature

Witness

Occupation: Principal Scientist

SUBSCRIBED for and on behalf of

Nura Inc.

at Seattle on the 25th day of

February, 2005

/s/ Patrick Gray

by Patrick Gray its Chief Executive
Officer before the following witness:-

Witness Name: Mark Benjamin Witness

/s/ Mark Benjamin

Address 1124 Columbia Street, Seattle,
WA, 98034 USA

Occupation Chief Business Officer, Nura Inc.



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SCHEDULE
PROJECT SPECIFICATION

Module 1 **Provision of Purified Human PDE10A1, Assay Details and Technical Support**

[†]

Module 2 **Provision of Scottish Biomedical's [†] Compound PDE10 Enriched Library**

[†]

Module 3 **Human PDE1-11 Profiling, Single Point Screens**

[†]

Module 4 **Human PDE1-11 profiling, Comprehensive IC₅₀ Determination**

[†]

Module 5 **Purchase of Scottish Biomedical's [†] Compound PDE10 Enriched Library**

[†]

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AMENDMENT dated 30 April 2007

of the

SERVICES AND MATERIALS AGREEMENT dated 20 April 2007

By and between

SCOTTISH BIOMEDICAL LIMITED T/A "SCOTTISH BIOMEDICAL"

and OMEROS CORPORATION

This is an amendment (this "Amendment") effective 30 April 2007, between Scottish Biomedical Limited T/A "Scottish Biomedical" ("Scottish Biomedical") and Omeros Corporation ("Omeros") of the Services and Materials Agreement dated 20 April 2007 ("the Agreement") related to Omeros' PDE10 program.

The Agreement is hereby amended to replace original Appendix 1 (pages 20-22 of the Agreement) with the corrected Appendix 1 attached hereto (amended pages 20-22).

All other terms of the Agreement remain unchanged and in force. This Amendment is accepted and acknowledged by each party, as of the effective date set forth herein above, through the signature of its authorized representatives below:

SCOTTISH BIOMEDICAL LIMITED

OMEROS CORPORATION

By: /s/ Eric Smith

By: /s/ Gregory A. Demopoulos

Name: Eric Smith

Name: Gregory A. Demopoulos, M.D.

Title: Finance Director

Title: Chairman & CEO

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Amended 20

Appendix 1

Proposed alterations to current catechols.

[†] [Redaction continues for three pages]

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Amended 21

Drug Product Development and Clinical Supply Agreement

THIS AGREEMENT ("Agreement") is effective as of the 20th day of January 2006 ("Effective Date").

BY AND BETWEEN:

OMEROS CORPORATION, a corporation organized and existing under the laws of Washington, with its principal offices located at 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101 (hereinafter referred to as "CLIENT")

AND:

ALTHEA TECHNOLOGIES, INC., a Delaware corporation, with a place of business located at 11040 Roselle Street, San Diego, CA 92121 (hereinafter referred to as "ALTHEA");

WHEREAS CLIENT has formulations and/or know-how related to each Drug Product, as defined below;

WHEREAS ALTHEA has the expertise and the manufacturing facility suitable for the Production of Drug Product;

WHEREAS, CLIENT wishes to have ALTHEA Produce Drug Product and ALTHEA wishes to Produce Drug Product for CLIENT;

NOW, THEREFORE, in consideration of the premises and the undertakings, terms, conditions and covenants set forth below, the parties hereto agree as follows:

Article 1, DEFINITIONS.

- 1.1 AFFILIATE** of a party hereto shall mean any entity that controls or is controlled by such party, or is under common control with such party. For purposes of this definition, an entity shall be deemed to control another entity if it owns or controls, directly or indirectly, at least fifty percent (50%) of the voting equity of another entity (or other comparable interest for an entity other than a corporation).
- 1.2 APPLICABLE LEGAL REQUIREMENTS** shall mean all laws, rules, regulations, ordinances, guidance, guidelines, and standards of any international, national, state, or local governmental authority that are applicable to the Development, Production, or other services described in a particular Project Plan or to other activities or obligations under this Agreement, including without limitation (a) cGMP, to the extent applicable as set forth in a Project Plan, (b) all

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other applicable regulations and regulatory guidance promulgated by the FDA and (c) applicable International Conference on Harmonisation Guidance.

- 1.3 BATCH** shall mean a specific quantity of a Drug Product comprising a number of units mutually agreed upon between CLIENT and ALTHEA, and that (a) is intended to have uniform character and quality within specified limits, and (b) is produced according to a single manufacturing order during the same cycle of manufacture.
- 1.4 APIs** shall mean the active pharmaceutical ingredients, as set forth in the Project Plan, to be supplied by CLIENT for use in Production of Drug Product.
- 1.5 cGMP** shall mean current Good Manufacturing Practices as defined in the FDA rules and regulations, 21 CFR Parts 210-211.
- 1.6 CANCELLATION FEES** shall mean the fees that may be payable by CLIENT in the event that CLIENT cancels the Production of any Batch of Drug Product set forth in the Project Plan, as further described and set forth in Section 3.3.
- 1.7 COMPONENTS** shall mean all Components used by ALTHEA in Production of Drug Product under this Agreement. Components are listed in the Project Plan and are identified as Components supplied by CLIENT ("CLIENT Supplied Components") or Components supplied by ALTHEA ("ALTHEA Supplied Components").
- 1.8 CONFIDENTIAL INFORMATION** shall mean all information and data provided by one party to the other party except any portion of such information and data which:
- (i) is known to the recipient as evidenced by its written records before receipt thereof from the disclosing party;
 - (ii) is disclosed to the recipient by a third person who has the legal right to make such disclosure;
 - (iii) is or becomes part of the public domain through no fault of the recipient; or
 - (iv) the recipient can reasonably establish by its written records is independently developed by recipient without use of the information disclosed by the disclosing party.
- 1.9 ALTHEA SOPs** shall mean ALTHEA's applicable Standard Operating Procedures which shall be reviewed and approved by CLIENT prior to entering into each Project Plan.

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- 1.10 DEVELOPMENT** shall mean studies conducted by ALTHEA to develop a process to Produce Drug Product, in accordance with the Specifications and cGMP. Development activities shall be identified in the Project Plan.
- 1.11 DRUG PRODUCT** shall mean each of CLIENT's pharmaceutical product(s) for which CLIENT is engaging ALTHEA hereunder to Produce bulk or finished dosage form, as further set forth in an applicable Project Plan, for development and/or clinical use only by CLIENT or its designees.
- 1.12 FDA** shall mean the United States Food and Drug Administration or any successor entity thereto.
- 1.13 FD&C ACT** shall mean the United States Federal Food, Drug and Cosmetic Act, 21 U.S.C. Section 301, et seq., as may be amended from time to time.
- 1.14 IND** shall mean an Investigational New Drug Application for Drug Product, as defined in the rules and regulations promulgated by FDA, including without limitation 21 CFR 312.3.
- 1.15 LABELING** shall mean all labels and other written, printed, or graphic matter upon: (i) Drug Product or any container, carton, or wrapper utilized with Drug Product or (ii) any written material accompanying Drug Product.
- 1.16 MASTER BATCH RECORD (MBR)** shall mean the formal set of instructions for Production of Drug Product. The MBR shall be developed and maintained in ALTHEA's standard format by ALTHEA, using CLIENT's master formula and technical support, and shall be approved in writing by CLIENT.
- 1.17 PRODUCTION or PRODUCE** shall mean the formulation, filling, packaging, inspection, labeling, and/or testing of Drug Product by ALTHEA, as further set forth in the applicable Project Plan and as the context requires.
- 1.18 PRODUCT SPECIFICATION SHEET** shall mean a listing of the analytical testing and corresponding Specifications, to be performed on the APIs and/or Drug Product in connection with the stability program and as further described in the applicable Project Plan.
- 1.19 PROJECT PLAN** shall mean each document agreed upon by the parties from time to time that contains the parameters for Production of a Drug Product by ALTHEA hereunder. Each Project Plan shall be initially developed by ALTHEA and, if acceptable to CLIENT, agreed to in writing by CLIENT. Each Project Plan shall include the details of the project relating to a particular Drug Product, including without limitation (a) the scope of work to be performed and deliverables to be delivered by ALTHEA, (b) the Purchase Price that CLIENT will pay for the work to be performed by ALTHEA, (c) the timeline for performance of work by ALTHEA, and (d) the Quality Management Agreement applicable to the work to be performed by ALTHEA under the Project Plan.

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Prior to commencing Production of any Drug Product, ALTHEA shall deliver two (2) signed originals of the Project Plan to CLIENT. CLIENT shall review the Project Plan and, if CLIENT finds the Project Plan acceptable, shall sign both originals of the Project Plan and return one (1) fully executed original to ALTHEA. Each fully executed Project Plan shall be incorporated herein by reference and made a part of this Agreement. In the event of any inconsistency between the terms within the body of this Agreement and the terms contained in any Project Plan, including without limitation any Quality Management Agreement within any such Project Plan, the terms within the body of this Agreement shall govern. ALTHEA shall have no obligation for Production of a Drug Product until CLIENT has executed and returned the Project Plan for such Drug Product to ALTHEA.

- 1.20 **PURCHASE PRICE** shall mean the amount to be paid by CLIENT for Development, Production, and any other services to be performed by ALTHEA as specified in each Project Plan.
- 1.21 **REGULATORY AUTHORITY** shall mean those agencies or authorities responsible for regulation of Drug Product in the United States and overseas, including without limitation FDA. ALTHEA shall have no obligation to Produce Drug Product in compliance with the requirements of a Regulatory Authority other than FDA unless specified in the applicable Project Plan or the other terms of this Agreement.
- 1.22 **RELEASED EXECUTED BATCH RECORD** shall mean the completed batch record and associate deviation reports, investigation reports, and Certificates of Analysis created for each Batch of Drug Product.
- 1.23 **SPECIFICATIONS** shall mean those specifications set forth in the Product Specification Sheet and the Master Batch Record for Drug Product, and to the extent that ALTHEA is required to test the APIs, for the APIs.

Article 2, DEVELOPMENT AND PRODUCTION OF DRUG PRODUCT.

2.1 General, Initiation:

- (a) ALTHEA shall, and shall cause all permitted Subcontractors to, perform all Development, Production, and other services hereunder (i) in a professional manner and in accordance with high standards of care and diligence consistent with industry practices, (ii) in compliance with the terms and conditions of this Agreement, including without limitation the applicable Project Plans and the schedules included therein, (iii) in compliance with all Applicable Legal Requirements, and (iv) in compliance with the applicable ALTHEA SOPs, and (e) in compliance with all reasonable direction and requests of CLIENT.

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(b) Upon execution of this Agreement and the corresponding Project Plan for each Drug Product, ALTHEA shall, to the extent set forth in the Project Plan, commence Development of such Drug Product pursuant to the timeline set forth in the Project Plan. Upon execution of this Agreement and the corresponding Project Plan for each Drug Product, ALTHEA shall commence Production of such Drug Product pursuant to the Project Plan.

2.2 **Documentation:** The Master Batch Record shall be reviewed and approved by ALTHEA and by CLIENT in writing (including by letter, e-mail or by signing the Master Batch Record) prior to commencement of Production. Any material change to an approved Master Batch Record will be reviewed and approved by ALTHEA and by CLIENT in writing (including by letter, e-mail or by signing a change order) prior to said change being implemented. Each Batch of Drug Product shall be Produced by using a copy of the Master Batch Record. Each copy of the Master Batch Record for such Batch of Drug Product shall be assigned a unique batch number. Any deviation from the manufacturing process specified in the Master Batch Record must be documented in the copy of the Master Batch Record for that Batch. ALTHEA shall provide CLIENT in a timely manner with required supporting Development and Production documentation and any other information required for regulatory filings related to the Drug Product in a form reasonably suitable for CLIENT's submission to the FDA or other Regulatory Authority, including without limitation Master Batch Records, other batch records, protocols, other written processes and procedures directly related to the CLIENT's Drug Product and any other documents that are reasonably necessary or useful for CLIENT to use and/or transfer all methods and other work product resulting from the Development and Production services performed by ALTHEA under this Agreement. Employees, consultants, agents or contractors of CLIENT or CLIENT's Affiliates shall have the right to reference or submit the foregoing to the applicable Regulatory Authorities in support of an IND or other regulatory filing related to the Drug Product, or otherwise in support of CLIENT's efforts to develop, conduct clinical trials for, formulate, manufacture, test, and seek regulatory approval for the Drug Product.

2.3 **APIs and Components Supply:** CLIENT, at its sole cost and expense (including, without limitation, shipping costs), shall supply to ALTHEA, in a timely manner, (a) all APIs required to satisfy the terms of this Agreement and (b) any other CLIENT Supplied Components, all to be delivered to ALTHEA as set forth in the applicable Project Plan for Production of such Drug Product. Except as may specifically be set forth in the Project Plan, on receipt of the APIs and CLIENT Supplied Components as set forth above, ALTHEA's sole obligation with respect to evaluation of the APIs and CLIENT Supplied Components shall be to review the accompanying certificate of analysis to confirm that the APIs and CLIENT Supplied Components (if applicable) conform with the Specifications and component specifications, respectively.

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- 2.4 **APIs and Component Delivery Delays:** ALTHEA shall have no responsibility for delays in delivery of Drug Product caused by delays in receipt of APIs to be supplied by CLIENT under a Project Plan or other CLIENT Supplied Components. Notwithstanding anything in this Agreement to the contrary, in the event that ALTHEA receives the APIs for Production of Drug Product from CLIENT with less time than set forth in the applicable Project Plan prior to the scheduled date of Production of such Drug Product, but within sufficient time to Produce such Drug Product on such scheduled date as determined by ALTHEA in its reasonable discretion, ALTHEA may charge CLIENT up to an additional fee of [†] for labor or expenses resulting from such delay incurred by ALTHEA, which shall be paid promptly to ALTHEA prior to Production, and ALTHEA shall Produce such Drug Product as per the original schedule. Notwithstanding anything in this Agreement to the contrary, in the event that ALTHEA receives the APIs for Production of Drug Product from CLIENT with less time than set forth in the applicable Project Plan prior to the scheduled date of Production of such Drug Product, and without sufficient time to Produce such Drug Product on the scheduled date as determined by ALTHEA in its reasonable discretion, ALTHEA shall reschedule Production of such Drug Product and shall charge CLIENT the applicable Cancellation Fee, if any, as further set forth in Section 3.3.
- 2.5 **Importer of Record:** In the event any material or equipment to be supplied by CLIENT, including without limitation CLIENT Supplied Components and APIs, is imported into the United States for delivery to ALTHEA ("Imported Goods"), CLIENT shall be the "Importer of Record" of such Imported Goods. As the Importer of Record, CLIENT shall be responsible for all aspects of the Imported Goods including, without limitation (a) customs and other regulatory clearance of Imported Goods, (b) payment of all tariffs, duties, customs, fees, expenses and charges payable in connection with the importation and delivery of the Imported Goods, and (c) keeping all records, documents, correspondence and tracking information required by applicable laws, rules and regulations arising out of or in connection with the importation or delivery of the Imported Goods.
- 2.6 **Material Safety Data Sheet:** CLIENT shall provide ALTHEA a Material Safety Data Sheet for APIs and, if available, for each Drug Product. ALTHEA shall immediately notify CLIENT of any unusual health or environmental occurrence relating to Drug Product, including, but not limited to any claim or complaint by any employee of ALTHEA or any of its Affiliates or third party that the operations of ALTHEA pursuant to this Agreement have resulted in any adverse health or safety effect on an employee or third party. ALTHEA agrees to advise CLIENT immediately of any unexpected safety or toxicity problems of which it becomes aware regarding the Drug Product.
- 2.7 **Vendor and Supplier Audit and Certification:** CLIENT shall be provided the opportunity to and shall have the right to certify and audit all Drug Product- related vendors and suppliers, the identity of which shall be provided to CLIENT by ALTHEA upon request by CLIENT, and if CLIENT does not so certify and audit such vendors and suppliers, shall be deemed to have approved ALTHEA'S

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selection of vendors and suppliers by way of signing this agreement. If CLIENT has a reasonable objection to any of ALTHEA's vendors or suppliers, CLIENT shall so inform ALTHEA and the parties shall work together in good faith to identify an alternate supplier or otherwise resolve the issue. ALTHEA shall inform CLIENT in writing of any change in ALTHEA's suppliers and vendors used in the Production of Drug Product. Except for the CLIENT Supplied Components identified in a Project Plan, the cost for all materials and ALTHEA Supplied Components, including any required testing and evaluation, which shall be performed by ALTHEA, shall be included in the Purchase Price.

2.8 Storage; Delivery Terms: ALTHEA shall store all APIs and all Drug Product under conditions that comply with the Specifications, any requirements set forth in the Project Plan, and any other reasonable written instructions of CLIENT, as applicable. Notwithstanding anything herein seemingly to the contrary, ALTHEA shall be liable for risk of loss of APIs, CLIENT Supplied Components and Drug Product while in the possession of ALTHEA. ALTHEA shall ship all Drug Product to CLIENT or to CLIENT's designated consignee under conditions that comply with the Specifications, any requirements set forth in the Project Plan, and any other reasonable written instructions of CLIENT, as applicable. All shipments shall be shipped FOB ALTHEA, by a common carrier designated by CLIENT, at CLIENT's expense; provided, however, ALTHEA shall be responsible for the loading of the Drug Product on departure and shall bear risk of loss and all costs of such loading. CLIENT shall procure, at its cost, insurance covering damage or loss of Drug Product during shipping. All shipping instructions of CLIENT shall be accompanied by the name and address of the recipient and the shipping date.

2.9 Exporter of Record: CLIENT shall be the exporter of record for any Drug Product shipped out of the United States, as CLIENT shall be and shall remain the owner of the Drug Product, as between the parties. CLIENT warrants that all shipments of Drug Product exported from the United States will be made in compliance with all applicable United States export laws and regulations and all applicable import laws and regulations into the country of importation.

CLIENT shall be responsible for obtaining and paying for any licenses or other governmental authorization(s) necessary for the exportation from the United States. CLIENT shall select and pay the freight forwarder who shall solely be CLIENT's agent. CLIENT and its freight forwarder shall be solely responsible for preparing and filing the Shipper's Export Declaration and any other documentation required for the export.

2.10 Foreign Corrupt Practices Act. CLIENT acknowledges that it is not the agent of ALTHEA and represents and warrants that it has not, and covenants that it will not, pay anything of value to any government employee in connection with the resale of the Product.

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- 2.11 Deposits and Payment for Drug Product and Development:** Promptly upon execution of each Project Plan, CLIENT shall pay to ALTHEA [†] of the total fees of each Project Plan, unless otherwise set forth in the Project Plan. Thereafter, ALTHEA will invoice CLIENT monthly based on the specific services completed and/or milestones met during the month. A payment schedule may be set forth in each Project Plan. CLIENT shall pay all invoices within thirty (30) days of receipt by CLIENT. Any payment due under this Agreement not received within the times noted above shall bear interest at the lesser of (a) the maximum rate permitted by law, and (b) 1.5% per month on the outstanding balance compounded monthly. Notwithstanding the above provisions of this Section 2.11, CLIENT may withhold until resolved payment of any invoices that are disputed in good faith due to any Drug Product or other deliverable failing to meet standards set forth in the applicable Project Plan.
- 2.12 Default in Payment Obligations:** In addition to all other remedies available to ALTHEA in the event of a CLIENT default, if CLIENT fails to make payments as required hereunder, ALTHEA may take appropriate measures to assure prompt and full payment, including any one of the following measures: refuse to Produce any Drug Product until CLIENT's account is paid in full; modify the foregoing terms of payment; place the account on a letter of credit basis; require full or partial payment in advance; suspend deliveries of Drug Product until CLIENT provides assurance of performance reasonably satisfactory to ALTHEA, or take other reasonable means as ALTHEA may determine.
- 2.13 Returns:** Drug Product returned by third parties is the responsibility of CLIENT.
- 2.14 Subcontractors.** ALTHEA shall not subcontract to any third parties (in such capacity, "Subcontractors") any Development, Production, or other services that ALTHEA is obligated to perform under this Agreement without, in each case, CLIENT's prior written approval, at CLIENT's sole discretion. If ALTHEA proposes use of Subcontractors for particular services, CLIENT may require access to such Subcontractors for audit purposes. If CLIENT preapproves a Subcontractor in writing, (a) ALTHEA shall enter into an agreement with such Subcontractor that requires Subcontractor to meet all performance standards hereunder, that contains confidentiality and non-use terms at least as strict as those set forth in Article 9 below, that includes intellectual property rights and obligations consistent with those set forth in Article 10 below, and that includes any other terms necessary to ensure that ALTHEA meets its obligations under this Agreement, and (b) no such subcontracting by ALTHEA shall relieve ALTHEA of, and ALTHEA shall remain primarily liable for, its obligations under this Agreement. The parties may, at their discretion, designate in a Project Plan certain Subcontractors approved by CLIENT for services to be performed under that particular Project Plan.
- 2.15 Drug Product Substitution.** At CLIENT's request, from time to time, ALTHEA shall substitute for Production that has been scheduled under a Project Plan another Drug Product of CLIENT or its designee. ALTHEA shall accept each such

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substitution unless CLIENT and ALTHEA agree, in their reasonable discretion and after a good-faith discussion and reasonable evaluation of relevant factors, that such particular substitution is not feasible for technical reasons. In the event of any such substitution, the parties shall negotiate in good faith to amend the Project Plan as appropriate, including without limitation by adjusting the dates, deadlines and Purchase Price set forth in the Project Plan to the extent impacted by such Drug Product substitution.

Article 3, TERM AND TERMINATION.

- 3.1 Term:** Unless sooner terminated pursuant to Section 3.2 herein, this Agreement shall commence on the date first above written and will continue until one (1) year after the satisfactory completion of Development and Production and all other services set forth in all outstanding Project Plans, as well as the satisfactory delivery of all deliverables set forth in all outstanding Project Plans (the "Term"). Notwithstanding the foregoing, the parties shall be free to extend the Term by mutual written agreement even if no Project Plans are outstanding, in contemplation of entering into Project Plans in the future.
- 3.2 Termination:** This Agreement may be terminated at any time upon the occurrence of any of the following events:
- 3.2.1 Termination for Breach:** Either party may terminate this Agreement upon the breach of any provision of this Agreement by the other party if such breach is not cured by the breaching party within thirty (30) calendar days (or such additional time reasonably necessary to cure such default provided the breaching party has commenced a cure within the thirty (30) day period and is diligently pursuing completion of such cure) after receipt by the breaching party of written notice of such default. At the option of the non-breaching party, such termination may be with respect to the entire Agreement, or only with respect to the Project Plan that is subject to the breach.
- 3.2.2 Termination for Financial Matters:** This Agreement may be terminated immediately by either party by giving the other party written notice thereof in the event such other party makes a general assignment for the benefit of its creditors, or proceedings of a case are commenced in any court of competent jurisdiction by or against such party seeking (a) such party's reorganization, liquidation, dissolution, arrangement or winding up, or the composition or readjustment of its debts, (b) the appointment of a receiver or trustee for or over such party's property, or (c) similar relief in respect of such party under any law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debt, and such proceedings shall continue undismitted, or

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an order with respect to the foregoing shall be entered and continue unstated, for a period of more than sixty (60) days without the entry of an order by a court of competent jurisdiction or other action by a duly appointed receiver or trustee that will ensure performance by such other party.

3.2.3 Termination by Omeros: This Agreement or any Project Plan may be terminated by CLIENT without cause by providing written notice of termination to Althea, which action shall subject Omeros to the payment of any penalties that may be applicable for any uncompleted Project Plan(s) as provided in Section 3.3(b) below.

3.3 Payment on Termination; Cancellation Fees:

- (a) In the event of the termination of this Agreement, CLIENT shall reimburse ALTHEA for (a) its documented, reasonable out-of-pocket costs for all ALTHEA Supplied Components ordered prior to termination and not cancelable at no cost to ALTHEA, (b) all work-in-process commenced by ALTHEA that has been performed in accordance with the terms of this Agreement and applicable Project Plan(s), and (c) all finished Drug Product produced and delivered in accordance with the terms of this Agreement and applicable Project Plan(s) that is delivered to CLIENT.
- (b) In the event of cancellation by CLIENT of the Production of any Batch set forth in a Project Plan that has been scheduled by written agreement of ALTHEA and CLIENT or in the event of termination of this Agreement prior to completion of any such scheduled Batch, ALTHEA shall use its best efforts to sell the manufacturing time and capacity created as a result of such cancellation or termination to another customer and otherwise mitigate ALTHEA's losses. In the event that the manufacturing time and capacity created as a result of CLIENT's cancellation of Production of any such scheduled Batch or the termination of this Agreement prior to completion of any such scheduled Batch has not been sold by ALTHEA, except for any cancellation or termination by CLIENT pursuant to Section 3.2.1, ALTHEA may at its option charge CLIENT and CLIENT shall then pay the Cancellation Fees as hereinafter set forth: (i) CLIENT is subject to a charge of [†] of the budgeted Batch price if the Batch is canceled less than [†] from the scheduled fill date, (ii) a charge of [†] of the budgeted Batch price if the Batch is canceled less than [†] from the scheduled fill date, and (iii) a charge of [†] of the budgeted Batch price if the Batch is canceled less than [†] from the scheduled fill date. In addition, CLIENT must compensate ALTHEA for any documented, reasonable out-of-pocket costs for all ALTHEA Supplied Components ordered by ALTHEA prior to termination and not cancelable at no cost to ALTHEA, non-cancelable materials ordered or testing completed by ALTHEA, except to any extent such costs have been paid in accordance with Section 3.3.(a) above. For

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purposes of the foregoing, one (1) week is equivalent to seven (7) days. Following termination or upon notice that CLIENT has cancelled Production of a Batch, as applicable, ALTHEA shall ship all completed Drug Product and all Components and other materials for which CLIENT is obligated to reimburse ALTHEA pursuant to the foregoing, to CLIENT at CLIENT's cost and per CLIENT's instructions. CLIENT shall make payment for all expenses described in Section 3.3 thirty (30) days from receipt of the invoice. Notwithstanding anything herein to the contrary, CLIENT shall have no obligation to pay any Cancellation Fees or other amounts to ALTHEA in the event that this Agreement is terminated by CLIENT pursuant to Section 3.2.1 above.

- 3.4 Survival:** Termination, expiration, cancellation or abandonment of this Agreement through any means or for any reason shall be without prejudice to the rights and remedies of either party with respect to any antecedent breach of any of the provisions of this Agreement. The provisions of Sections 3, 6, 9, 10, 11, 12, 13, 14, and 15 hereof shall survive expiration or termination of this Agreement for the time period set forth therein, or if no time period is set forth therein, then indefinitely.

Article 4, CERTIFICATES OF ANALYSIS AND MANUFACTURING COMPLIANCE.

- 4.1 Certificates of Analysis:** At CLIENT's cost and expense, as set forth in the applicable Project Plan, ALTHEA shall test, or cause to be tested by third parties, in accordance with the Specifications, each Batch of Drug Product Produced pursuant to this Agreement before delivery to CLIENT. A certificate of analysis for each Batch delivered shall set forth the items tested, Specifications, and test results. ALTHEA shall also ensure that all batch Production and control records have been reviewed and approved by the appropriate quality control unit and shall so indicate on the final page of the Released Executed Batch Record. ALTHEA shall send, or cause to be sent, such certificates and the Released Executed Batch Record to CLIENT prior to the shipment of Drug Product (unless Drug Product is shipped under quarantine). Unless otherwise set forth in the applicable Project Plan, ALTHEA shall also provide samples of all Batches of Drug Product Produced under this Agreement, as further described in Section 5.1 below. Unless otherwise set forth in the Project Plan, CLIENT shall test, or cause to be tested, for final release, each Batch of Drug Product as meeting the Specifications. As required by the FDA (see Section 5.2 below), CLIENT assumes full responsibility for final release of each Batch of Drug Product. All costs associated with ALTHEA performing testing and providing certificates of analysis and other documentation as set forth in this Section 5.1 shall be deemed included within the Purchase Price set forth in the applicable Project Plan and Client shall pay no additional amounts therefore.

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- 4.2 **Manufacturing Compliance:** ALTHEA shall advise CLIENT immediately if an authorized agent of FDA or any other Regulatory Authority visits ALTHEA's manufacturing facility and makes an inquiry regarding ALTHEA's Production of Drug Product for CLIENT or otherwise communicates orally or in writing with ALTHEA about any Drug Product for which services are performed hereunder. In the event of an inspection of an ALTHEA facility relating to a Drug Product or any services performed for CLIENT hereunder, CLIENT may send, at its own expense, representatives to the ALTHEA Facility to participate in any portion of such inspection directed to the Drug Product or the services performed under this Agreement. ALTHEA shall supply CLIENT with copies of any written communications from any Regulatory Authority that relate to the Drug Product or the services performed hereunder, whether such communications arise out of a facility inspection or otherwise. ALTHEA shall provide CLIENT with a copy of each proposed written response to a Regulatory Authority for CLIENT's review and comment prior to ALTHEA's submission of such response. ALTHEA shall give all due consideration to any CLIENT comments to each such proposed ALTHEA response, provided CLIENT responds in a timely fashion. Manufacturing deviations and investigations which occur during Production of Drug Product and which are not reasonably likely, in CLIENT's reasonable discretion, to cause the Production to be non-compliant with cGMP, shall not be deemed to cause such Drug Product to be non-conforming.
- 4.3 **Reserve Samples:** CLIENT shall be responsible for obtaining and maintaining sufficient quantities of APIs and Drug Product reserve samples pursuant to cGMP.
- 4.4 **Annual Quality Review:** CLIENT shall be responsible for evaluating, at least annually, the quality standards of Drug Product to determine the need for changes in Specifications, manufacturing processes, and/or controlled documents. CLIENT shall supply ALTHEA a copy of the evaluation and recommendations, if any.
- 4.5 **Retention of Records:** ALTHEA shall maintain complete and accurate distribution and shipment, manufacturing, analytical, validation, and other records as specified in cGMP related to the Development, Production, and any other services performed hereunder (collectively, the "Production Records"). ALTHEA shall retain all Production Records in accordance with Applicable Legal Requirements, including without limitation cGMP. ALTHEA shall, upon CLIENT's reasonable request and at CLIENT's expense, make all Production Records available to CLIENT for inspection and, for Production Records directly pertaining to CLIENT's Drug Products, copying. ALTHEA shall, prior to destroying any Production Records, provide written notice to CLIENT and permit CLIENT the opportunity to take possession of such records, at CLIENT's expense.
- 4.6 **Customer Complaints:** CLIENT, as required by cGMP, shall maintain complaint files. All specific CLIENT Drug Product-related complaints received by ALTHEA shall be forwarded to CLIENT. CLIENT shall be responsible for

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the review of the complaint to determine the need for an investigation or the need to report to the FDA as required by cGMP. CLIENT shall send to ALTHEA all Drug Product performance or manufacturing-related complaints which require investigation. ALTHEA shall conduct an investigation for each Drug Product performance or manufacturing-related complaint and shall report findings and follow-up of each investigation to CLIENT in a timely manner. CLIENT shall make these complaint files available to ALTHEA in the event they are required during an FDA inspection.

4.7 Audits:

CLIENT, upon prior written notice and during normal business hours, shall have the right to inspect ALTHEA Batch records, Production Records, and any other written and electronic files and documentation related to Development, Production, and/or other services performed hereunder and the portions of ALTHEA's facility used for Production of Drug Product. CLIENT may conduct routine audits once annually and audits for reasonable cause with appropriate prior notice and consideration of ALTHEA's schedule as frequently as CLIENT reasonably deems necessary. Each party shall bear its own costs associated with all such CLIENT audits. The Quality Management Agreement set forth in the applicable Project Plan shall govern the parties' obligations with respect to the results of such audits.

4.8 Regulatory Compliance: Unless otherwise stated, ALTHEA is responsible for compliance with all Applicable Legal Requirements related to Production of pharmaceutical products, Development and Production of Drug Product, and any other services performed by ALTHEA under this Agreement. CLIENT shall be responsible for compliance with all Applicable Legal Requirements related to the use of Drug Product after it has been Produced and delivered by ALTHEA to CLIENT hereunder, which responsibility shall include, without limitation, all contact with the FDA regarding the such use.

4.9 Person in the Plant. CLIENT shall have the right to designate one representative of CLIENT to be present at any time in the ALTHEA facility during normal business hours during the Term of this Agreement to observe the Production of Drug Product. While at the facility, such representative of CLIENT shall be restricted to such areas as are directly relevant to the manufacture of the Drug Product and such other areas as may be otherwise authorized by ALTHEA, and shall comply with all applicable ALTHEA policies and procedures and may, at ALTHEA's option, be escorted by ALTHEA personnel.

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Article 5, ACCEPTANCE OF DRUG PRODUCT.

- 5.1 Non-Conforming Drug Product:** Within fifteen (15) calendar days from the date of Production of any Batch pursuant to the Project Plan, ALTHEA shall promptly forward to CLIENT, or CLIENT's designee, samples of such Batch. Within sixty (60) calendar days after receipt by CLIENT of the samples of the Batch and the Released Executed Batch Record for the Batch, CLIENT shall determine whether Drug Product conforms to the Drug Product Specifications, the Master Batch Record, ALTHEA's current SOPs, and the Project Plan (collectively the "Product Requirements").
- 5.1.1** If (a) any Batch of Drug Product is approved by CLIENT as conforming to the Product Requirements, or (b) CLIENT fails to notify ALTHEA within the applicable time period set forth above, or such longer period as may be agreed, that any Batch of Drug Product does not conform to the Product Requirements, then CLIENT shall be deemed to have accepted the Drug Product and waived its right to revoke acceptance.
- 5.1.2** If CLIENT believes any Batch of Drug Product does not conform to the Product Requirements, it shall notify ALTHEA by telephone, including a detailed explanation of the non-conformity, and shall confirm such notice in writing via overnight delivery to ALTHEA. Upon receipt of such notice, ALTHEA will investigate such alleged non-conformity, and (i) if ALTHEA agrees such Drug Product is non-conforming, deliver to CLIENT a corrective action plan within thirty (30) calendar days after receipt of CLIENT's written notice of non-conformity, or such additional time as is reasonably required if such investigation or plan requires data from sources other than CLIENT or ALTHEA, or (ii) if ALTHEA disagrees with CLIENT's determination that the Batch of Drug Product is non-conforming, ALTHEA shall so notify CLIENT by telephone within the thirty (30) calendar day period and confirm such notice in writing by overnight delivery.
- 5.1.3** If the parties dispute whether a Batch of Drug Product is conforming or non-conforming, samples of the Batch of Drug Product will be submitted to a mutually acceptable laboratory or consultant for resolution, whose determination of conformity or non-conformity, and the cause thereof if non-conforming, shall be binding upon the parties. Unless the Batch is determined to be non-conforming as set forth in this Section 5. 3 due to the fault of ALTHEA, CLIENT shall bear the costs of such laboratory or consultant.
- 5.2 Remedies for Non Conforming Product:** In the event ALTHEA agrees, or the laboratory described in Section 5.1.3 above determines, that the Batch of Drug Product is non-conforming as a result of the negligent or willful act or omission of ALTHEA, [†] or ALTHEA's breach of this Agreement, then ALTHEA, at CLIENT's option, shall either (i) at ALTHEA's expense, and subject to CLIENT, at CLIENT's expense, supplying the replacement APIs, replace such non-conforming Drug Product within sixty (60) calendar days from receipt of replacement APIs from CLIENT, or (ii) refund the Purchase Price of the non-

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conforming Drug Product to CLIENT (provided that CLIENT has made payment for the non-conforming Drug Product). The remedies described in this Section 5.2 shall not act to limit ALTHEA's indemnification obligations to the extent provided in Section 13.2 of this Agreement.

- 5.3 **Non-conforming APIs:** If Drug Product is rejected by CLIENT, and such Drug Product's failure to meet the Product Requirements is the result of non-conforming APIs, then such non-conformity shall be deemed not to be non-conforming solely as a result of the negligence of ALTHEA.

Article 6, DRUG PRODUCT RECALLS.

- 6.1 **Drug Product Recalls:** In the event CLIENT shall be required to recall any Drug Product because such Drug Product may violate local, state or federal laws or regulations, the laws or regulations of any applicable foreign government or agency or the Drug Product Specifications, or in the event that CLIENT elects to institute a voluntary recall, CLIENT shall be responsible for coordinating such recall. CLIENT promptly shall notify ALTHEA if any Drug Product is the subject of a recall and the basis for such recall. CLIENT shall provide ALTHEA with a copy of all documents concerning such recall that are related to the Development or Production services provided by ALTHEA to CLIENT. ALTHEA shall cooperate with CLIENT in connection with any recall, at CLIENT's expense. CLIENT shall be responsible for all of the costs and expenses of such recall, except to any extent that ALTHEA may have an obligation to indemnify CLIENT in accordance with the provisions of Section 13.2.

Article 7, FORCE MAJEURE; FAILURE TO SUPPLY.

- 7.1 **Force Majeure Events:** Failure of either party to perform under this Agreement (except the obligation to make payments) shall not subject such party to any liability to the other if such failure is caused by any cause beyond the reasonable control of the affected party, including without limitation acts of God, acts of terrorism, fire, explosion, flood, drought, war, riot, sabotage, embargo, strikes or other labor trouble, or compliance with any new order or regulation of any government entity that could not reasonably be anticipated, provided that written notice of such event is promptly given to the other party and that the affected party resumes performance hereunder as soon as reasonably possible.
- 7.2 **Failure to Supply:** If ALTHEA fails to supply all or any material part of Drug Product ordered by CLIENT, CLIENT may require ALTHEA to supply the undelivered Drug Product or a lesser quantity at a future date agreed upon by ALTHEA and CLIENT, at no additional cost to CLIENT. The provisions of this Section 7.2 shall be without prejudice to CLIENT's rights under Section 3.2 and 13.2 and remedies provided for thereunder.

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Article 8, CHANGES IN PRODUCTION.

- 8.1 Changes to Master Batch Records and Product Specifications:** ALTHEA agrees to inform CLIENT within fifteen (15) days of the result of any regulatory development or changes to Drug Product-specific SOPs that materially affect the Production of Drug Product. ALTHEA shall notify CLIENT of and receive written approval from CLIENT for changes to Master Batch Records and Drug Product Specifications prior to the Production of subsequent Batches of Drug Product.
- 8.2 Product-Specific Changes:** If facility, equipment, process or system changes are required of ALTHEA as a result of new requirements that FDA or any other Regulatory Authority promulgates after initiation of the Project Plan, and such regulatory changes apply primarily to the Production and supply of one or more Drug Products, then CLIENT and ALTHEA will review such requirements and agree in writing to such facility, equipment, process or system changes, and CLIENT shall bear 100% of the reasonable costs thereof. In the event that CLIENT chooses not to bear the costs of such changes, then CLIENT may cancel any uninitiated Production of Drug Product without incurring any Cancellation Fees or other penalties hereunder.

Article 9, CONFIDENTIALITY.

- 9.1 Confidentiality:** It is contemplated that in the course of the performance of this Agreement each party may, from time to time, disclose its Confidential Information to the other party. Except as otherwise set forth herein, (a) neither party shall disclose the other party's Confidential Information to any third party, and (b) neither party shall use the other party's Confidential Information except for purposes consistent with this Agreement. Each party agrees to take the same measures that it takes to protect its own Confidential Information, and at a minimum all reasonable steps, to prevent disclosure of the other party's Confidential Information to third parties. No provision of this Agreement shall be construed so as to preclude disclosure of Confidential Information as may be reasonably necessary to secure from any governmental agency or Regulatory Authority approvals or licenses or to obtain patents with respect to the Drug Product.
- 9.2 Prior Confidentiality Agreement:** This Agreement, by reference, incorporates the Confidentiality Agreement signed by CLIENT and ALTHEA on June 14, 2005, which is made a part hereof as though fully set forth herein.

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- 9.3 Third Party Disclosure:** ALTHEA shall be permitted to disclose Drug Product information to Subcontractors approved by CLIENT in accordance with Section 2.14 above in connection with performance of by Subcontractors of their obligations with respect to Drug Product, provided that such Subcontractors shall be subject to confidentiality obligations at least as stringent as those set forth herein. In addition, either party may disclose Confidential Information of the other party to those Affiliates, agents and consultants who need to know such information to accomplish the purposes of this Agreement (collectively, "Permitted Recipients"); provided such Permitted Recipients are bound to maintain such Confidential Information in confidence under written agreements with confidentiality obligations at least as stringent as those set forth herein. Nothing in this Section 9 shall be construed to limit CLIENT's ability to use and disclose Confidential Information related to its Drug Product(s) as part of any submission to FDA or other regulatory authority.
- 9.4 Litigation and Governmental Disclosure:** Each party may disclose Confidential Information hereunder to the extent such disclosure is reasonably necessary for (a) prosecuting or defending litigation, (b) complying with applicable governmental statutes or regulations or with judicial or administrative process, or (c) CLIENT's conduct of pre-clinical or clinical trials of Drug Product, provided that if a party is required by law, regulation, or judicial or administrative process, or as a result of litigation, to make any such disclosure of the other party's Confidential Information, the party subject to such legal requirement or litigation will, when reasonably practicable, give reasonable advance notice to the other party of such disclosure requirement and will use good faith efforts to assist such other party to secure a protective order or confidential treatment of such Confidential Information required to be disclosed.
- 9.5 Limitation of Disclosure:** The parties agree that, except as otherwise may be required by applicable laws, regulations, rules or judicial or administrative orders, including without limitation the rules and regulations promulgated by the United States Securities and Exchange Commission, and except as may be authorized in Sections 9.4 or 9.6, no information concerning this Agreement and the transactions contemplated herein shall be made public by either party without the prior written consent of the other.
- 9.6 Publicity.** Except as part of any regulatory submission by CLIENT, or except as may be otherwise required by law or regulation after first providing reasonable advance notice to the other party, or except as otherwise expressly set forth herein, neither party may use the other party's name in any promotional material, advertising, press releases, or other materials without in each case the prior written consent of the other party. ALTHEA hereby consents to CLIENT's disclosure of this Agreement and ALTHEA's name to CLIENT's current and potential employees, consultants, directors, professional advisors, shareholders, investors and business partners.
- 9.7 Return of Confidential Information.** Upon the expiration or any termination of this Agreement, each party shall, upon the request of the other party, return such

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other party's Confidential Information to such other party, provided, however, that the party returning such Confidential Information shall be entitled to retain one copy of all such Confidential Information to ensure its compliance with this Agreement and/or any Applicable Legal Requirements.

- 9.8 Duration of Confidentiality:** All obligations of confidentiality and non-use imposed upon the parties under this Agreement shall expire ten (10) years after the expiration or earlier termination of this Agreement.

Article 10, INTELLECTUAL PROPERTY.

- 10.1 Existing Intellectual Property:** Except as the parties may otherwise expressly agree in writing or as set forth herein, each party shall continue to own its patents, trademarks, service marks, trade dress, copyrights, trade secrets, proprietary methods, discoveries, inventions, compositions, products, procedures, know-how, data, reports, programs, processes, protocols, written or electronic writings, illustrations, images, and any other form of proprietary rights (collectively, "Intellectual Property") that exist as of the Effective Date, without conferring any interests therein on the other party, except as expressly provided herein. Without limiting the generality of the preceding sentence, CLIENT shall retain all right, title and interest arising under the United States Patent Act, the United States Trademark Act, the United States Copyright Act and all other applicable laws, rules and regulations in and to all Intellectual Property of Client (collectively, "CLIENT's Existing Intellectual Property"), including without limitation all Drug Products, APIs (where applicable), all Labeling and trademarks associated therewith. Neither ALTHEA nor any third party shall acquire any right, title or interest in CLIENT's Intellectual Property by virtue of this Agreement or otherwise. ALTHEA shall retain all right, title and interest in and to all Intellectual Property owned by ALTHEA ("ALTHEA's Existing Intellectual Property"), except as provided in Section 10.2 below.
- 10.2 New ALTHEA Inventions:** ALTHEA shall own all right, title and interest in and to Inventions that are conceived, reduced to practice, or created solely by ALTHEA's Representatives during the course of performance under this Agreement if such Inventions are not specific to CLIENT's Drug Products and are generally applicable to products that are not competitive with (i.e., do not directly or indirectly reduce the market for) CLIENT's pharmaceutical products ("ALTHEA Inventions"). ALTHEA hereby grants CLIENT a fully paid-up, irrevocable non-exclusive license to (a) all ALTHEA Inventions solely to the extent necessary or beneficial for CLIENT to develop, manufacture, commercialize and market its pharmaceutical products and (b) any of ALTHEA's Existing Intellectual Property that ALTHEA incorporates into the Development or Production of CLIENT's Drug Products, solely to the extent necessary or beneficial for CLIENT to develop, manufacture, commercialize and market CLIENT's Drug Products.

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- 10.3 New CLIENT Inventions:** For purposes of this Agreement, "Invention" shall mean information relating to any innovation, improvement, development, discovery, computer program, device, trade secret, method, know-how, process, technique or the like, whether or not written or otherwise fixed in any form or medium, regardless of the media on which contained and whether or not patentable or copyrightable. CLIENT shall own all right, title and interest in and to Inventions that are conceived, reduced to practice, or created solely by CLIENT's employees, officers, consultants or agents ("Representatives") during the course of performance under this Agreement. CLIENT shall also own all right, title and interest in and to (a) Inventions that are conceived, reduced to practice, or created by ALTHEA's Representatives, solely or jointly with CLIENT's Representatives or third parties, during the course of performance under this Agreement or as a result of receiving CLIENT's Confidential Information, including without limitation all such Inventions that relate to any improvement, modification or advancement of CLIENT's Drug Products and all methods and procedures for analyzing, testing, formulating, manufacturing, packaging or using CLIENT's Drug Products, but excluding all ALTHEA Inventions (as defined below), and (b) all other work product, methods, procedures, reports and data resulting from ALTHEA's performance under this Agreement that directly relate to CLIENT's Drug Products.
- 10.4 Rights in Intellectual Property:** The party owning Inventions or other Intellectual Property as set forth herein above shall have the world wide right to control the drafting, filing, prosecution, maintenance and enforcement of patents covering the Inventions and Intellectual Property, including decisions about the countries in which to file patent applications. Patent costs associated with the patent activities described in this Section shall be borne by the sole owner. Each party will cooperate with the other party in the filing and prosecution of patent applications, including the execution of assignments to confirm title as set forth above and further including but not be limited to, furnishing supporting data and affidavits for the prosecution of patent applications and completing and signing forms needed for the prosecution, assignment and maintenance of patent applications.
- 10.5 Confidentiality of Intellectual Property:** Each Party's Inventions and Intellectual Property shall be deemed to be the Confidential Information of the party owning such Intellectual Property as provided herein above. The protection of each party's Confidential Information is described in Article 9. Any disclosure of information by one party to the other under the provisions of this Section 10 shall be treated as the disclosing party's Confidential Information under this Agreement. It shall be the responsibility of the party preparing a patent application to obtain the written permission of the other party to use or disclose the other party's Confidential Information in the patent application before the application is filed and for other disclosures made during the prosecution of the patent application.

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Article 11, REPRESENTATIONS AND WARRANTIES.

- 11.1 Mutual Representations:** Each party hereby represents and warrants that (a) the person executing this Agreement on behalf of such party is authorized to execute this Agreement; (b) this Agreement is legal and valid and the obligations binding upon such party are enforceable by their terms; and (c) the execution, delivery and performance of this Agreement does not conflict with any agreement, instrument or understanding, oral or written, to which such party may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.
- 11.2 ALTHEA Warranty:** ALTHEA represents and warrants that Drug Product shall be Produced in accordance with cGMP. ALTHEA further represents and warrants that it has obtained (or will obtain prior to Producing Drug Product), and will remain in compliance with during the term of this Agreement, all permits, licenses and other authorizations (the "Permits") which are required under Applicable Legal Requirements or as specified in the Project Plan, the Master Batch Records, the Specifications or the ALTHEA SOPs; provided, however, ALTHEA shall have no obligation to obtain Permits relating to the sale, marketing, commercial distribution or use of APIs or Drug Product or with respect to the Labeling of Drug Product. ALTHEA further represents and warrants that the Drug Product supplied hereunder shall not be adulterated or misbranded within the meaning of the FD&C Act or comparable law, provided, however, that the warranty in this sentence shall not apply to any such adulteration or misbranding that occurred due to information provided by CLIENT or that occurred after the Drug Product leaves ALTHEA's control. ALTHEA further represents and warrants that it shall perform all Development, Production, and other services hereunder in full compliance with all Applicable Legal Requirements and all other requirements of this Agreement. ALTHEA makes no representation or warranty with respect to the sale, marketing, commercial distribution or use of the APIs or as to printed materials supplied by CLIENT or its consignee. ALTHEA further represents and warrants that all Drug Product supplied hereunder shall be transferred free and clear of any liens or encumbrances of any kind arising through ALTHEA or its Affiliates or their respective agents. ALTHEA further represents and warrants that it has no knowledge of any patents or other Intellectual Property rights that would be violated by ALTHEA's performance hereunder.
- 11.3 Disclaimer of Warranties:** Except for those warranties set forth in Sections 11.1 and 11.2 of this Agreement, neither party makes any warranties, written, oral, express or implied, with respect to Drug Product or the Development and Production of Drug Product. ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT HEREBY ARE DISCLAIMED BY ALTHEA AND BY CLIENT. NO WARRANTIES OF EITHER PARTY MAY BE CHANGED BY THE

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ORAL STATEMENT OF ANY REPRESENTATIVE OF SUCH PARTY. CLIENT accepts Drug Product subject to the terms hereof.

- 11.4 CLIENT Warranties:** CLIENT warrants that (a) it has the right to give ALTHEA any information provided by CLIENT hereunder, and that ALTHEA has the right to use such information for the Production of Drug Product, and (b) CLIENT has no knowledge of any (i) patents or other Intellectual Property rights that would be infringed by ALTHEA's performance hereunder. CLIENT further warrants that the APIs provided to ALTHEA hereunder (c) conforms to the APIs Specifications and (d) is not adulterated or misbranded within the meaning of the FD&C Act.

Article 12, LIMITATION OF LIABILITY AND WAIVER OF SUBROGATION.

- 12.1 Limitation of Liability:** CLIENT's sole and exclusive remedy for breach of this Agreement is limited to those remedies set forth in Article 5, at CLIENT's election, to either replace the non-conforming Drug Product or reimburse CLIENT for the Purchase Price for the non-conforming Drug Product and as provided in Article 6, [†] (b) ALTHEA's grossly negligent act or omission or willful misconduct, or (c) any breach by ALTHEA of the Applicable Legal Requirements. Under no circumstances shall either party be liable hereunder to the other party for the other party's loss of use or profits or other incidental, indirect, special, punitive, or consequential damages, losses or expenses suffered by the other party, including but not limited to the cost of cover or the cost of a recall (except as provided in Article 6) in connection with, or by reason of the Production and delivery of Drug Product under this Agreement whether such claims are founded in tort or contract.

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- 12.2 Waiver of Subrogation:** All ALTHEA Supplied Components and equipment used by ALTHEA in the Production of Drug Product (collectively, "ALTHEA Property") shall remain the property of ALTHEA and ALTHEA assumes risk of loss for such property until delivery of Drug Product to a common carrier as specified under Section 2.8, at which point the ALTHEA Supplied Components that have been incorporated into the Drug Product shall be deemed owned by CLIENT as further described in Section 2.8 above. ALTHEA hereby waives any and all rights of recovery against CLIENT and its Affiliates, and against any of their respective directors, officers, employees, agents or representatives, for any loss or damage to ALTHEA Property to the extent the loss or damage is covered or could be covered by insurance (whether or not such insurance is described in this Agreement). CLIENT assumes all risk of loss for all CLIENT Supplied Components, all APIs supplied by CLIENT, and all Drug Product (collectively, "CLIENT Property") while such CLIENT Property is in CLIENT's possession. CLIENT hereby waives any and all rights of recovery against ALTHEA and its Affiliates, and against any of their respective directors, officers, employees, agents or representatives, for any loss or damage to the CLIENT Property to the extent the loss of damage is covered or could be covered by insurance (whether or not such insurance is described in this Agreement).
- 12.3 Waiver of Claims:** In connection with providing Development services, ALTHEA represents only that it will use reasonable care and will comply fully with the terms hereof in providing information solely as it relates to development studies, formulation, primary packaging and manufacturing process development. Except as otherwise expressly set forth herein, ALTHEA makes no representation or warranty relating to the stability, efficacy, safety, or toxicity of Drug Product developed, formulated, packaged or manufactured in accordance with the Development services provided by ALTHEA.

Article 13, INDEMNIFICATION.

- 13.1 CLIENT Indemnification:** CLIENT shall indemnify, defend and hold harmless ALTHEA and its Affiliates, and any of their respective directors, officers, employees, subcontractors and agents (collectively the "ALTHEA Indemnified Parties") from and against any and all liabilities, obligations, penalties, claims, judgments, demands, actions, disbursements of any kind and nature, suits, losses, damages, costs and expenses (including, without limitation, reasonable attorney's fees) arising out of or in connection with property damage or personal injury (including without limitation death) suffered by any third party (collectively "Claims") arising directly out of (a) CLIENT's storage, promotion, labeling, marketing, distribution, use or sale of APIs or Drug Product, (b) CLIENT's negligence or willful misconduct or omission, or (c) CLIENT's breach of this Agreement. Notwithstanding the foregoing, CLIENT shall have no obligations under this Section 13.1 to the extent that any such Claim arises out of the negligence or willful misconduct or omission of any of the ALTHEA Indemnified Parties or the breach by ALTHEA of its obligations under this Agreement.

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- 13.2 ALTHEA Indemnification:** ALTHEA shall indemnify, defend and hold harmless CLIENT and its Affiliates and any of their respective directors, officers, employees, subcontractors and agents (collectively the "CLIENT Indemnified Parties") from and against any and all Claims arising directly out of (a) the negligent act or omission of any of the ALTHEA Indemnified Parties (provided that ALTHEA's liability under this subsection (a) only shall be limited to the amounts paid to ALTHEA by Omeros under this Agreement), (b) the grossly negligent act or omission or intentional misconduct of any of the ALTHEA Indemnified Parties, (c) the breach by any of the ALTHEA Indemnified Parties of any of the Applicable Legal Requirements or (d) the breach by any of the ALTHEA Indemnified Parties of Article 9 (Confidentiality) or Article 10 (Intellectual Property) above. Notwithstanding the foregoing, ALTHEA shall have no obligations under this Section 13.2 to the extent that any such Claim arises out of (i) the negligence or willful misconduct or omission of any of the CLIENT Indemnified Parties, or (ii) the breach by CLIENT of any of its obligations under this Agreement.
- 13.3 Indemnitee Obligations:** A party (the "Indemnitee") which intends to claim indemnification under this Article 13 shall promptly notify the other party (the "Indemnitor") in writing of any action, claim or other matter in respect of which the Indemnitee or any of its Affiliates, or any of their respective directors, officers, employees, subcontractors, or agents, intend to claim such indemnification; provided, however, that failure to provide such notice within a reasonable period of time shall not relieve the Indemnitor of any of its obligations hereunder except to the extent the Indemnitor is prejudiced by such failure. The Indemnitee shall permit, and shall cause its Affiliates, and their respective directors, officers, employees, subcontractors and agents to permit, the Indemnitor, at its discretion, to settle any such action, claim or other matter, and the Indemnitee agrees to the complete control of such defense or settlement by the Indemnitor. Notwithstanding the foregoing, the Indemnitor shall not enter into any settlement that would adversely affect the Indemnitee's rights hereunder, or impose any obligations on the Indemnitee in addition to those set forth herein, in order for it to exercise such rights, without Indemnitee's prior written consent, which shall not be unreasonably withheld or delayed. No such action, claim or other matter shall be settled without the prior written consent of the Indemnitor, which shall not be unreasonably withheld or delayed. The Indemnitee, its Affiliates, and their respective directors, officers, employees, subcontractors and agents shall fully cooperate with the Indemnitor and its legal representatives in the investigation and defense of any action, claim or other matter covered by the indemnification obligations of this Article 13. The Indemnitee shall have the right, but not the obligation, to be represented in such defense by counsel of its own selection and at its own expense.
- 13.4 Injunction:** In the event that the Production or sale of a Drug Product is enjoined due to alleged infringement by either party of the proprietary rights of a third party, such action shall be deemed a breach of this Agreement by CLIENT and subject to the terms of Article 3, except to the extent that any such injunction

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arises out of ALTHEA's use of its standard methods, techniques, and processes that ALTHEA uses generally in performing services for its customers.

Article 14, INSURANCE.

- 14.1 CLIENT Insurance:** CLIENT shall procure and maintain, during the Term of this Agreement and for a period one (1) year beyond the expiration date of Drug Product, Commercial General Liability Insurance, including without limitation, Product Liability and Contractual Liability coverage (the "CLIENT Insurance"). The CLIENT Insurance shall cover amounts not less than [†] combined single limit and shall be with an insurance carrier reasonably acceptable to ALTHEA. ALTHEA shall be named as an additional insured on the CLIENT Insurance and, upon ALTHEA's written request, CLIENT promptly shall deliver a certificate of CLIENT Insurance and endorsement of additional insured to ALTHEA evidencing such coverage. If CLIENT fails to furnish such certificates or endorsements, or if at any time during the Term of this Agreement ALTHEA is notified of the cancellation or lapse of the CLIENT Insurance, and CLIENT fails to rectify the same within ten (10) calendar days after notice from ALTHEA, in addition to all other remedies available to ALTHEA hereunder, ALTHEA, at its option, may obtain the CLIENT Insurance and CLIENT promptly shall reimburse ALTHEA for the cost of the same. Any deductible and/or self insurance retention shall be the sole responsibility of CLIENT.
- 14.2 ALTHEA Insurance:** ALTHEA shall procure and maintain, during the Term of this Agreement and for a period of one (1) year beyond the expiration date of Drug Product, Commercial General Liability Insurance, including without limitation, Product Liability and Contractual Liability coverage (the "ALTHEA Insurance"). The ALTHEA Insurance shall cover amounts not less than [†] combined single limit. CLIENT shall be named as an additional insured on the ALTHEA Insurance and, upon CLIENT's written request, ALTHEA promptly shall deliver a certificate of ALTHEA Insurance and endorsement of additional insured to CLIENT evidencing such coverage. If ALTHEA fails to furnish such certificates or endorsements, or if at any time during the Term of this Agreement CLIENT is notified of the cancellation or lapse of the ALTHEA Insurance, and ALTHEA fails to rectify the same within ten (10) calendar days after notice from CLIENT, in addition to all other remedies available to CLIENT hereunder, CLIENT, at its option, may obtain the ALTHEA Insurance and ALTHEA promptly shall reimburse CLIENT for the cost of the same. Any deductible and/or self insurance retention shall be the sole responsibility of ALTHEA.

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Article 15, GENERAL PROVISIONS.

15.1 Notices: All notices hereunder shall be delivered by facsimile (confirmed by overnight delivery), or by overnight delivery with a reputable overnight delivery service, to the following address of the respective parties:

If to CLIENT:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attention: Chairman & CEO

And copy to: General Counsel

Fax: (206) 264.7856
Phone: (206) 623.4688

If to ALTHEA:

Althea Technologies, Inc.
11040 Roselle Street
San Diego, CA 92121
Attn: Alan Moore
Executive Vice President and Chief Business Officer

Telephone: (858) 882-0123
Facsimile: (858) 882-0133

For specific inquiries, the following ALTHEA responsible parties may be contacted directly:

Project Manager	Rick Hancock
Quality Control and Quality Assurance Manager	Roy Musil
Materials Manager	Melissa Rosness

For specific inquiries, the following CLIENT responsible parties may be contacted directly:

Project Manager
Quality Control Manager
Materials Manager
Quality Assurance Manager

Notices shall be effective on the day following the date of transmission if sent by facsimile, and on the second business day following the date of delivery to the overnight delivery service if sent by overnight delivery. A party may change its address listed above by notice to the other party given in accordance with this section.

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- 15.2 **Entire Agreement; Amendment:** The parties hereto acknowledge that this Agreement, including any Project Plans executed in accordance with the terms hereof and any other documents expressly incorporated by reference, sets forth the entire agreement and understanding of the parties and supercedes all prior written or oral agreements or understandings with respect to the subject matter hereof. No modification of any of the terms of this Agreement, or any amendments thereto, shall be deemed to be valid unless in writing and signed by an authorized agent or representative of both parties hereto. No course of dealing or usage of trade shall be used to modify the terms and conditions herein. In the event of any inconsistency between the terms within the body of this Agreement and the terms contained in any Project Plan, including without limitation any Quality Management Agreement within any such Project Plan, the terms within the body of this Agreement shall govern.
- 15.3 **Waiver:** None of the provisions of this Agreement shall be considered waived by any party hereto unless such waiver is agreed to, in writing, by authorized agents of both parties. The failure of a party to insist upon strict conformance to any of the terms and conditions hereof, or failure or delay to exercise any rights provided herein or by law shall not be deemed a waiver of any rights of any party hereto.
- 15.4 **Obligations to Third Parties:** Each party warrants and represents that this Agreement is not inconsistent with any contractual obligations, expressed or implied, undertaken with any third party.
- 15.5 **Assignment:** This Agreement shall be binding upon and inure to the benefit of the successors or permitted assigns of each of the parties and may not be assigned or transferred by either party without the prior written consent of the other, which consent will not be unreasonably withheld or delayed, except that no consent shall be required in the case of a transaction involving the merger, consolidation or sale of all or substantially all of that portion of the assigning party's business assets to which this Agreement relates and the resulting entity assumes all the obligations under this Agreement. ALTHEA may, without such consent, assign this Agreement to an Affiliate of ALTHEA, provided that all Development, Production, and other services to be performed hereunder shall continue to be performed at the same facility at which they were previously performed or at which it was contemplated by the parties that they would be performed, and provided further that the assignee assumes all obligations of ALTHEA under this Agreement. No assignment shall relieve any party of responsibility for the performance of its obligations hereunder.
- 15.6 **Successors and Assigns:** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their successors and permitted assigns.
- 15.7 **Taxes:** CLIENT shall pay all national, state, municipal or other sales, use, excise, import, property, value added, or other similar taxes, assessments or tariffs assessed upon or levied against the sale of Drug Product to CLIENT

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pursuant to this Agreement or the sale or distribution of Drug Product by CLIENT (or at CLIENT's sole expense, defend against the imposition of such taxes and expenses). ALTHEA shall notify CLIENT of any such taxes that any governmental authority is seeking to collect from ALTHEA, and CLIENT may assume the defense thereof in ALTHEA's name, if necessary, and ALTHEA agrees to fully cooperate in such defense to the extent of the capacity of ALTHEA, at CLIENT's expense. Any such taxes, assessment, or tariffs to be paid by CLIENT hereunder shall be separately itemized on invoices provided to CLIENT. ALTHEA shall pay all national, state, municipal or other taxes on the income resulting from the sale by ALTHEA of the Drug Product to CLIENT under this Agreement, including but not limited to, gross income, adjusted gross income, supplemental net income, gross receipts, excess profit taxes, or other similar taxes.

- 15.8 Independent Contractor:** ALTHEA shall act as an independent contractor for CLIENT in providing the services required hereunder and shall not be considered an agent of, or joint venturer with, CLIENT. Unless otherwise provided herein to the contrary, ALTHEA shall furnish all expertise, labor, supervision, machining and equipment necessary for performance hereunder and shall obtain and maintain all building and other Permits and licenses required by public authorities.
- 15.9 Governing Law:** This Agreement is being delivered and executed in the State of California. In any action brought regarding the validity, construction and enforcement of this Agreement, it shall be governed in all respects by the laws of the State of California, without regard to the principals of conflicts of laws.
- 15.10 Attorney's Fees:** The successful party in any litigation or other dispute resolution proceeding to enforce the terms and conditions of this Agreement shall be entitled to recover from the other party reasonable attorney's fees and related costs involved in connection with such litigation or dispute resolution proceeding.
- 15.11 Severability:** In the event that any term or provision of this Agreement shall violate any applicable statute, ordinance, or rule of law in any jurisdiction in which it is used, or otherwise be unenforceable, such provision shall be ineffective to the extent of such violation without invalidating any other provision hereof.
- 15.11 Headings, Interpretation:** The headings used in this Agreement are for convenience only and are not part of this Agreement.
- 15.12 Facsimile Copies, Counterparts:** This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute the same instrument. This Agreement shall be effective upon full execution by facsimile or original, and a facsimile signature shall be deemed to be and shall be as effective as an original signature.

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IN WITNESS WHEREOF, the parties hereto have each caused this Drug Product Development and Clinical Supply Agreement to be executed by their duly-authorized representatives as of the Effective Date above written.

OMEROS CORPORATION

ALTHEA TECHNOLOGIES, INC

By: /s/ Gregory A. Demopulos

By: /s/ W. Alan Moore

Name: Gregory A. Demopulos, M.D.

Name: W. Alan Moore

Title: Chairman & CEO

Title: Executive VP and CBO

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**Project Plan for cGMP Fill and
Finish and Stability Testing**

Prepared for:

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1. Outline of Deliverables

A. Timing of Deliverables

[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]

B. Summary of Deliverables to Omeros Corporation

[†]

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2. Detailed Description of Deliverables and Pricing Summary.

A. Detailed Description of Fill and Finish Deliverables and Pricing Summary

<u>Service Description</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Price</u>
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]

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A. Detailed Description of Fill and Finish Deliverables and Pricing Summary continued

<u>Service Description</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Price</u>
[†]	[†]	[†]	[†]
FILL AND FINISH TOTAL			[†]

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B. Detailed Description of Stability Testing and Analytical Transfer Deliverables and Pricing Summary

<u>Service Description</u>	<u>Units</u>	<u>Unit Price</u>	<u>Total Price</u>
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]
STABILITY AND ANALYTICAL TRANSFER TOTAL			[†]

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C. Payment Schedule

[†]

Milestone

[†]

[†]

Invoice Amount

[†]

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3. Specifications

<u>Assay</u>	<u>Test</u>	<u>Specification</u>
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]
[†]	[†]	[†]

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Stability Testing Outlines

[†]

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4. Quality Agreement

Purpose

The Quality Management Agreement has been developed to define the regulatory compliance roles and responsibilities of Omeros Corporation (Omeros) and Althea Technologies (Althea). The Quality Management Agreement shall constitute part of the agreement between Omeros and Althea and may be revised from time to time on the basis of mutual agreement of the parties. In the event of a conflict between the provisions of the Drug Product Development and Clinical Supply Agreement and Quality Management Agreement, the provisions of the Drug Product Development and Clinical Supply Agreement shall prevail.

Definitions

“**Agreement**” shall mean the Drug Product Development and Clinical Supply Agreement executed between Omeros and Althea on Date.

“**cGMP**” shall mean Current Good Manufacturing Practices as promulgated under the US Federal Food Drug and Cosmetic Act and 21 CFR sections 210, 211, 600 and 610

“**Party**” means either Omeros or Althea

“**Parties**” means both Omeros and Althea

“**Products**” shall mean Omeros drug products and all intermediate precursors ***Regulatory Activities***

Roles of the parties

Omeros will be the holder the IND or equivalent and the holder of the registration submission and subsequent license. Althea will support these submissions as a contract manufacturer under the direction of Omeros.

Regulatory submissions

Omeros will be responsible for the submission of documentation to regulatory authorities in support of the Products. Althea will provide Omeros with the information necessary to complete regulatory submissions in a timely and effective manner.

Althea and Omeros will mutually agree upon responses, which Omeros will make, to FDA questions and requests regarding production processes and product testing relevant to Althea.

Inspections

Omeros will inform Althea in a timely fashion when regulatory agencies are seeking to schedule inspections concerning the Products at Althea’s facilities.

Omeros will be permitted two representatives during the opening, closing and daily wrap up portions of the inspection at Althea’s facilities.

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Althea's communication and commitments with regulatory inspectors will be limited to matters outside of Omeros' regulatory submissions, and Omeros will be informed of all such communication and commitments that could impact Omeros' regulatory submissions. Althea and Omeros will mutually agree upon responses, which Omeros will make, to FDA questions and requests regarding production processes and product testing. Omeros will determine and make all other responses to regulatory authorities.

Compliance

Roles of the parties

Althea, in its activities under the Agreement, is responsible for cGMP, other applicable guidelines and Althea SOPs.

Omeros, in its activities under the Agreement, is responsible for cGMP and applicable guidelines and with confirming Althea's cGMP, other applicable guidelines and Althea SOPs.

Audits

Omeros has the right to perform one audit of Althea facilities, laboratories and warehouses each year for the purposes of confirming Althea's compliance with cGMP, applicable guidelines and Althea SOPs in the manufacture, testing and validation of the Product. The audit will be limited to 2 business days to occur on mutually agreed upon dates.

Omeros may also perform an annual audit of each Althea subcontractor involved in the manufacture, testing and validation of the Product, providing that Omeros provides Althea with prior written notification of its intent to audit. Althea will provide commercially reasonable efforts to facilitate the scheduling and execution of Omeros' audits of subcontractors.

In addition to the annual compliance audit, Omeros may also audit Althea and its subcontractors in the event of failure or recall of a product lot.

At the conclusion of each audit, Omeros will hold a wrap up meeting with Althea and/or its subcontractors to review all significant audit observations.

Within 60 days of each audit it performs at Althea and its subcontractors, Omeros will provide Althea with a written report of its observations and recommendations. Within 60 days of receipt of Omeros' audit report, Althea and/or its subcontractors will provide a written response to Omeros including a response to all Omeros observations and details regarding corrective actions.

Documentation

Althea is responsible for generating and maintaining records of equipment usage, cleaning and maintenance.

Althea is responsible for developing documentation to support the manufacturing, testing and validation of the Product. All documents and procedures which are specific to the product must be approved by Omeros prior to implementation. Althea will provide Omeros with copies of all documents used in the production, testing and validation of the Product.

Changes to documentation will be implemented according to the Change Control section of this document.

Althea is responsible for maintaining Product batch production and testing records for the period of product expiry plus one year. Written authorization from Omeros QA is required prior to the movement

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or destruction of Product records. When Althea is no longer willing or able to store Product records, Omeros may have the records destroyed, or transferred to an alternate storage location at Omeros' expense.

Product Release

Althea and Omeros will each identify a Quality Assurance representative who will function as the points of contact between the companies for the purposes of communication regarding product release and regulatory compliance activities.

Althea will propose sources and specifications for raw materials and components to be used in the manufacture of the Product. Omeros will be responsible for approving all sources for raw materials and components used in the manufacture of the Product.

Althea and Omeros will mutually agree upon testing specifications for the Product. The parties will mutually agree in writing to all changes to specification prior to implementation.

Althea may subcontract some or all of the Product testing subject to prior written approval by Omeros.

Althea is responsible for control and monitoring of the Product manufacturing process and production facility.

Althea is responsible for reviewing product lot records, test results and specifications and determining whether to reject the lot or issue Althea's release to Omeros QA. Omeros QA is responsible for the formal release of each Product lot.

Althea will issue a Certificate of Analysis and Certification of Compliance to Omeros for each lot that receives Althea's release. The Certificate of Analysis will contain a summary of the product test results, specifications and test methods. The Certificate of Compliance will contain a statement signed by Althea's QA representative stating that the lot has been manufactured and tested in compliance with cGMP, Althea procedures and applicable guidelines.

Omeros may request additional documentation to support its review and release of Product lots, including but not limited to copies of Batch Production Records, testing results, raw data from Product testing and in-process test results.

Omeros will make reasonable efforts to release each lot within 90 days of receipt of the Certificate of Analysis, Certificate of Compliance and requested documents.

Althea will store and ship the Product according to written Omeros instructions and in compliance with cGMP.

Product Recall

Omeros is responsible for instituting and facilitating a Product recall.

Omeros will notify Althea in a timely fashion when a Product recall may be due to issues related to the manufacturing of the Products.

In the event that a Product recall may be due to manufacture of the Products, Althea will provide Omeros complete information regarding the relevant Product lots including, but not limited to trace

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trees, equipment and facility data, etc. Althea will provide this information to Omeros within 10 business days of receipt of the request from Omeros.

At Omeros' request and under Omeros' direction, Althea will support communication with regulatory authorities.

Change Control

All changes to procedures, documents and equipment used in the manufacture, testing and validation of the Product must be mutually approved by Althea and Omeros in writing prior to implementation.

Validation

All validation specific to the Product must be executed according to protocols approved prior to execution by Omeros.

Althea will provide Omeros with copies of all validation reports used to support manufacture and testing of the Product, upon request.

Investigations

Althea will notify Omeros of all excursions, deviations, observations and investigations which could impact past, current or future lots of the Product.

Althea will notify Omeros of all Product testing failures within 2 business days, and prior to initiating retesting.

All investigations concerning the Product and conducted at Althea will be reviewed and approved by Althea and Omeros.

Product Supply Roles of the parties

Althea will perform manufacture, testing and validation of the Products in its facilities.

Omeros is authorized to have 2 representatives present at Althea's manufacturing facilities during Product manufacture, testing and/or validation. Additional Omeros representatives may be permitted when mutually agreed with Althea.

Authorization of production

Manufacture of the Product at Althea will be authorized in accordance with the Agreement

Lot numbers

Althea is responsible for assigning and tracking unique identifier numbers to each lot of raw material, component, product intermediate and Product.

Dates of production and expiration

The dates of manufacture will be determined by, and documented in, the Batch Production Records. The expiration date of the Product will be determined by Omeros.

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Dispute Resolution

Disputes concerning the acceptability of Product lots or general compliance issues will be resolved by the Quality Assurance representatives of the Parties. If the dispute is not resolved after 30 days, either Party may upon written notification to the other request that the dispute be resolved according to the provisions of the Agreement.

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5. Summary Pricing

FILL AND FINISH TOTAL

[†]

STABILITY AND ANALYTICAL TRANSFER TOTAL

[†]

PROJECT TOTAL

[†]

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6. Authorizations

IN WITNESS WHEREOF, the parties hereto have each caused this Project Plan to be executed by their duly-authorized representatives as of January 20, 2006.

OMEROS CORPORATION

By: /s/ Gregory A. Demopulos

Name: Gregory A. Demopulos, M.D.

Title: Chairman & CEO

ALTHEA TECHNOLOGIES, INC

By: /s/ Rick Hancock

Name: Rick Hancock

Title: COO

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ALTHEA CONFIDENTIAL

MASTER SERVICES AGREEMENT

THIS MASTER SERVICES AGREEMENT ("Agreement") is made and entered into effective January 27th, 2005 (the "Effective Date"), by and between **NURA, Inc.** (hereinafter "Nura"), having a place of business at 1124 Columbia Street, Seattle WA, 98104, USA, and **ComGenex, Inc.** (hereinafter "ComGenex" or "CGX"), having a place of business at Zahony u 7, H-1031 Budapest, Hungary, altogether referred to as Parties.

WHEREAS, Nura is engaged in the discovery and development of active substances against diseases of the central nervous system and is planning to outsource a specific project that involves the molecular target of Phosphodiesterase enzyme 10 ("PDE10" or "PDE10a") as described in Appendix A, and

WHEREAS, ComGenex is engaged in the business of providing complex drug discovery services including but not limited to molecular biology, protein expression, assay development and high throughput screening, chemical research and analysis, chemistry consulting, chemical synthesis, manufacturing of specialty chemical products, chemoinformatics and related services, and undertakes such as an independent company, understanding that neither ComGenex nor its employees or agents shall be considered an employee of Nura; nor a participant in any programs, insurance or other benefits extended to Nura's employees; and,

NOW, THEREFORE, in consideration of the mutual covenants set forth below, the Parties hereby agree as follows:

A. ComGenex Services: ComGenex shall provide to Nura complex drug discovery research services ("Services"), including as detailed above and as agreed upon in writing from time to time by the parties and set forth in Appendix B for each such project (the "Projects"). The parties acknowledge and accept that successful completion of all projects is not guaranteed but shall be completed by ComGenex on a best efforts basis. Nura and ComGenex shall agree upon, and specify in the Appendix B the parameters of the Projects, the compensation to be paid for the Services, and the time frame in which the Services are to be provided, subject to the terms of this Agreement. Such Services may include, but are not limited to, the following:

1. Molecular Biology Services: ComGenex shall provide to Nura at Nura's request and as described in Appendix B, cloning and protein expression, assay development, high throughput screening, and protein structure determination.

2. Medicinal Chemistry Research Services: ComGenex shall provide to Nura at Nura's request advice on design and synthesis of organic compounds, and for the completion of the manufacture of such organic compounds.

3. Technical Assistance: ComGenex shall provide to Nura, at Nura's request synthetic chemical research, chemical library preparation, hit/lead evolution and/or optimization chemistry, analysis and analytical method development, process development and process optimization studies, and manufacturing of specialty chemicals.

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4. Technical Consultations: ComGenex shall be available to Nura via telephone at such times as are requested by Nura and are mutually agreeable to ComGenex for technical consultations with Nura's research and development personnel.

B. Specific Duties of ComGenex:

1. In assuming responsibility for undertaking this Agreement, ComGenex will, on a best efforts basis:

a) Perform molecular biology, chemistry and complex drug discovery services including protein expression, assay development, high throughput screening, medicinal chemistry, chemistry consulting, synthetic chemical research, combinatorial chemical synthesis, hit/lead evolution and optimization chemistry, process development and process optimization studies, and manufacturing of specialty chemicals for any Projects entered into, as described in Appendix B attached hereto.

b) Provide technical consultation, technical assistance and product development assistance, as defined, for any Projects entered into.

c) Develop or utilize existing analytical methods that will allow determination of the identity and quantification of the purity of any compounds delivered.

d) Provide compounds in the time frame set forth in Appendix B attached hereto, and immediately notify Nura if any delays are encountered.

2. In assuming responsibility for undertaking this Agreement, ComGenex will:

a) Interact with Nura's scientists as is deemed by ComGenex reasonably necessary and appropriate in the conduct of the Projects outlined in Appendix B.

b) Provide as part of the Project research reports to Nura describing the results upon the completion of individual Projects.

C. Specific Duties of Nura: Nura will:

1. Provide assistance such as is deemed reasonable and appropriate by Nura in the conduct of a fully integrated research project team effort.

2. Interact with and communicate with ComGenex reasonably and respond to all reasonable requests to provide necessary and appropriate Project guidance.

3. Agree to pay ComGenex for the Services to be performed by ComGenex as set forth in the schedule of payments as shown in Appendix C.

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Royalty payment by Nura or any of its licensees will be due to ComGenex in the event of any and each compound, chemical entity or active substance specifically developed under this Agreement representing the therapeutically active part of a product is marketed by Nura and/or a licensee or any other third party. The resulting royalty rate will be [†].

5. Outsourced projects that are outlined in Appendix D will be reimbursed to ComGenex by Nura. These payments are in addition to the payments detailed in Appendix C.

6. Except as set otherwise all payments will be 15 days from the date of invoice.

Notices:

All notices associated with this Agreement shall be by first class mail or courier, addressed to the respective parties as follows:

To ComGenex:

ComGenex, Inc.
Attn: Laszlo Urge, Ph.D. CEO
Zahony u. 7.
Budapest, Hungary H-1031

To Nura:

Nura, Inc.
Attn: Patrick W. Gray, Ph.D., CEO
1124 Columbia Street
Seattle WA, 98104

The above named persons are acting on behalf of their respective organizations and may be changed on an as needed basis.

F. **Assignment:** This Agreement may not be assigned or otherwise transferred by either party without the prior written consent of the other party, with such consent not to be unreasonably withheld; provided, however, that Nura or ComGenex may, without such consent, assign this Agreement and its rights and obligations hereunder to its Affiliates and parent corporations, or in connection with the transfer or sale of all or substantially all of the business to which this Agreement pertains, or in the event of its merger or consolidation or change in control or similar transaction. Any purported assignment in violation of the preceding sentences shall be void. Any permitted assignee shall assume all obligations of its assignee under this Agreement. "Affiliate" shall mean any company which directly or indirectly controls or is controlled by or is under common control with a party hereto by means of ownership of more than fifty percent (50%) of the voting stock or similar interest in said company.

G. **Safety:** Each of the parties agrees that if it becomes aware of any safety hazard relating to any compound supplied or developed under this Agreement that it shall promptly notify

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the other party with all information in its possession or control concerning such safety hazard. Nura recognizes that the toxic effect of the compounds supplied or developed under this Agreement is not known and it may be toxic or harmful to human health. Nura agrees to take reasonably necessary precautions when handling such compounds. ComGenex will not be held responsible in any form if after delivery of such compounds to Nura the compounds cause harmful effects to any of Nura's employees, contractors, consultants or any other parties.

H. Entire Agreement:

1. Except as provided herein with respect to the Appendices affixed hereto and the obligations provided in the CONFIDENTIAL DISCLOSURE AGREEMENT dated as of December 13, 2004 between parties, this Agreement represents the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior communications, understandings and agreements with respect thereto.

2. No waiver, change or modification of the provisions of this Agreement shall be effective unless it is in writing and signed by a duly authorized officer of ComGenex and Nura. Additional Appendices describing Projects in writing and signed by a duly authorized officer of ComGenex and Nura shall constitute part of this Agreement.

I. Miscellaneous:

1. The Parties agree that from time to time they may make public announcement relating to the collaboration, where certain information pertaining to the collaboration is disclosed in the form of a press release, press conference, an announcement associated with trade show, or reports for television or other media. No such public announcements are permitted under this Agreement without the express written approval of the other party.

2. ComGenex represents and warrants that it will render the services hereunder in accordance with prevailing high professional standards and will make all reasonable efforts to produce consistently high levels of accuracy and expertise and to meet timetables set forth under this Agreement, and as described in Appendices B and C for completion of services. ComGenex further represents and warrants that ComGenex and any third party personnel assigned to perform services under this Agreement shall, in the opinion of ComGenex, have the skills necessary to efficiently perform such services and produce chemicals, data and/or reports, as the case may be, in a form and of a quality reasonably suitable to Nura.

3. ComGenex is an independent company and nothing in this Agreement shall be construed to create a partnership, joint venture or employment relationship between the parties.

4. If any provision hereof shall be determined to be invalid or unenforceable, such determination shall not affect the validity of the other provisions of this Agreement.

5. This Agreement shall be governed in accordance with the laws of the State of Washington, USA, without regard to the conflicts of law provisions thereof.

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6. Waiver by either party or the failure by either party to claim a breach of any provision of this Agreement shall not be deemed to constitute a waiver or estoppel with respect to any subsequent breach of any provision hereof.

7. If any dispute arises with regard to the performance of this contract by either party, a good faith effort will be made by the parties to resolve such dispute by negotiation. If the parties fail to resolve the dispute through negotiation, each party shall have the right to pursue any other remedies legally available to resolve the dispute. The substantially prevailing party in any proceeding conducted to interpret or enforce this Agreement shall be entitled to be reimbursed by the other party for its reasonable attorneys' fees and costs.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

COMGENEX, INC.

NURA, INC.

By: /s/ Dr. Laszlo Urge

By: /s/ Patrick W. Gray

Name: Laszlo Urge

Name: Patrick W. Gray

Title: CEO, Director

Title: CEO

Date: 07 Feb 2005

Date: 27 Jan 2005

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Appendix B

To that certain Master Services Agreement by and between Nura Inc., and ComGenex Inc.

To the extent that any term or provision set forth in this Appendix B is inconsistent with any term or provision set forth in the Master Services Agreement, the Master Agreement shall be controlling.

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[†]	
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[†]	
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[†]	
[†]	
[†]	
[†]	
[†]	
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[†]	
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Objective

The objective is to create a potent, selective PDE10a inhibitor with drug-like properties that crosses the blood brain barrier. Potency should be less than [†] and selectivity greater than [†] fold against other PDEs.

Definitions

- Patentable Lead Candidate

Biologically active chemical entities, which are not covered by patent, and which may be transformed into a clinically useful drug by subsequent modification/optimization.

- Focused library

A set of compounds *in silico* selected or screened for binding preferably to a specific biological target. The compounds are prepared by individual or parallel synthesis where the building blocks are connected to each other in many possible variations.

- Advanced Lead

Compounds that possess desired properties (potency, selectivity, physicochemical, pharmacokinetic and toxicological characteristics) set by the Lead Criteria against the particular target.

- Lead Criteria

A set of criteria, mutually agreed to by the parties and included as Annex 3.

- Target

The biological target (binding partner) of the lead compounds to be developed (PDE10a).

Background

Following the ongoing communication with **Nura Inc.**, the above objectives were defined. In order to achieve these objectives three parallel approaches were discussed:

[†]

[†]

[†]

According to the discussions the following division of responsibility was defined:

Nura responsibility:

[†]

[†]

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technology as well as any invention arising from ComGenex' platform or technology that are not specific to the compounds or the related chemistry applied under this project.

No conflict

During the term of this Agreement, ComGenex will not participate in any program which has, as its goal, the development of compounds which target PDE10.

[†] [Redaction continues for four pages]

Subproject 1: Lead Candidate Generation

[†] [Redaction continues for three pages]

Subproject 2: Provision of human PDE10a. Cloning and expression

[†] [Redaction continues for two pages]

Subproject 3: Assay development, HTS

[†] [Redaction continues for two pages]

Subproject 4: Compound Optimization

[†] [Redaction continues for three pages]

Annex 2: Definitions of the targeted Lead Criteria

Potent, selective PDE10a inhibitors with drug-like properties that cross the blood brain barrier. [†]

The above definitions are subjected to change during the whole project upon agreement of the Parties.

Annex 3: Initial Target information

cAMP and cAMP-inhibited cGMP 3',5'-cyclic phosphodiesterase 10A (PDE10a) belongs to the cyclic nucleotide phosphodiesterase family. It plays a role in signal transduction by regulating the intracellular concentration of cyclic nucleotides. This enzyme can hydrolyze both cAMP and cGMP, having a higher affinity for cAMP.

PDE10a is abundant in the putamen and caudate nucleus regions of brain and testis, it is moderately expressed in the thyroid gland, pituitary gland, thalamus and cerebellum. The protein is composed of a C-terminal catalytic domain containing two putative divalent metal sites and an

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N-terminal regulatory domain, which contains one putative cGMP-binding region. Several members of the PDE family were crystallized and there is a wide range of known substrates and inhibitors.

Annex 4: CGX' Know-how

Genetic engineering, protein expression and renaturation.

At ComGenex we have extensive experience in genetic engineering and expressing sequences across various expression systems. We have developed unique protein renaturation capabilities for high yielding expression of functional proteins of your choice. We are active in the field of assay development and high-throughput screening.

RefoldAll™ is modular protein production service from subcloning and fermentation to protein purification, where renaturation is the key element of the process. With the integration of a combinatorial approach and sophisticated parameter optimization, we offer fast and efficient renaturation screens for your proteins.

XpressXpert™ is a comprehensive modular protein expression service which delivers purified recombinant proteins according to client supplied DNA sequence data. We provide the following discrete modules:

- cloning, subcloning
- target oriented choice of expression system
- protein expression in: E. coli, insect cells, mammalian cells
- protein purification development
- production scale-up

Darvas F., Dorman G., Papp A., Urge L., Molnár T., Borbola I., Lorincz Z. and Ambrus G. Development of a High-throughput Cytotoxicity Screening Method for Early Compound Filtering. 2004. *Society for Biomolecular Screening 10th Anniversary Conference and Exhibition, Orlando, USA* (September 11-15, 2004)

Narayan M., Welker E. and Scheraga H.A. 2003. Native Conformational Tendencies in Unfolded Polypeptides: Development of a Novel Method To Assess Native Conformational Tendencies in the Reduced Forms of Multiple Disulfide-Bonded Proteins. *J. Am. Chem. Soc.* 125 (8); 2036-2037.

Ambrus G., Gal P., Kojima M., Szilagyí K., Balczer J., Antal J., Graf L., Laich A., Moffatt B. E., Schwaeble W., Sim R. B. and Zavodszky P. 2003. Natural Substrates and Inhibitors of Mannan-Binding Lectin-Associated Serine Protease-1 and -2: A Study on Recombinant Catalytic Fragments. *J. Immunol.* 170, 1374-1 382.

Welker E., Narayan M., Wedemeyer W. J. and Scheraga H. A. 2001. Structural determinants of oxidative folding in proteins. *PNAS*, 98, 2312-2316.

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Kardos J., Gal P., Szilagy L., Thielens N. M., Szilagy K., Lorincz Z., Kulcsar P., Graf L., Arlaud G. J. and Zavodszky P. 2001. The role of the individual domains in the structure and function of the catalytic region of a modular serine protease, C1r *J. Immunol* 167, 5202-5208.

Scheraga H. A., Wedemeyer, W. J. and Welker E. 2001. Bovine Pancreatic Ribonuclease A: Oxidative and Conformational Folding Studies. *Methods in Enzymology*, 341: 189-221.

EMIL™ -based analogue generation

ComGenex has developed a knowledge base and software with Prof. Toshio Fujita (Kyoto) for bioanalogous lead evolution. The entry structures (validated hits, initial leads) are first imported into our EMIL software to create the bioanalogous expansion of the chemical space defined by the original hit molecules.

EMIL (Example Mediated Innovation for Lead Evolution) incorporates a knowledge base (collection of structural "evolution" examples) and an interactive search engine. By analyzing large number of biologically active compounds, several thousand structural "evolution" examples (from simple bioisosteric structural replacements to bioanalogous drastic skeletal changes) were identified and collected from literature into the EMIL database as virtual transformation rules. The resulting candidate lead structures could exhibit improved pharmacological/ pharmacokinetic characteristics, and help to reach novel intellectual property (IP) position.

Fujita T., Adachi M., Akamatsu M., Asao M. and Fukami H. Background and Features of EMIL, A System for Database-aided Bioanalogous Structural Transformation of Bioactive Compounds. 1995. *QSAR and Drug Design: New Developments and Applications, Pharmacochimistry Library*, Vol. 23 (Ed. Fujita T), pp. 235-273. Elsevier, Amsterdam, 1995.

Papp A., Fujita T. and Darvas F. The implementation of an expert system for evolving pharmaceutical leads. *Eurocombi 1*, Budapest, July 1-5, 2001.

Darvas F, Fujita T. and Papp A. A Web-based Tool for Building Bioanalogous Libraries, DDJ Japan, Tokyo, Jan 28, 2002.

EMIL™-Select™ for target family-based drug design

In the post-genomic drug discovery large enzyme families are investigated parallel in order design selective inhibitors for many related isoforms in one combined research effort. Chemogenomics is a bioinformatics-driven approach to explore the ligand-target knowledge space based on the genetic (sequence homology) divergence of target family members.

This design approach identifies the major molecular determinants of the target-family (privileged structures/ special recognition features) and virtual transformations leading selectivity within the family. Using the knowledge base, which is an extension of the original EMIL™ concept (EMIL-Select™) scaffolds or robust inhibitors can be transformed into selective inhibitors ('selectivity jumping').

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Darvas F., Dorman G., Papp A., Szommer T., Ambrus G., Fujita T., Urge L. Novel chemogenomics approach to design selective MMP inhibitors, *Society for Biomolecular Screening 10th Anniversary Conference and Exhibition*, Orlando, USA (September 11-15, 2004).

Darvas F., Dorman G., Krajcsi P., Puskas L., Kovari Z., Lorincz Z. and Urge L. 2004. Recent advances in chemical genomics. *Curr. Med. Chem.* (in press).

Lead Multiplier™ technology

ComGenex' Lead Multiplier™ technology is designed to integrate proprietary chemoinformatics tools in order to select, optimize and prioritize novel chemically distinct lead classes (*de novo* focused libraries) against particular targets for hit validation and lead explosion.

The program utilizes a unique medicinal chemistry knowledge based expert system, a proprietary similarity search tool, *in silico* pharmacokinetic filtering and diversity assessing methods. *Lead Multiplier™ Focused Library* demonstrates pharmaceutically relevant structural complexity and at the same time remains chemically distant from the original lead structures.

Successful applications:

Dorman G., Gulyas-Forro A., Darvas G., Urge L., Sasvari-Szekely M., Sziraki M. Bioanalogous structure evolution for new lead generation. Design and discovery of novel dopamine transporter inhibitors. *ISMC2004*, Copenhagen, August 15-19, 2004.

Patents:

Development of novel compounds for reversing Multi-Drug Resistance, (ComGenex with Solvo Biotech), Hung Pat Appl. P01-05401; 2001.

Compounds having inhibitive activity of phosphatidylinositol 3-kinase and methods of use thereof. (ComGenex with Echelon Bioscience, Salt Lake City, UT, two joint patents filed in 2004 for two separate compound series, PCT 21958.PROV, PCT 21780.PROV).

CMT™ (ComGenex Matrix Technology)

ComGenex has developed its proprietary HT parallel chemistry platform, referred to as ComGenex Matrix Technology (CMT™). It utilizes manual and robotized parallel synthesis stations of different size that reflects the cascading diversity building approach. CMT™ is practically a technological line that also contains state-of-the-art selection methods database management, reaction piloting, HT purification and analytics.

Examples for successful application of CMT™:

Varga L., Nagy T., Kovessi I., Benet-Buchholz J., Dorman D., Urge L. and Darvas F. 2003. Solution-phase parallel synthesis of 4,6-diaryl-pyrimidine-2-ylamines and 2-amino-5,5-disubstituted-3,5-dihydro-imidazol-4-ones via a rearrangement, *Tetrahedron*, 59 (5) 655-662.

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Gerencser J., Panka G., Nagy T., Egyed O., Dorman G., Urge L. and Darvas F. 2004. A versatile procedure for the parallel preparation of 3-imidazo[1,2-a]pyridin-3-yl-propionic acid derivatives involving Meldrum's acid, *J. Comb. Chem.* (in press).

Innovative chemical technologies:

—H-Cube: A microfluidics-based continuous flow hydrogenation device

This novel device, which is co-developed with Thales Nanotechnologies, (www.thalesnano.com) enables high-yield hydrogenation with improved selectivity.

Darvas F., Godorhazy L., Panka G., Bucsa A. and Dorman G. Development and application of microchannel flowreactor for parallel hydrogenation. *ACS*, Philadelphia, August 22-28, 2004.

Jones R., Godorhazy L., Panka G., Szalay D., Dorman G., Urge L. and Darvas F. A compact, continuous flow device for high-pressure heterogeneous hydrogenation, *J. Comb. Chem.* (in press).

—MW: microwave heating

Integration of microwave heating into CMT enables to perform difficult chemical transformations, multicomponent reactions that are typically carried out in low yield and long reaction time.

Urge L. Integration of Microwave assisted chemistry into high-throughput chemistry platform. The Pros and Cons. *Conference on Microwave-Assisted Organic Synthesis*, Boston, Nov. 11-13, 2004.

In silico ADME (BBB penetration, CNS likeness) prediction

ComGenex together with CompuDrug has developed a software family (Pallas™), which helps to filter out, compounds early in the drug discovery pipeline, practically in the design phase. The software allows the prediction of physicochemical parameters (pKa, LogP, LogD), metabolism, and toxicity.

Darvas F., Keseru G., Papp A., Dorman G., Urge I., Krajcsi P. 2002. *In silico* and *Ex Silico* ADME Approaches for Drug Discovery, *Current Topics in Medicinal Chemistry*, 2, 1269-1277.

Dorman G. and Darvas F. 2002. HT Prediction, Virtual and Experimental Screening of Drug Absorption, In: *HT ADMETox estimation based on in vitro and in silico approaches*, F. Damas, G. Dorman (Eds.), BioTechniques Press, Eaton Publishing, Westborough, MA, USA. 25-40pp.

Molnar L., Keseru G., Papp A., Gulyas Z. and Darvas F. 2004. A Neural Network Based Prediction of Octanol-Water Partition Coefficients Using Atomic5 Fragmental Descriptors, *Bioorg. Med. Chem. Letters*, 14(4), 851 -853

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Chemprobe™ tethering strategy

ComGenex has developed a novel tethering strategy where a representative subset is designed around the core structure of known active compounds or combinatorial compound libraries with appropriate terminal functional groups.

Dorman G., Reynolds D., Puskas L., Urge L. and Damas F. Immobilized surrogate compound libraries for rapid affinity profiling Eurocombi-2, Copenhagen, Jun 29-July 3, 2003

Hackler L., Dorman G., Kele Z., Urge L., Damas F. and Puskas L. 2003. Development of chemically modified glass surfaces for nucleic acid, protein and small molecule microarrays, *Mol. Div.* 7, 25-36

FlashTag™ covalent labeling strategy

The major feature of covalent-bond forming libraries is a creation of a stable linkage between small molecules and biopolymers targeted by the ligand or substrate toward the active site. As the stable covalent linkage survives proteolysis, chemical fragmentation and sequencing, and the small molecule trapped within the active site during the entire manipulation, this technique enables the identification of the binding site. Combining with chemprobe™ combinatorial tethering approach the architecture of the binding site can be investigated.

Dorman G. and Prestwich G.D. 2000. Using Photolabile Ligands in Drug Discovery and Development. *Trends in Biotech.* 18(2): 64-77

Dorman G., Krajcsi P. and Damas F. 2001. Chemical Library Approaches to Target Validation in the Post-Genomic Era. *Current Drug Discovery* (October 2001), pp 21-24

Dorman G. and Damas F. 2004. Utilizing small molecules in chemical genomics: toward HT approaches, In: *Chemical Genomics*, Eds. Ferenc Darvas, Andras Gut™ Gyogy Dorman, Marcel Dekker, New York, Basel, 2004, pp. 137-197

Diversity selection: the ED1 concept

ComGenex developed and employ for selection and library characterization a novel diversity assessing approach, the Explicit Diversity Index (EDI). It combines structural dissimilarity and core representativeness.

Gulyas-Forro A., Dorman G., Papp A., Gulyas Z., Urge L. and Darvas F. Explicit Diversity Index (EDI): A Novel Measure for Assessing the Diversity of Compound Databases, *J. Chem. Inf Comp. Sci.* (in press)

Multiparametric QSAR approach

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Ferenc Darvas developed a multiparametric QSAR design approach and successfully employed in the area of CNS active drug design which lead to the development of deramciclane (The compound is presently in Phase-IV at Orion, Pfizer — Pharmacia Upjohn.)

Darvas F., Lopata A., Budai Z. and Petocz L. 1984. Computer Assisted Design of a Novel Type of Tranquillant. QSAR and Strategies in the Design of Bioactive Compounds, 5th European Symp. on QSAR, Bad Segeberg, 1984 (Ed. Seydal JK), pp. 324-327. VCH, Weinheim, Germany.

Darvas F., Lopata A., Budai Z. and Petocz L. 1984. Prediction of Therapeutical Index for a Novel Type of Tranquillant. QSAR in Toxicology and Xenobiochemistry, Bad Segeberg, Germany, 1985 (Ed. Tichy M), pp. 324-327. Elsevier, Amsterdam.

Parallel Lead Optimization Approach

The core of the ComGenex' Parallel Lead Optimization Program is HT medicinal chemistry supported by QSAR modeling and EMIL™ (example-Mediated Innovation for Lead Evolution). Other supporting elements are: broad spectrum of in silico and in vitro ADMETox methods; complementing with ADMETox prefiltered screening libraries; ActiVerse™, prescreened targeted libraries; FlashTag™, a photomarker library for covalent protein tagging; HT Analytical services. ComGenex integrated these approaches into a service package, allowing the R&D activities to proceed simultaneously shortening the average preclinical development phase.

Krajcsi P., Dorman G., Karancsi T., Papp A., Kalman F., Nagy T., Szabo I., Urge L. and Darvas F. Parallel Lead Optimization Program Supported by EMIL Expert System — SBS, Den Haag, Sept 23-26, 2002

Darvas F., Krajcsi P., Urge L., Dorman G., Karancsi T., Papp A., and Fujita T. Lead Optimization Program with Parallel Design — DDJapan, Jan 28-31, 2002

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Appendix C

To that certain Master Services Agreement by and between Nura Inc., and ComGenex Inc.

To the extent that any term or provision set forth in this Appendix C is inconsistent with any term or provision set forth in the Master Services Agreement, the Master Agreement shall be controlling.

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Payments

Down Payment

<u>Amount due</u>	<u>Amount to be paid</u>
January 27, 2005	[†]

Cost Coverage Payments

<u>Amount due</u>	<u>Amount billed</u>	<u>Amount to be paid</u>
Milestone 1		
February 15, 2005	[†]	[†]
March 15, 2005	[†]	[†]
April 15, 2005	[†]	[†]
Subtotal		[†]
Milestone 2		
May 15, 2005	[†]	[†]
June 15, 2005	[†]	[†]
July 15, 2005	[†]	[†]
August 15, 2005	[†]	[†]
Subtotal		[†]
Milestone 3		
September 15, 2005	[†]	[†]
October 15, 2005	[†]	[†]
November 15, 2005	[†]	[†]
December 15, 2005	[†]	[†]
Subtotal		[†]
Total	[†]	[†]

Down Payment and Cost Coverage Payments are due within 15 days after receipt by Nura of the appropriate invoice from ComGenex.

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Milestone fees

Milestone Fee Payments are due within 15 days after receipt by Nura of the appropriate invoice from ComGenex. Each invoice shall be accompanied by a report from ComGenex detailing the particular tasks relating to the invoice and accomplished by ComGenex according to the "Project" plan pursuant to Appendix B.

Milestone 1

Subproject 1	If CGX delivers to Nura	Fee Due
[†]	[†]	[†]
Subproject 2	If CGX delivers to Nura	Fee Due
[†]	[†]	[†]

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Milestone 2

Subproject 1 [†]	If CGX delivers to Nura [†]	Fee Due [†]
Subproject 2 [†]	If CGX delivers to Nura [†]	Fee Due [†]
Subproject 3 [†]	If CGX delivers to Nura [†]	Fee Due [†]

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Optional items to Milestone 2

To be paid as Milestone Fee only (cost coverage is incorporated in the Milestone Fee). Optional items to be performed only at the written request of Nura.

Optional	If CGX delivers to Nura	Fee Due
[†]	[†]	[†]

The cost and the fee for the following optional items will be determined later

Preliminary biological screening

***in vitro* screening**

- [†]

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Milestone 3

Subproject 3 [†]	If CGX delivers to Nura [†]	Fee Due [†]
Subproject 4 [†]	If CGX delivers to Nura [†]	Fee Due [†]

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Optional items to Milestone 3

To be paid as Milestone Fee only (cost coverage is incorporated in the Milestone Fee).

Optional items to be performed only at the written request of Nura.

Optional [†]	If CGX delivers to Nura [†]	Fee Due [†]
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Appendix D
To that certain Master Services Agreement by and between Nura Inc.,
and ComGenex Inc.

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Parties agree that the following costs will be reimbursed to ComGenex by Nura Inc:

- 1, Reasonable costs for obtaining commercially available recombinant PDE10a that is supplied to facilitate early stage assay development. This cost incurs until sufficient amounts of recombinant PDE10a from internal sources become available for assay development and screening.
- 2, If Nura requests optional selectivity screening as described in Appendix B; the costs of selectivity studies to be performed on various PDE isotypes with ComGenex compounds.
- 3, If Nura requests real time PCR experiments, or other cell based assays that are not detailed in Appendix B, the cost of these studies are borne by Nura.

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AGREEMENT FOR ANTIBODY DISCOVERY AND DEVELOPMENT

This is an Agreement between Omeros Corporation (“**Omeros**”), a Washington corporation having an address at 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101, and Affitech AS (“**Affitech**”), having an address at Oslo Research Park, Gaustadalléen 21, N-0349 Oslo, Norway, and is effective as of July 25, 2008 (the “**Effective Date**”). Omeros and Affitech may be referred to herein each as a “**Party**” or together as the “**Parties**”.

Omeros’ business includes the research and development of pharmaceuticals and biological therapeutic products. Affitech is in the business of the discovery of human recombinant antibodies. Omeros wishes to access Affitech’s expertise to isolate and optimize antibodies to human MASP-2 that block its ability to mediate lectin pathway activation, which Omeros will further develop and commercialize, as further described below, and Affitech wishes to provide such expertise to Omeros.

Therefore, for the above and other consideration, Omeros and Affitech hereby agree as follows:

1 **Key Definitions**

- 1.1 “**Active Agent**” shall mean a biological or pharmaceutical agent that provides a desired therapeutic effect when administered in a biological or pharmaceutical drug product, and does not include carriers, binders, fillers, solubilizers, stabilizers, buffers, acidifying agents or other excipients that do not exert therapeutic effect.
- 1.2 “**Affitech-Originated MASP-2 Antibody**” shall mean any MASP-2 antibody or antibody fragment that specifically binds to MASP-2 polypeptides or portions thereof, including, without limitation, any single chain variable fragment (“**scFv**”), that was isolated and/or developed for and delivered to Omeros by Affitech under this Agreement or that is derived from an MASP-2 antibody or antibody fragment that was isolated and/or developed for and delivered to Omeros by Affitech under this Agreement.
- 1.3 [†].
- 1.4 “**Combination Product**” shall mean any MASP-2 Therapeutic containing both an Affitech-Originated MASP-2 Antibody and one or more additional Active Agent(s) that do not constitute an Affitech-Originated MASP-2 Antibody.
- 1.5 “**FDA**” shall mean the US Food and Drug Administration.
- 1.6 “**ICD Category Indications**” shall mean therapeutic indications that are classified differently at the second digit level in the tabular index of the International Classification of Diseases and Related Health Problems, ninth edition, e.g., indications falling within ICD 340 and ICD 350, respectively, would be considered different ICD Category Indications while indications falling within ICD 340 and ICD 349, respectively, would be considered the same ICD Category Indications.

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- 1.7 “**IND**” shall mean an Investigational New Drug Application, if submitted to FDA, or corresponding application to permit the commencement of clinical trials for the evaluation of a pharmaceutical or biological therapeutic if submitted to another Regulatory Agency.
- 1.8 “**Intellectual Property Rights**” shall mean all inventions, ideas, discoveries, issued, reissued or reexamined patents, pending and future patent applications, continuation and continuation-in-part patent applications, divisional patent applications, utility models, inventor’s certificates, trade secrets and know-how.
- 1.9 “**MASP-2**” shall refer to human mannan binding lectin-associated serine protease 2.
- 1.10 “**MASP-2 Antibody Patents**” shall mean all patent applications and patents owned by Omeros that claim Affitech-Originated MASP-2 Antibodies, MASP-2 Therapeutic compositions, or methods of manufacturing, formulating or packaging Affitech-Originated MASP-2 Antibodies or MASP-2 Therapeutic compositions. For the avoidance of doubt, the term “manufacturing” or “method of manufacturing” in this Agreement does not include screening of libraries or affinity maturation of antibodies.
- 1.11 “**MASP-2 Therapeutic**” shall mean a biological therapeutic that contains an Affitech-Originated MASP-2 Antibody that is manufactured, offered for sale, sold or used by Omeros or by a licensee of Omeros.
- 1.12 “**Net Sales**” shall refer to (a) the gross total of the monetary amounts invoiced and collected by Omeros or, if Omeros has licensed manufacturing and distribution rights to a licensee, by Omeros’ licensee, for the initial sale or distribution of MASP-2 Therapeutics, but excluding any amounts invoiced or collected by parties other than Omeros or Omeros’ licensee for subsequent sales or distribution provided no part of such amounts invoiced or collected by such parties is directly or indirectly paid to Omeros or Omeros’ licensee, less (b) the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; sales commissions to third parties (but excluding sales commissions to Omeros’ employees); wholesale charge backs; distributor fees; Medicare/Medicaid rebates; customer rebates; refunds for recalls; and allowances or credits to customers because of rejections or returns, provided such deductions are documented. [†]. For purposes of this paragraph, the acquisition of MASP-2 Therapeutics from Omeros as part of an acquisition or other transfer or conveyance of all or a substantial part of the assets of Omeros’ business to which this Agreement pertains, or as part of a merger, acquisition, reorganization or other change of control of Omeros, shall not be considered a sale or distribution of MASP-2 Therapeutics.
- 1.13 “**Overall Objective**” shall mean the isolation and optimization of an Affitech-Originated MASP-2 Antibody that is suitable for advancement by Omeros through preclinical and clinical development and ultimate manufacture, commercialization, distribution and sale in the form of one or more MASP-2 Therapeutics.

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- 1.14 [†].
- 1.15 **“Patented MASP-2 Therapeutics”** shall mean MASP-2 Therapeutics manufactured, sold, offered for sale or used in (a) a country or territory in which such MASP-2 Therapeutics would read upon a claim of an issued patent, that has not been declared invalid or unenforceable by a patent office or court of common jurisdiction after appeal to a court or tribunal of appeal (e.g., the Federal Circuit in the U.S.) or a claim of a pending patent application included within the MASP-2 Antibody Patents in such country or territory [†].
- 1.16 **“Regulatory Agency”** shall mean FDA or corresponding foreign national or international agency that regulates and approves the clinical testing, marketing and sale of pharmaceuticals and biological therapeutics.
- 1.17 [†].
- 2 **Services and Deliverables**
- 2.1 [†]. Affitech shall provide Omeros the following services (“**Services**”) and deliverables (“**Deliverables**”), as more fully specified and described in the initial research plan (the “**Initial Research Plan**”) attached to this agreement as Exhibit A.
- a) Affitech shall conduct the initial testing of [†] that meet all of the requirements therefore specified in the Initial Research Plan (“**First-Generation Candidates**”), [†], as further described in Exhibit A. [†].
- b) Upon written request by Omeros in writing, Affitech shall initiate [†], as further described in Exhibit A. [†]. If requested by Omeros in writing, Affitech will supply [†].
- 2.2 [†]. If requested by Omeros in writing, Affitech shall [†] that may be mutually agreed in writing between the parties, and produce and deliver to Omeros [†].
- 2.3 **Additional Services and Deliverables.** In addition to the Services and Deliverables described in the Initial Research Plan, Affitech and Omeros may mutually agree that additional Services not envisioned by the Initial Research Plan will be provided under this Agreement, which shall be specified, including additional Deliverables and fee compensation payable, in one or more additional research plan(s) (each an “**Additional Research Plan**”).
- 2.4 **Joint Advisory Committee.** Affitech and Omeros shall each designate a scientific point of contact, who shall communicate with each other regularly by e-mail, phone and/or in person, at least as frequently as requested by either Party, regarding the progress of the Services and Deliverables during any periods of time in which there are any uncompleted Services or undelivered Deliverables under the Initial Research Plan and any Additional Research Plan(s). For Omeros, the initial scientific point of contact shall be [†]. For Affitech, the initial scientific point of contact shall be [†]. [†] on another mutually agreed schedule during any periods of time in which there are any uncompleted Services or undelivered Deliverables under the Initial Research Plan and any Additional Research

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Plan(s), to discuss the progress of the Services and Deliverables and to determine the optimal technical approach and steps to be taken to meet Milestones I and II and to achieve the Overall Objective. The JAC shall be formed within [†] from the Effective Date and remain active until (i) completion of the Initial Research Plan and any Additional Research Plan(s) or (ii) termination of the Agreement, whatever event occurs first.

2.5 **Best Efforts.** Affitech shall [†] complete all Services, to deliver all Deliverables and meet all Milestones set forth in the Initial Research Plan and any Additional Research Plan(s) [†], and to achieve the Overall Objective, and [†] that all Services are carried out and Deliverables generated and developed [†]; provided, however, that any delays or interruptions in Affitech's activities or efforts due to availability of compounds, materials or necessary processes shall not be deemed to be a failure of Affitech to exert Best Efforts under this Section 2.5.

2.6 [†].

2.7 **Compliance with Laws.** Affitech shall comply with all applicable international, national, county and local laws, rules and regulations in providing the Services. Affitech shall promptly notify Omeros if any regulatory agency takes action against Affitech for any defect or deficiency, during the Research Term (as defined in Section 8.1 herein below) of this Agreement, [†].

2.8 **Transfer of Antibodies.** During the Research Term or upon completion of the Research Term or any termination of this Agreement by Omeros [†].

2.9 **Development and Commercialization of Antibodies.** Following receipt of one or more Final Candidate(s) from Affitech, Omeros shall [†] develop a Final Candidate for use in preclinical and clinical investigation and subsequent commercialization of an Affitech-Originated MASP-2 Antibody; provided, however, that: (a) any delays or interruptions in Omeros' activities or efforts due to any regulatory processes, availability of compounds, materials or necessary processes, the procurement of or disputes related to Intellectual Property Rights or licenses, or funding and resource constraints; or (b) any delays or interruptions of less than [†], shall not be deemed to be a failure of Omeros [†] under this Section 2.9.

3 **Payments and Royalties**

3.1 **Payment Terms.** As full and complete consideration for the Services and Deliverables under the Initial Research Plan, all licenses, intellectual property and other rights conveyed, and all obligations undertaken in accordance with this Agreement for the Initial Research Plan, Omeros shall pay Affitech the amounts set forth in this Section 3 [†]. Affitech shall invoice Omeros for each of the payments as it becomes due and payable, and Omeros shall make payments for fees due and payable on a [†] from receipt of invoice basis.

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a) **Technology Access Fee.** Omeros shall pay Affitech a fee of [†] (the “**Technology Access Fee**”) upon execution of this Agreement for access rights during the Agreement Term, solely for the purpose of making, using (including, without limitation, research, development and commercialization) and selling [†] (as such terms are defined in Subsections 7.1 and 7.2(a) below, respectively) and the license provided in Subsection 7.3 below to permit Omeros to use, develop, commercialize, sell and distribute the Deliverables provided to Omeros under the Initial Research Plan and any Additional Research Plan(s). The Technology Access Fee shall be payable by Omeros [†] under the Initial Research Plan.

b) [†]. (i) Following completion of [†] Milestone I under the Initial Research Plan, [†], Omeros shall pay Affitech a Milestone I fee of [†] (the “**Milestone I Fee**”). [†].

(ii) After payment of the Milestone I Fee, [†]. Following completion of the [†] Milestone I criteria set forth in the Initial Research Plan, Omeros shall pay Affitech a fee of [†].

(iii) The Milestone I Fee, if the Milestone I Fee becomes due as provided for above in this Section 3.1, shall be payable by Omeros [†] under the Initial Research Plan. The [†], shall be payable by Omeros [†] under the Initial Research Plan.

c) [†]. Omeros shall pay Affitech a fee of [†] (the “**Milestone II Fee**”) upon [†] Affitech has completed Milestone II under the Initial Research Plan, [†].

If one or more of the Milestone II criteria under the Initial Research Plan are [†].

The Milestone II Fee, if the Milestone II Fee becomes due as provided for above in this Section 3.1, shall be payable by Omeros [†] under the Initial Research Plan.

d) [†]. If Omeros elects in writing, [†], to have Affitech [†], Omeros shall pay Affitech on invoice upon receipt [†] of the [†] in conformity with Exhibit A, as set forth in the following price schedule. [†], Omeros shall complete reasonable third party Intellectual Property Rights diligence related to such [†] and shall secure for Affitech, or for Omeros with a right to sublicense to Affitech, any third party license(s) that may be required for Affitech to complete the Services and produce the Deliverables that are specific to such [†].

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[†]	Price
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]

Upon Omeros' written request to Affitech to provide [†].

e) **Additional Services and Deliverables.** Fees for any additional Services and Deliverables not envisioned by the Initial Research Plan shall be as set forth in any Additional Research Plan(s) and shall be determined on a per project basis.

f) **Development Milestone Payments.** Omeros shall pay Affitech the following [†] development milestone payments (each a "**Development Milestone Payment**") on invoice upon completion of the associated development activity (each a "**Development Milestone**") by Omeros or by a licensee of Omeros. Omeros shall provide Affitech written notice of the completion of each Development Milestone by Omeros or Omeros' licensee within [†] of such Development Milestone completion.

Development Milestone	Development Milestone Payment
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]

g) **Royalties.** Omeros shall pay Affitech a royalty as a percentage of Net Sales (the "**Sales Royalty**"). [†], the Sales Royalty shall be [†] on Net Sales of [†] on Net Sales of [†]. [†] shall be [†] on Net Sales of [†] on Net Sales of [†]. Sales Royalties shall be paid on a [†] within [†] following the end of each [†] for Net Sales realized during such [†].

3.2 **Invoices.** Affitech shall submit invoices to Omeros for payments, other than Sales Royalties that have become due. The terms of payment are [†] after Omeros' receipt of

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Affitech's invoice, or in the event that any invoice is disputed in good faith, [†] after mutual agreement or other resolution is reached on the disputed invoice or receipt of a corrected invoice. Invoices shall reference this Agreement and the relevant the Initial Research Plan or Additional Research Plan (as applicable) and specify the milestone payment or other fee that is being invoiced. Payment for Sales Royalties shall be made by Omeros concurrent with delivery of the Net Sales reports specified in Subsection 4.1(a) herein below.

Invoices shall be sent to Omeros by mail addressed to the following or subsequently updated address:

Accounts Payable
Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101

Affitech shall provide and keep Omeros updated on invoice payment instructions, including wire transfer information or the payee and address for checks.

3.3 **Obligation to Pay Taxes.** Payments under this Agreement shall be made in full in the agreed amounts without deduction for taxes of any kind whatsoever. [†].

4 **Reports; Records; Audits; Inspections**

4.1 **Reports and Record Maintenance.**

a) **By Omeros.** Following the initial approval by a Regulatory Agency for the sale by Omeros or a licensee of Omeros of a MASP-2 Therapeutic, Omeros shall provide Affitech with a Net Sales report on a [†] setting forth the quantity of sales of MASP-2 Therapeutics, the gross monetary amounts invoiced and collected by either Omeros or by a licensee of Omeros for the initial distribution or sale of MASP-2 Therapeutics, and the total of all deductions provided for in Subsection 1.9 herein above during such [†], within [†] following the end of each [†] for Net Sales realized during such [†].

b) **By Affitech.** Within [†] of completion of each milestone, Affitech will provide [†], relating to the achievement of the particular milestone. Within [†] of delivery to Omeros of any Final Candidate(s), [†], Affitech shall provide to Omeros [†]. [†] after completion of the Initial Research Plan and any Additional Research Plan(s) and thereafter, it will be the responsibility of Omeros to maintain such Records and Materials. [†]. At any time during which Affitech is [†] maintain such Records and Materials, if Omeros requests receipt of all or any portion of Affitech's copy of the Records and Materials, including upon termination of the Agreement [†], Affitech shall send such Records and Materials to Omeros at Omeros' reasonable expense.

4.2 **Audit of Omeros Books.** Affitech shall have the right to employ a certified public accountant to review and reconcile the directly relevant accounting records and procedures of Omeros solely as they relate to the determination of Sales Royalties, during reasonable business hours and no more than [†] a year, and Omeros agrees to make available at

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Omeros' place of business all such directly relevant accounting records for that purpose within [†] of written request by Affitech. The cost of such review shall be borne by Affitech, unless it is found that Omeros under-paid [†] Sales Royalty for any [†] by an amount of [†] or greater [†] during the term of this Agreement, in which case the cost of such review shall be borne by Omeros.

4.3 **Visits, Audits and Inspections.** Omeros' representatives may visit Affitech's facilities at reasonable times and with reasonable frequency during normal business hours to observe the progress of the Services and Deliverables, within [†] of written request. Affitech shall assist Omeros in scheduling and implementing such visits. During the visits, Omeros representatives may examine all Records and Materials, facilities and equipment that pertain to the Services and Deliverables, and any other relevant resources pertaining to the Initial Research Plan and any Additional Research Plan(s), as well as any other audit reports prepared by or on behalf of Affitech with respect to quality audits of such relevant resources. Omeros' costs of such visit shall be borne by Omeros. If Affitech receives a request from any Regulatory Agency to inspect any portion of Affitech's facilities related to the performance of the Services and Deliverables, Affitech shall notify Omeros in advance and provide Omeros an opportunity, at Omeros' effort and expense, to participate in such inspection, [†].

5 **Samples**

5.1 **Use of Samples.** Omeros shall transfer to Affitech the sufficient or requested quantities of proteins, reagents and/or other materials involved in the Services as specified in the Initial Research Plan and any Additional Research Plan(s) ("Omeros Samples"). Omeros shall provide all pertinent information known to Omeros regarding the Omeros Samples to the extent necessary for carrying out the Initial Research Plan and any Additional Research Plan(s). Affitech shall be responsible for [†]. Affitech shall not use or analyze any Omeros Samples provided by Omeros under this Agreement except as necessary to carry out the Initial Research Plan or any Additional Research Plan(s) and shall not administer [†]. After completion of the Services, Affitech shall either return the Omeros Samples to Omeros or dispose of the Omeros Samples, upon written request by Omeros and at Omeros' risk and expense. Affitech [†] of all Omeros Samples or other compounds or materials used in the performance of the Services and shall [†] of the Omeros Samples after delivery to Affitech.

5.2 **Ownership of Samples.** The Omeros Samples are and shall remain the sole property of Omeros and nothing in this Agreement shall be construed as granting to Affitech, by implication or otherwise, any right or license with respect to the Omeros Samples, or any patent or other intellectual property rights with respect to the Omeros Samples, except as required to complete the Services and generate the Deliverables, and Affitech shall not file applications or otherwise seek any proprietary rights in respect of the Omeros Samples or any Confidential Information (as that term is defined below in Subsection 6.1) that Omeros provides under this Agreement.

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6 **Confidentiality and Non-use**

6.1 As used in this Agreement, “**Confidential Information**” shall mean any Omeros Samples, other materials, data, research, development, manufacturing, marketing, financial, personnel, sales, business, and other non-public, proprietary or technical information provided by a disclosing Party (the “**Disclosing Party**”) to a receiving Party (the “**Recipient**”), including, without limitation, all Deliverables, Records and Materials (which shall be considered Omeros’ Confidential Information even if generated or provided by Affitech), except any portion of such information that the Recipient establishes:

- a) is or becomes generally available to the public or within the industry to which such information relates, other than as a result of a breach of this Agreement; or
- b) is known by Recipient at the time of receipt of the Disclosing Party’s information, as evidenced by Recipient’s contemporaneous written records; or
- c) is provided to Recipient on a non-confidential basis by a third party who has the legal right to make such disclosure; or
- d) was or is independently developed by or for Recipient without access to or use of the information of the Disclosing Party, as evidenced by Recipient’s contemporaneous written records.

6.2 **Obligations of Confidentiality and Non-use.** Each Party agrees that the Disclosing Party has and shall retain sole and exclusive rights of ownership of all Confidential Information disclosed or owned by such Party. Each Recipient agrees that during the Agreement Term and for [†] thereafter it will not use any Confidential Information of the Disclosing Party except for the purposes of performing under this Agreement, unless otherwise agreed by the Parties in writing. Each Recipient agrees not to disclose any Confidential Information of the Disclosing Party to others (except to Recipient’s employees, consultants, professional advisors, agents and Affiliates who reasonably require disclosure of such Confidential Information to achieve the purposes of this Agreement and who are bound to the Recipient by like obligations as to confidentiality and non-use no less stringent than those set forth herein) during the Agreement Term and for [†] thereafter without the prior written consent of the Disclosing Party. Affitech agrees that with respect to the Records and Materials, which are included in Omeros’ Confidential Information, these obligations of non-use and confidentiality shall subsist beyond [†] after the termination of this Agreement. Each Party agrees to maintain and follow reasonable procedures to prevent unauthorized disclosure or use of the other Party’s Confidential Information and to prevent it from becoming disclosed or being accessed by unauthorized persons. Each Party agrees that it may disclose to authorized persons only such Confidential Information of the Disclosing Party as is necessary for each such authorized person to perform his/her responsibilities under this Agreement. Recipient shall advise the Disclosing Party of any disclosure, loss, or use of Confidential Information of the Disclosing Party in violation of this Agreement as soon as practicable. Each Party agrees to return or destroy the Confidential Information of the other Party, whether in written, graphic, electronic or other

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tangible form, upon written request, provided, however, that legal counsel for each Party may retain an archival copy of Confidential Information solely for purposes of ensuring compliance with this Agreement.

- 6.3 **Disclosure of this Agreement.** The terms of this Agreement shall be considered each Party's Confidential Information, and accordingly except for disclosures expressly permitted under this Agreement, neither Party may release any information to any third party regarding the terms of this Agreement without the prior written consent of the other Party. Notwithstanding the foregoing, the terms of this Agreement may be disclosed by Omeros or by Affitech to their respective existing or potential investors, acquirers, merger partners, commercial partners, shareholders, directors, officers and professional advisors as long as such individuals or entities are subject to similar conditions of confidentiality.
- 6.4 **Permitted Disclosures.** Notwithstanding anything to the contrary, a Party may disclose Confidential Information of the other Party, including, without limitation, the terms of this Agreement, to the extent such disclosure is reasonably necessary: (a) to secure patent protection for an Intellectual Property Right developed pursuant to this Agreement consistent with the ownership provisions set forth in Section 7; (b) to comply with applicable laws or regulations, the requirements of any Regulatory Agency or other regulatory or governmental authority, including, without limitation, FDA, the US Securities and Exchange Commission, the Federal Trade Commission and/or the Department of Justice, or judicial order from a court of competent jurisdiction; or (c) as necessary for Omeros to conduct pre-clinical studies, clinical trials, achieve the Overall Objective or to seek regulatory approval to market MASP-2 Therapeutics. Prior to making any such permitted disclosures, however, the Recipient shall give reasonable advance notice to the Disclosing Party with as much detail as possible in relation to the disclosure. Each Party agrees that it shall cooperate fully and in a timely manner with the other Party with respect to all such permitted disclosures, including determining what information should be released and requests for confidential treatment of Confidential Information of either Party included in any such disclosure where possible; provided that in no event shall a Party be required to delay any filing or release unreasonably hereunder.
- 6.5 **Remedies.** Because of the unique nature of the Confidential Information, each Recipient acknowledges and agrees that the Disclosing Party may suffer irreparable injury if the Recipient fails to comply with the obligations set forth in this Section 6, and that monetary damages may be inadequate to compensate the Disclosing Party for such breach. Accordingly, each Recipient agrees that the Disclosing Party will, in addition to any other remedies available to it at law, in equity or otherwise, without the requirement to post a bond, be entitled to seek injunctive relief and/or specific performance to enforce the terms, or prevent or remedy the violation, of this Section 6. This provision shall not constitute a waiver by either Party of any rights to damages or other remedies which it may have pursuant to this Agreement or otherwise.

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7 **Intellectual Property; Licenses and Protection**

7.1 **Pre-existing Intellectual Property.** Except as expressly provided in this Section 7, neither Party shall, as a result of this Agreement, acquire any right, title, or interest in any Intellectual Property Rights that the other Party owned, licensed or controlled as of the Effective Date of, or that the other Party obtains ownership, license or control of separate and apart from the performance of, this Agreement (each Party's "Pre-existing Intellectual Property").

7.2 **New Intellectual Property**

a) Affitech shall own all right, title and interest in "New Affitech Intellectual Property", which shall mean Intellectual Property Rights that Affitech develops, conceives, invents, reduces to practice or makes in the course of performance under this Agreement that is directed to subject matter of general applicability to the current business of Affitech or [†].

b) Omeros shall own all right, title, and interest in (a) the MASP-2 Antibody Patents, (b) all Intellectual Property Rights that either Party, solely or jointly with others, develops, conceives, invents, reduces to practice, improves, or makes in the course of performance under this Agreement that is specific to: MASP-2; any inhibitor of MASP-2; any MASP-2 antibody or antibody fragment that binds to MASP-2 polypeptides or portions thereof, including, without limitation, Affitech-Originated MASP-2 Antibodies; any pharmaceutical or biological therapeutic for the inhibition of MASP-2, including, without limitation, any MASP-2 Therapeutic; any methods or processes for manufacturing, formulating or packaging any MASP-2 antibody or antibody fragment that binds to MASP-2 polypeptides or portions thereof, including, without limitation, Affitech-Originated MASP-2 Antibodies; any methods or processes for manufacturing, formulating or packaging MASP-2 Therapeutics; and any method of treatment by inhibiting MASP-2, and (c) any and all other Intellectual Property Rights, excluding the New Affitech Intellectual Property (collectively, the "New Omeros Intellectual Property"). [†] of the New Omeros Intellectual Property, and any documents required to apply for, maintain and enforce any patents or other rights in the New Omeros Intellectual Property. Upon Omeros' request and at Omeros' reasonable expense, and [†] in the New Omeros Intellectual Property. Omeros shall use [†] to file and prosecute patent applications and maintain patents, where issued, which patent applications and patents include claim(s) that read on the Affitech-Originated MASP-2 Antibodies and/or MASP-2 Therapeutics in: a) countries or territories that are [†], and in b) other countries or territories that Omeros may, in the exercise of its reasonable judgment and discretion, consider to represent [†] for such [†], taking into additional consideration [†] prior to filing of such applications or to prosecuted such patent applications or maintain such patents, if issued, in a country or territory in which there is a [†].

c) Upon termination of this Agreement, Affitech shall not use or have used the Omeros Samples in the production of such MASP-2 antibodies and such MASP-2 antibodies shall not include [†] delivered to Omeros under this Agreement. [†].

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7.3 [†].

7.4 [†]

7.5 [†]

8 **Term and Termination**

8.1 **Research Term.** The research term of this Agreement during which Affitech is obligated to provide Services begins on the Effective Date and, unless this Agreement is earlier terminated as provided for below in this Section 8, will continue until Affitech's completion of all Services and delivery of all Deliverables described in the Initial Research Plan and any Additional Research Plan(s) (the "**Research Term**").

8.2 **Royalty Term.** The royalty term of this Agreement during which Omeros is obligated to pay Sales Royalties to the extent provided herein, unless this Agreement is earlier terminated as provided for below in this Section 8, begins on the date of the first commercial sale of a MASP Therapeutic and will continue until the point in time at which there are no patent application(s) in the process of being prepared for filing, no pending patent applications and no valid and enforceable claim included within any patent, utility model or inventor's certificate within (i) the MASP-2 Antibody Patents, (ii) Affitech's Pre-existing Intellectual Property that reads on any Affitech-Originated MASP-2 Antibody or any MASP-2 Therapeutic or (iii) the New Affitech Intellectual Property that reads on any Affitech-Originated MASP-2 Antibody or any MASP-2 Therapeutic (the "**Royalty Term**"). [†].

8.3 **Agreement Term.** This Agreement, unless terminated earlier as provided for below in this Section 8, begins on the Effective Date and continues in full force and effect until the end of both the Research Term and the Royalty Term (the "**Agreement Term**").

8.4 **Survival.** The provisions of Subsections and Sections 2.8, and Sections 5, 6, 7.1, 7.2, 8.6 and 9-14, and any payments and royalties due prior to termination to Affitech from Omeros under Section 3, shall survive the Agreement Term.

8.5 **Termination for Cause or Futility.** Either Party may terminate this Agreement at any time in the event that the other Party breaches any material obligation of this Agreement by first submitting written notice of breach to the breaching Party, which breach is not substantially cured within [†] of the receipt of such notice, followed by written notice of termination then being sent to the breaching Party. Additionally, [†]. Additionally, if despite Affitech's [†] completion of the [†], Affitech is unable to identify even one suitable scFv format First Generation Candidate, Affitech shall have the right to terminate this agreement for futility due to exhaustion of its library.

8.6 **Termination By Omeros Without Cause; Intellectual Property Reversion.** Prior to Omeros' payment of the Technology Access Fee, Omeros may terminate this Agreement without cause by providing Affitech [†] advance written notice to Affitech but shall remain

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obligated to pay the Technology Access Fee. Following payment of the Technology Access Fee but before Affitech's delivery of [†], Omeros may terminate this Agreement without cause by providing Affitech [†] advance written notice to Affitech but shall remain obligated to pay the Milestone I Fee. Following payment of the Milestone I fee, upon request by Omeros for Affitech to undertake [†], Omeros may terminate this Agreement but shall remain obligated to pay [†]. After payment of the Milestone I Fee but prior to Omeros' requesting Affitech to proceed with [†], Omeros may, without the payment of any additional fees other than for any completed [†], if applicable, terminate this Agreement without cause by providing Affitech [†] advance written notice to Affitech. Following Omeros' request for Affitech to commence [†] under the Initial Research Plan but before Affitech's delivery of [†], Omeros may terminate this Agreement without cause by providing Affitech [†] advance written notice to Affitech but shall remain obligated to pay the Milestone II Fee. After Omeros has requested Affitech to generate [†], Omeros may terminate this agreement, but shall remain obligated to pay [†] price for the particular amount requested as detailed in the table in Section 3.1(d). In addition, if Omeros terminates this Agreement under this Subsection 8.6 or under Subsection 8.5 other than due to breach by Affitech, but not if Omeros terminates this Agreement for cause under Subsection 8.5 due to breach by Affitech, neither Omeros nor Affitech shall use any of the Affitech-Originated MASP-2 Antibodies or Records and Materials generated under this Agreement to file or cause to be filed any patent applications claiming the Affitech-Originated MASP-2 Antibodies, MASP-2 Therapeutic compositions, or methods or processes for manufacturing, formulating or packaging Affitech-Originated MASP-2 Antibodies or MASP-2 Therapeutic compositions, and each party shall destroy all Omeros Samples (if held by Affitech), antibodies, antibody fragments, clones, expression constructs or other materials in its possession that were provided or generated under this Agreement.

9 **Representations and Warranties**

9.1 **Authority.** Each Party represents and warrants that it has full power and authority to execute, deliver and perform this Agreement, and that the terms of this Agreement do not conflict with any other contractual agreement or obligation to which it is a Party.

9.2 **Intellectual Property.** Affitech represents and warrants that:

- a) [†]
- b) [†]
- c) [†]

9.3 **No Other Warranties.** EXCEPT AS EXPRESSLY SET FORTH HEREIN, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY OF THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, SAFETY, EFFICACY AND NONINFRINGEMENT REGARDING THE OMEROS SAMPLES, THE DELIVERABLES, THE AFFITECH-ORIGINATED MASP-2

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10 **Indemnification; Limitation of Liability**

10.1 **Indemnification.** Each Party (the “**Indemnifying Party**”) shall indemnify, defend and hold harmless the other Party, its affiliates, subsidiaries, officers, directors, employees, consultants, and agents (collectively the “**Indemnitees**”) from any and all liability, loss (including reasonable attorneys’ fees) or damage any of them may suffer as the result of claims, demands, costs or judgments against them by unaffiliated third parties (collectively “**Claims**”) that arise from the Indemnifying Party’s breach of any of its obligations, representations, covenants and warranties under this Agreement, or the Indemnifying Party’s negligent act or omission, willful misconduct or unlawful act, except and to the extent that such Claims result from the breach by any Indemnitee of any of the Indemnitees’ obligations, representations, covenants and warranties under this Agreement or any of the Indemnitees’ gross negligence, willful misconduct or unlawful act.

Omeros shall indemnify, defend and hold harmless Affitech, its affiliates, subsidiaries, officers, directors, employees, consultants, and agents from any and all Claims arising directly from infringement by Affitech of third party Intellectual Property Rights due solely to Affitech’s [†], which third party Intellectual Property Rights are specific to such [†] and excluding any Claims that would have arisen if Affitech had [†].

10.2 **Procedure.** In the event that any third party claim, action or suit is instituted against an Indemnitee in respect of which indemnity may be sought pursuant to Subsection 10.1, the Indemnitee will promptly notify the Indemnifying Party in writing (provided that the failure to give such notice promptly will not prejudice the rights of an Indemnitee, except to the extent that the failure to give such prompt notice materially adversely affects the ability of the Indemnifying Party to defend the claim, action or suit). Promptly after the Indemnitee gives such written notice, the Indemnifying Party and the Indemnitee shall meet to discuss how to respond to such claim, action or suit. The Indemnifying Party shall control the defense of such claim, action or suit. The Indemnitee shall cooperate with the Indemnifying Party in the defense of such claim, action or suit, at the expense of the Indemnifying Party. In any such proceeding, the Indemnitee shall also have the right to retain its own counsel at its own expense. The Indemnifying Party shall not be liable for damages with respect to a claim, action or suit settled or compromised by the Indemnitee without the Indemnifying Party’s prior written consent. No offer of settlement, settlement or compromise by the Indemnifying Party shall be binding on an Indemnitee without the Indemnitee’s prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), unless such settlement fully releases the Indemnitee without any liability, loss, cost or obligation to such Indemnitee, provided, however, that the Indemnifying Party shall have no authority to take any action as part of any such defense or settlement that invalidates or otherwise compromises or renders unenforceable any of

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the Indemnitees' Intellectual Property Rights without the Indemnitees' express prior written consent.

10.3 **Limitation of Liability.** Without limitation of any Party's obligations to indemnify third party Claims under Subsection 10.1, neither Party shall be liable for any indirect, consequential, exemplary or incidental damages arising under or in association with this Agreement, except for any such liability arising from fraud by the Party or from any breach of the Party's obligations regarding Confidential Information or Intellectual Property Rights under this Agreement.

11 **Insurance**

Omeros shall procure and maintain during the Agreement Term and for a minimum period of [†] thereafter, product liability insurance in an amount not less than [†] in the annual aggregate and each of Affitech and Omeros shall procure and maintain during the Research Term and for a minimum period of [†] thereafter commercial general Liability including premises operations, blanket contractual liability, personal injury and advertising injury including fire legal liability for bodily injury and property damage in an amount not less than [†] (or monetary equivalent of each above sum based on prevailing currency exchange rates). Each Party shall include the other Party and its subsidiaries, affiliates, directors, officers, employees and agents as additional insureds with respect to the respective insurance coverages set forth above. Each Party shall make available to the other Party, at such other Party's request, evidence of its maintenance of insurance in satisfaction of its obligations under this Section 11.

12 **Use of Names**

Except as may be required by law or regulation after first providing reasonable advance notice to the other Party, neither Party may use the other Party's name in any promotional, advertising or other materials without the prior written consent of the other Party. Affitech hereby consents to Omeros' disclosure of Affitech's name in connection with the provision of the Services and the Deliverables under this Agreement to Omeros' current and potential employees, consultants, directors, shareholders, investors and partners, and to any Regulatory Agency or other regulatory authority including, without limitation, FDA and the US Securities and Exchange Commission.

13 **Notices**

Any notice required or permitted to be given hereunder by either Party shall be in writing and shall be (a) delivered personally, (b) sent by registered mail, return receipt requested, postage prepaid, (c) sent by an internationally recognized courier service guaranteeing next-day delivery, charges prepaid, or (d) delivered by facsimile (with the original promptly sent by any of the foregoing manners) to the address or facsimile number of the other Party set forth below, or at such other address as may from time to time be furnished by notice by either Party. The effective date of any notice hereunder shall be the date of receipt by the receiving Party.

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If to Omeros:

Omeros Corporation
1420 Fifth Avenue
Suite 2600
Seattle, WA 98101
U.S.A.

Attention: CEO
And copy to: General Counsel

Fax: 206.676.5005
Phone: 206.676.5000

If to Affitech:

Affitech AS
Oslo Research Park
Gaustadalléen 21
N-0349 Oslo
Norway

Attention: CEO

Fax: +47 22 95 83 58
Phone: +47 22 95 87 58

And a copy to:
Affitech USA, Inc.
2855 Mitchell Drive, Suite 106
Walnut Creek, CA 94598
USA
Attention: President

Fax: 925.465.7059
Phone: 925.465.7058

14 **Miscellaneous**

- 14.1 **Integration.** This Agreement including the Initial Research Plan and any Additional Research Plan(s), appendices and exhibits attached thereto or incorporated by reference therein constitutes the entire understanding of the Parties hereto regarding the subject matter of this Agreement, and no other representation, agreement, promise or undertaking altering, modifying, taking from or adding to the terms of this Agreement shall have any effect unless the same is reduced to writing and duly executed by the Parties hereto. In the event of any conflict between the main body of this Agreement and any attachments thereto or documents incorporated by reference therein, the provisions of the main body of this Agreement shall control.
- 14.2 **No Waiver.** Either Party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.
- 14.3 **Governing Law.** The laws of the state of California, United States, without regard to its conflict-of-laws provisions, shall govern this Agreement, its interpretation and its enforcement, and any disputes arising out of or related to this Agreement.
- 14.4 **Arbitration.** The Parties agree that, except as provided herein below, any claim or controversy arising out of or relating to this Agreement or breach thereof shall be settled by arbitration in the state of California, United States, in accordance with the commercial rules of

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the American Arbitration Association by a panel of three arbitrators, one selected by each Party and the third selected by the other two arbitrators. In any such arbitration proceeding, judgment upon the award rendered by the arbitrator shall be final and binding upon the Parties and may be entered by either Party in any court or forum of competent jurisdiction as provided herein below. Notwithstanding the foregoing, both Parties agree that any claims or controversies concerning the infringement, validity or enforceability of any Intellectual Property Rights, or the actual or threatened disclosure or misuse of any Confidential Information, may alternately be resolved by a civil action in the court of competent jurisdiction specified in Subsection 14.5 herein below, and both Parties further agree that each shall retain the right to seek injunctive relief in the court of competent jurisdiction specified in Subsection 14.5 herein below to prevent a breach, threatened breach or continuing breach of this Agreement that would cause irreparable injury, including, without limitation, breaches of confidentiality, infringement of Intellectual Property Rights or breach of Subsection 7.4 herein above [†].

- 14.5 **Jurisdiction and Venue.** Any civil action prosecuted or instituted by either Party as permitted herein above with respect to any matters arising out of or related to this Agreement shall be brought in either the United States District Court located in the state of California, United States (if federal subject matter jurisdiction therein lies) or the Superior Courts in the state of California, United States (only if there is no subject matter jurisdiction in federal court), and each Party hereby consents to the exclusive jurisdiction and venue of such courts for such purposes.
- 14.6 **Attorney's Fees.** In the event that it is necessary for either Party to take legal action to enforce any of the terms, conditions or rights contained herein, or to defend any such action, then the prevailing Party in such action shall be entitled to recover from the other Party all reasonable attorneys fees, costs and expenses related to such legal action.
- 14.7 **Severability.** In the event that any portion of this Agreement is held invalid or unenforceable by a court of law, that provision will be construed and reformed to permit enforcement of the provision to the maximum extent permissible consistent with the Parties' original intent, and if such construction is not possible, such provision shall be struck from this Agreement, and the remainder of the Agreement shall remain in full force and effect as if such provision had never been part of this Agreement.
- 14.8 **Independent Contractors.** For the purposes of this Agreement, the Parties hereto are independent contractors, and nothing in this Agreement shall be construed to place them in the relationship of partners, principal and agent, employer/employee or joint venturers. Except as provided expressly herein, each Party agrees that it shall have no authority to bind or obligate the other Party, nor shall any Party hold itself out as having such authority.
- 14.9 **Force Majeure.** Neither Party will be liable for failure or delay in performing any obligation under this Agreement, or will be considered in breach of this Agreement, if such failure or delay is due to a natural disaster or any cause reasonably beyond such Party's control, provided that such Party resumes performance as soon as possible following the

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end of the event that caused such delay or failure of performance.

14.10 **Assignment.** Neither Party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other Party's prior written consent, which consent will not be unreasonably withheld. This Section shall not be construed in any way to limit Omeros' rights to grant, at Omeros' sole discretion, sublicenses hereunder. Affitech hereby consents to Omeros' assignment of this Agreement in whole or in part to any successor in interest to Omeros as part of a merger, acquisition, other change of control or together with a sale, transfer or other conveyance of all or substantially all of that part of Omeros' assets that pertain to this Agreement. Each Party's obligations and rights under this Agreement will be binding upon and will inure to the benefit of the Parties' permitted successors and assignees.

14.11 **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be considered an original, and all of which will constitute the same instrument.

This Agreement is accepted and acknowledged by each Party through the signature of its authorized representative below:

AFFITECH AS

By: /s/ Martin Welschof

Name: Martin Welschof, Ph.D.

Title: Chief Executive Officer

Facsimile: +47 22 95 83 58

OMEROS CORPORATION

By: /s/ Gregory A. Demopoulos

Name: Gregory A. Demopoulos, M.D.

Title: Chairman & CEO

Facsimile: 206 676 5005

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**Exhibit A to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES
Initial Research Plan**

July 25, 2008

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Exhibit A (attached to Agreement for Antibody Discovery and Development)

July 25, 2008

**Omeros-Affitech — Initial Research Plan
to Isolate Human Antibodies against MASP-2**

- 1. Goal:** To generate high-affinity human antibodies specific for human MASP-2 with functional blocking activity, as evidenced by their ability to inhibit activation of the complement system through the lectin pathway.
- 2. Required functionality:** [†].
[†].
[†].
- 3. Required specificity profile:** [†].
[†].
- 4. Required cross-reactivity profiles:** [†].
[†].
- 5. Technical Considerations**
- 5.1 [†].

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5.2 Reagents to be delivered to Affitech by Omeros:

- [†].
- [†].
- [†].
- [†].
- [†].
- [†].

5.3 Assays:

Assays to be run at Affitech:

- [†].
- [†].
- [†].
- [†].
- [†].

Assays to be run at Omeros:

- [†].
- [†].
- [†].

5.4 [†]:

- [†].
- [†].
- [†].
- [†].

5.5 [†]:

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[†].

5.6 [†]:

[†].

5.7 [†]:

Affitech shall exert [†] to generate one or more of the [†].

If Omeros elects to have Affitech complete optional [†].

5.8 [†]:

[†].

[†].

6. Deliverables:

Milestone-I: Following completion of [†].

Milestone-II: [†].

If Omeros elects and directs Affitech in writing to have Affitech complete [†].

Deliverable data and reagents: [†].

7. Timelines for Arriving at Specific Milestones at Affitech:

Milestone I: [†].

[†].

Milestone II: [†].

[†].

Summary Research Plan

<u>Items</u>	<u>Main task</u>	<u>Sub tasks</u>	<u>Deliverables</u>	<u>Timeline</u>
1	Protocol development.			[†]

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<u>Items</u>	<u>Main task</u>	<u>Sub tasks</u>	<u>Deliverables</u>	<u>Timeline</u>
2	[†]	[†]	[†]	[†]
3	[†]			[†]
4	[†]	[†]	[†]	[†]
5	[†]	[†]	[†]	[†]
6	[†]	[†]	[†]	[†]

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The above research plan is accepted and acknowledged by each Party through the signature of its authorized representative below, and is effective as of this 25th day of July, 2008.

AFFITECH AS

OMEROS CORPORATION

By: /s/ Martin Welschof

By: /s/ Gregory A. Demopoulos

Name: Martin Welschof, Ph.D.

Name: Gregory A. Demopoulos, M.D.

Title: Chief Executive Officer

Title: Chairman & CEO

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Exhibit B to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES

[†]
[†]
[†]
[†]
[†]
[†]
[†]
[†]

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EXCLUSIVE TECHNOLOGY OPTION AGREEMENT

THIS EXCLUSIVE TECHNOLOGY OPTION AGREEMENT (the "**Agreement**") is made and entered into as of September 4, 2008 by and among Omeros Corporation, a Washington corporation ("**Omeros**"), Patobios Limited, a corporation incorporated under the laws of the Province of Ontario ("**Patobios**"), Susan R. George, M.D. ("**Dr. George**") and Brian F. O'Dowd, Ph.D. ("**Dr. O'Dowd**") and, with respect to Article VIII and Article X only, U.S. Bank National Association, as escrow agent (the "**Escrow Agent**"). Dr. George and Dr. O'Dowd are referred to herein each as a "**Founder**" and collectively as the "**Founders**."

RECITALS

A. The Boards of Directors of each of Omeros and Patobios believe it is in the best interests of each corporation and its respective shareholders that Patobios grant Omeros the exclusive option to acquire the MOCA Technology in accordance with the terms of this Agreement for the Acquisition Price during the Option Period and, in furtherance thereof, have approved this Agreement and all transactions contemplated by the Agreement.

B. In addition, Omeros has agreed that if during the Option Period the MOCA Technology meets the De-Orphanization Milestone, Patobios may require that Omeros purchase the MOCA Technology for the Acquisition Price.

C. If Omeros purchases the MOCA Technology, a portion of the Acquisition Price otherwise payable by Omeros shall be placed in escrow by Omeros as security for the indemnification obligations set forth in this Agreement.

D. Patobios and the Founders, on the one hand, and Omeros, on the other hand, desire to make certain representations, warranties, covenants and other agreements in connection with the Agreement.

E. Concurrent with the execution and delivery of this Agreement, as a material inducement for all of the parties to enter into this Agreement, Patobios is entering into a Consulting Agreement in substantially the form attached hereto as **Exhibit A** (the "**Consulting Agreements**") with Omeros.

NOW, THEREFORE, in consideration of the mutual agreements, covenants and other premises set forth herein, the mutual benefits to be gained by the performance thereof, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and accepted, the parties hereby agree as follows:

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ARTICLE I

DEFINITIONS

For all purposes of this Agreement, the following terms shall have the following respective meanings:

1.1 “**Acquisition Price**” means an amount equal to (i) seven million seven hundred sixteen thousand (\$7.716MM) CAD less any Option Fee Credit, plus (ii) the Stock Consideration, plus (iii) if Omeros paid Option Fee Two, the Patent Fee Amount (but only to the extent that the Patent Fee Amount reduced Option Fee Two).

1.2 “**Agent Indemnification Expenses**” has the meaning set forth in Section 8.4(j)(viii).

1.3 “**Agreement**” means this Exclusive Technology Option Agreement.

1.4 Omeros shall be deemed to be “**Bankrupt**” if it goes into liquidation, or seeks the benefit of any bankruptcy or insolvency act, or a receiver or trustee is appointed for its property or estate, or it makes an assignment of all assets for the benefit of creditors, whether any of such events are the outcome of a voluntary act of Omeros or otherwise, and such procedures are not terminated within ninety (90) days.

1.5 “**Business Day[s]**” shall mean each day that is not a Saturday, Sunday or holiday on which banking institutions located in Seattle, Washington are authorized or obligated by law or executive order to close.

1.6 “**CAD**” means Canadian dollar(s).

1.7 “**Closing**” has the meaning set forth in Article VI.

1.8 “**Closing Date**” has the meaning set forth in Article IV.

1.9 “**Common Share Amount**” means a number of shares of Omeros Common Stock equal to the quotient obtained by dividing (x) the Stock Exchange Rate, by (y) the USD Trading Price.

1.10 “**Compound Fee**” has the meaning set forth in Section 7.2.

1.11 “**Conflict**” has the meaning set forth in Section 4.5.

1.12 “**Contract**” and “**Contracts**” have the meanings set forth in Section 4.5.

1.13 “**Deductible Amount**” has the meaning set forth in Section 8.4(b).

1.14 “**De-Orphanization Milestone**” means Omeros’ successful surrogate de-orphanization of an orphan G protein-coupled receptor (“**GPCR**”) using the MOCA Technology as

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described in the Plan for MOCA Evaluation. A “successful surrogate de-orphanization” means the identification of [†].

1.15 “**Enforcement Proceeds**” has the meaning set forth in Section 3.7(b).

1.16 “**Escrow Amount**” shall mean a dollar amount equal to one million five hundred thousand (\$1,500,000) CAD.

1.17 “**Escrow Distribution Notice**” has the meaning set forth in Section 8.4(d)(iii).

1.18 “**Escrow Fund**” has the meaning set forth in Section 8.4(a).

1.19 “**Escrow Period**” has the meaning set forth in Section 8.4(d).

1.20 “**Escrow Termination Date**” has the meaning set forth in Section 8.4(d)(ii).

1.21 “**Exchange Act**” has the meaning set forth in Section 5.5.

1.22 “**Exercise Notice**” has the meaning set forth in Section 3.2.

1.23 “**Expert Expenses**” has the meaning set forth in Section 3.3(a).

1.24 “**Governmental Entity**” has the meaning set forth in Section 4.6.

1.25 “**Indemnified Parties**” has the meaning set forth in Section 8.2(a).

1.26 “**Improvements**” means any and all improvements, advances, modifications, developments or enhancements to the Assays, whether or not patentable.

1.27 “**Indemnity Exchange Rate**” has the meaning set forth in Section 8.4(f).

1.28 “**Initial Escrow Holdback Amount**” has the meaning set forth in Section 8.4(d)(i).

1.29 “**Initial Escrow Termination Date**” has the meaning set forth in Section 8.4(d)(i).

1.30 “**Intellectual Property**” means any or all of the following (a) inventions (whether or not patentable), discoveries, improvements, and technology, (b) patents, patent applications, utility models, (c) copyrights and works of authorship including, without limitation, computer programs, source code, and executable code, whether embodied in software, firmware or otherwise, architecture, documentation, designs, files, records, and data (if any), (d) proprietary and confidential information, trade secrets, techniques and know how, (e) databases (if any), data compilations and collections and technical data, (f) logos, trade names, trade dress, trademarks and service marks and associated goodwill, (g) domain names, web addresses and sites and (h) tools, methods and processes.

1.31 “**Lien**” has the meaning in set forth in Section 3.4.

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1.32 “**Listed Disclosures**” has the meaning set forth in Section 4.12.

1.33 “**Loss**” and “**Losses**” have the meanings set forth in Section 8.2(a).

1.34 “**MOCA Technology**” means all rights and interest in and title (a) to assays conceived, invented, reduced to practice and/or developed by or under the direction of either or both of the Founders and/or Patobios for the identification of transmembrane protein-interacting molecules (the “**Assays**”), commonly referred to by the Founders as the Multipurpose Original Cellular Assay (“**MOCA**”), all Improvements of such Assays, and all Intellectual Property owned, controlled by or licensed (if applicable) to the Founders, Patobios and/or Toronto related to such Assays and Improvements, including, without limitation, the invention(s) and technology disclosed and/or claimed in International PCT Patent Application PCT/CA03/00542 published as WO 03/087836 A1 as well as all Patents and Patent Applications from which such International PCT Patent Application claims priority and all corresponding national and regional Patent Applications including, without limitation, US Patent 7,309,576, US Patent Application 11/937,275, AU 3218586, EP 03711772.8, MX 2004PA011134, JP 2003000584728, CA 2003002521946, NZ 536063, RU 2004133035, CN 03808297.7, IN 3528/DELNP/2004 and HK 05105861.0, all continuation, continuation-in-part and divisional applications claiming priority from such Patents and Patent Applications and all patents issuing from such Patent Applications, (b) all rights in know-how, trade secrets and techniques related to such Assays and Improvements, (c) to all of Patobios’ and the Founders’ rights in any and all Improvements made, in whole or in part, by or under the direction of Patobios, any Founder, Omeros and/or a Third Party (as defined in Section 3.1(b) before, during or after the Option Period, including, by way of nonlimiting example, the location of the nuclear localization sequence in the Assays, and (d) all trademark and service mark rights, application, registrations and good will related to the MOCA Technology including the mark MOCA. The term “MOCA Technology” does not and, if Omeros purchases the MOCA Technology, shall not include, any liabilities of Patobios.

1.35 “**New Data**” has the meaning set forth in Section 3.5.

1.36 “**Non-U.S. Person**” has the meaning set forth in Section 4.18(c).

1.37 “**Officer’s Certificate**” has the meaning set forth in Section 8.4(b).

1.38 “**Omeros SEC Documents**” has the meaning set forth in Section 5.5.

1.39 “**Option Fee**” means each of Option Fee One, Option Fee Two and Option Fee Three (as such terms are defined in Article II).

1.40 “**Option Fee Credit**” means an amount in CAD equal to the product obtained by multiplying (x) the Option Fee for the Option Period in which Omeros gives the Exercise Notice (as defined in Section 3.2), by (y) the quotient obtained by dividing the number of days remaining in such Option Period following the date of the Exercise Notice by the total number of days in such Option Period.

1.41 “**Option Fee One**” has the meaning set forth in Section 2.1.

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1.42 “**Option Fee Three**” has the meaning set forth in Section 2.3.

1.43 “**Option Fee Two**” has the meaning set forth in Section 2.2.

1.44 “**Option Fee Refund**” means an amount in CAD equal to the product obtained by multiplying (x) the Option Fee for the Option Period in which Omeros provides Patobios notice of termination of this Agreement pursuant to Section 9.1(b) or Section 9.1(d), by (y) the quotient obtained by dividing the number of days remaining in such Option Period following the date of the notice of termination by the total number of days in such Option Period; provided, however, that if Omeros provides the notice of termination (i) during Option Period One or (ii) at any time when it is deemed to be Bankrupt, then the Option Fee Refund shall be \$0.

1.45 “**Option Period**” means each of (a) Option Period One, (b) Option Period Two, but only if Omeros has paid Option Fee Two in accordance with Section 2.2, and (c) Option Period Three, but only if Omeros has paid Option Fee Three in accordance with Section 2.3.

1.46 “**Option Period One**” has the meaning set forth in Section 2.1.

1.47 “**Option Period Three**” has the meaning set forth in Section 2.3.

1.48 “**Option Period Two**” has the meaning set forth in Section 2.2.

1.49 “**Order**” has the meaning set forth in Section 8.4(j)(ii).

1.50 “**Patent Action**” has the meaning set forth in Section 3.6(b).

1.51 “**Patent Applications**” has the meaning set forth in Section 3.6(a).

1.52 “**Patent Fee Amount**” means, as of immediately prior to the payment by Omeros of Option Fee Two (if applicable), fifty percent (50%) of the aggregate amount of fees and other expenses incurred by the Founders and Patobios for which Omeros is obligated to reimburse the Founders and Patobios pursuant to Section 3.6.

1.53 “**Patents**” has the meaning set forth in Section 3.6(a).

1.54 “**Patobios Capital Stock**” has the meaning set forth in Section 4.2.

1.55 “**Payment Date**” means the date that Omeros pays an Option Fee or the Acquisition Price (as applicable) to Patobios.

1.56 “**Payment Instructions**” means the written payment instructions executed by Patobios and delivered to Omeros prior to a Payment Date that provide delivery instructions for the Option Fee or the Acquisition Price (including the Stock Consideration), as applicable, that may be paid by Omeros to Patobios on such Payment Date.

1.57 “**Preferred Share Amount**” means a number of shares of Omeros’ latest (relative to the Closing Date (as defined in Article IV)) series of preferred stock (the “**Preferred Stock**”) equal

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to the quotient obtained by dividing (x) the Stock Exchange Rate, by (y) the price per share at which Omeros last sold (prior to the Closing Date) the Preferred Stock in an arms-length transaction, as evidenced in the most recent (relative to the Closing Date) executed stock purchase agreement related to such sale that shall be provided by Omeros to Patobios.

1.58 "**Plan for MOCA Evaluation**" means a written research plan for the further evaluation and potential validation of the MOCA Technology by or on behalf of Omeros, as agreed and as maybe amended from time to time by Patobios and Omeros in writing in a separate document, the provisions of which shall include the De-Orphanization Milestone as defined herein.

1.59 "**Pro Rata Portion**" has the meaning set forth in Section 8.3.

1.60 "**Public Market**" means any securities trading markets on which Omeros Common Stock is listed including, without limitation, AMEX, AIM, NASDAQ, NYSE and OTCBB. If Omeros Common Stock is listed on more than one market, then Public Market shall mean the market with the greatest trading volume of Omeros Common Stock as measured during the same period that the USD Trading Price is determined.

1.61 "**Put Notice**" has the meaning set forth in Section 3.3(a).

1.62 "**Put Objection Notice**" has the meaning set forth in Section 3.3(a).

1.63 "**Regulation S**" has the meaning set forth in Section 4.18(b)(ii).

1.64 "**Restricted Period**" has the meaning set forth in Section 4.18(b)(iv).

1.65 "**Scientific Expert**" has the meaning set forth in Section 3.3(a).

1.66 "**SEC**" has the meaning set forth in Section 5.5.

1.67 "**Seller**" and "**Sellers**" have the meanings set forth in Article IV.

1.68 "**Seller Representative**" has the meaning set forth in Section 8.5(a).

1.69 "**Shares**" has the meaning set forth in Section 4.18(b)(i).

1.70 "**Stock Consideration**" means (a) if Omeros Common Stock is traded on a Public Market as of the Closing Date, the Common Share Amount or (b) if Omeros Common Stock is not traded on a Public Market as of the Closing Date, the Preferred Share Amount.

1.71 "**Stock Exchange Rate**" means the product obtained by multiplying (x) three million (\$3.0MM) CAD, by (y) the average daily noon USD to CAD exchange rate for the month preceding the month of the Closing Date as quoted by the The Federal Reserve Board of the United States (or the Bank of Canada if The Federal Reserve Board does not quote such average daily noon rate). For purposes of illustration, if the preceding month average daily noon USD to CAD exchange rate is \$1.10 USD to \$1 CAD, then the Stock Exchange Rate would be \$3.3 million USD.

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1.72 “**Survival Date**” has the meaning set forth in Section 8.1.

1.73 “**Third Party**” has the meaning set forth in Section 3.1(b).

1.74 “**Third Party Claim**” has the meaning set forth in Section 8.4(i).

1.75 “**Toronto**” means The Governing Council of the University of Toronto.

1.76 “**Toronto Agreements**” means, collectively, the Toronto Assignment and the Toronto Consent.

1.77 “**Toronto Assignment**” has the meaning set forth in Section 4.17.

1.78 “**Toronto Consent**” means the written consent of Toronto to the transactions contemplated by this Agreement in the form attached hereto as **Exhibit B**, which shall be executed by Toronto and delivered to Omeros simultaneously with the execution of this Agreement.

1.79 “**United States**” has the meaning set forth in Section 4.18(c).

1.80 “**Unresolved Claims**” has the meaning set forth in Section 8.4(d).

1.81 “**U.S. Person**” has the meaning set forth in Section 4.18(c).

1.82 “**USD**” means U.S. dollar(s).

1.83 “**USD Trading Price**” shall mean the average closing sale price (in USD) of one share of Omeros Common Stock as reported on the Public Market for the thirty (30) consecutive trading days (or, if applicable, such shorter period of time that the average closing sales price has been reported on the Public Market) ending on the date that is three (3) trading days immediately preceding the Closing Date (as adjusted as appropriate to reflect any stock splits, stock dividends, combinations, reorganizations, reclassifications or similar events). For purposes of illustration, if the Closing Date falls on a Thursday, then the last day of such 30-day period shall be the prior Monday (assuming Monday, Tuesday and Wednesday are trading days).

1.84 “**USPTO**” has the meaning set forth in Section 4.15.

ARTICLE II

OPTION PERIOD

2.1 **Option Period One.** Promptly following the date of this Agreement, Omeros shall pay two hundred thousand (\$200,000) CAD (“**Option Fee One**”) in accordance with the Payment Instructions. As consideration for payment of Option Fee One, Omeros, the Founders and Patobios shall have the rights and obligations set forth in Article III of this Agreement during the period beginning on the date of this Agreement and ending at 5:00 p.m. Seattle time on June 4, 2009 (“**Option Period One**”).

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2.2 **Option Period Two.** If at any time during Option Period One, Omeros gives written notice to Patobios of its intent to extend the Option Period beyond the end of Option Period One, and by no later than the tenth (10) day following the last day of Option Period One, Omeros pays, in accordance with the Payment Instructions, an additional amount equal to (i) six hundred fifty thousand (\$650,000) CAD less (ii) the Patent Fee Amount ("**Option Fee Two**"), then the Option Period shall be extended for the period beginning at 5:00 pm Seattle time on the last day of Option Period One and ending at 5:00 p.m. Seattle time on December 4, 2009 (the "**Option Period Two**"). During Option Period Two, Omeros, the Founders and Patobios shall have the rights and obligations set forth in Article III of this Agreement.

2.3 **Option Period Three.** If at any time during Option Period Two, Omeros gives written notice to Patobios of its intent to extend the Option Period beyond the end of Option Period Two, and by no later than the tenth (10) day following the last day of Option Period Two, Omeros pays an additional six hundred fifty thousand (\$650,000) CAD ("**Option Fee Three**") in accordance with the Payment Instructions, then the Option Period shall be extended for the period beginning at 5:00 p.m. Seattle time on the last day of Option Period Two and ending at 5:00 p.m. Seattle time on June 4, 2010 (the "**Option Period Three**"). During Option Period Three, Omeros, the Founders and Patobios shall have the rights and obligations set forth in Article III of this Agreement.

ARTICLE III

OPTION PERIOD RIGHTS AND OBLIGATIONS

During the Option Period, as such may be extended by Omeros pursuant to Section 2.2 and Section 2.3, Omeros, Patobios and the Founders shall have the rights and shall strictly comply with their respective obligations set forth in this Article III. None of Omeros, Patobios or the Founders shall have any of the rights or obligations set forth in this Article III following the expiration of the Option Period or the termination of this Agreement in accordance with Section 9.1; provided, however, (a) that if an Exercise Notice or a Put Notice is provided within the Option Period, then the Option Period shall automatically extend until the earlier of the Closing Date and the termination of this Agreement in accordance with Section 9.1, (b) Omeros, on the one hand, and Patobios and the Founders, on the other hand, shall be liable to each other for up to a maximum amount equal to the aggregate gross proceeds paid by Omeros under this Agreement (including, without limitation, for any payments made by Omeros pursuant to Section 3.6) for any breach of any covenant to be performed by any such party pursuant to this Article III that occurred during the Option Period, except in the case of fraud or willful breach of any such covenant by such party in which case such liability shall not be so limited (provided, that for purposes of this subsection (b), if Omeros purchases the MOCA Technology pursuant to this Agreement, then the liability of Omeros, Patobios and the Founders shall instead be subject to limitations in Article VIII), and (c) nothing herein shall limit the liability of a party for its fraud or willful breach of any covenant to be performed by such party pursuant to this Article III that occurred during the Option Period.

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3.1 MOCA Technology Evaluation.

(a) **Omeros Evaluation.** During the Option Period, Omeros shall have the exclusive right to evaluate and test, and have evaluated and tested, the MOCA Technology as provided for in the Plan for MOCA Evaluation. Unless Patobios or a Founder provides advance written consent, Omeros shall not use the MOCA Technology except as provided in and envisioned by the Plan for MOCA Evaluation during the Option Period. Any and all Improvements made by or on behalf of Omeros or by Patobios or a Founder during the Option Period shall be owned solely by Patobios, subject to conveyance to Omeros of all right, title and interest in and to such Improvements as part of any purchase of the MOCA Technology by Omeros in accordance with Section 3.2. At the end of each defined evaluation or test phase of any study being performed as part of the Plan for MOCA Evaluation, Omeros shall prepare, or have prepared, written reports describing the results from the evaluation and testing of the MOCA Technology by or on behalf of Omeros, including, without limitation, the results of attempts to achieve the De-Orphanization Milestone, which reports shall be promptly communicated in writing to Patobios.

(b) **Third Party Evaluation.** During the Option Period, Omeros shall have the right to engage one or more third parties (each a “Third Party”) to conduct testing of the MOCA Technology in accordance with the Plan for MOCA Evaluation on Omeros’ behalf and at Omeros’ expense, provided that Omeros shall (a) disclose to Patobios the identity of each Third Party and what portion(s) of the Plan for MOCA Evaluation each Third Party is conducting on behalf of Omeros and (b) enter into a written agreement with each Third Party pursuant to which such Third Party shall agree that any Improvements made by such Third Party shall be initially owned solely by Patobios and that any written study reports to be prepared by such Third Party at the end of each defined evaluation or test phase of any study being performed as part of the Plan for MOCA Evaluation shall be provided contemporaneously to Patobios and Omeros. Omeros shall not use a Third Party to conduct testing of the MOCA Technology until Patobios shall have been given the opportunity to review and approve those portions of Omeros’ agreement with the Third Party that are intended to comply with Omeros’ obligations pursuant to this Section 3.1(b), provided that Patobios shall not unreasonably withhold or delay its review and approval of those portions of such agreement.

(c) **Patobios Research.** During the Option Period, Patobios and the Founders shall promptly disclose to Omeros the data from and results of all further research, development, test, evaluation, screening or surrogate de-orphanization activities performed by Patobios, the Founders or any third party, to the extent permitted in accordance with this Agreement, using or related to the MOCA Technology.

3.2 **Omeros’ Option to Purchase.** At any time during the Option Period, Omeros shall have the sole and exclusive right to purchase, and may exercise such right to purchase, and Patobios hereby grants Omeros the sole and exclusive right to purchase, the MOCA Technology from Patobios by (a) delivering written notice to Patobios of its intent to purchase the MOCA Technology (“Exercise Notice”) and (b) paying the Acquisition Price in accordance with the Payment Instructions on the Closing Date (subject to Section 8.4), which shall not be less than thirty (30)

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days, nor more than sixty (60) days, from the date of the Exercise Notice, on which Closing Date Patobios shall sell to Omeros all right, title and interests in and to the MOCA Technology; provided, however, that Omeros' right to purchase, and Patobios' obligation to sell, the MOCA Technology pursuant to this Section 3.2 shall be subject to the fulfillment or waiver (as permitted) on or before such Closing Date of the conditions set forth in Article VI, and should one party fail to fulfill any obligation of such party that is a condition for Closing set forth in Article VI, the other party may elect upon written notice to delay the Closing Date until such obligation has either been fulfilled or such other party waives the associated condition.

3.3 Patobios' Right to Sell.

(a) **Put Notice.** If at any time during the Option Period Patobios or the Founders receive test results evidencing that Omeros has achieved the De-Orphanization Milestone (whether such test results are provided by Omeros, a Third Party or any other person participating in the testing of the MOCA Technology under the direction of Omeros), Patobios at its sole option may require Omeros to purchase the MOCA Technology from Patobios for the Acquisition Price by delivering written notice thereof to Omeros ("**Put Notice**"), provided that such Put Notice must be given to Omeros within twenty (20) days of Patobios' or the Founders' receipt of test results evidencing achievement of the De-Orphanization Milestone. If Omeros does not give Patobios and the Founders a written objection ("**Put Objection Notice**") to the Put Notice within twenty (20) days of receipt thereof, Omeros shall pay the Acquisition Price in accordance with the Payment Instructions on the Closing Date (subject to Section 8.4), which shall not be less than thirty (30) days, nor more than sixty (60) days, from its receipt of the Put Notice. If Omeros gives a Put Objection Notice to Patobios and the Founders, then, Patobios, the Founders and Omeros shall meet promptly thereafter to review the results of the testing of the MOCA Technology and in good faith attempt to determine together whether the De-Orphanization Milestone was achieved, utilizing a mutually selected and agreed scientific expert (a "**Scientific Expert**"), and Omeros will not be required to pay the Acquisition Price unless Omeros and Patobios agree in writing that the De-Orphanization Milestone was achieved, in which case Omeros shall pay (i) the expenses of the Scientific Expert (the "**Expert Expenses**") and (ii) the Acquisition Price in accordance with the Payment Instructions on the Closing Date (subject to Section 8.4), which shall not be less than thirty (30) days, nor more than sixty (60) days, from the date of such written agreement. If after utilizing a Scientific Expert, Omeros and Patobios agree in writing that the De-Orphanization Milestone was not achieved, then Patobios will pay the Expert Expenses. If after good faith negotiations Omeros and Patobios are not able to reach a mutual agreement within sixty (60) days of the date of the Put Objection Notice as to whether the De-Orphanization Milestone was achieved, the Founders may submit such dispute to arbitration in accordance with Section 3.3(b) of this Agreement; provided that if the Founders do not submit such dispute to arbitration within seventy (70) days of the date of the Put Objection Notice, then the applicable Put Notice shall be void and have no force or effect pursuant to this Agreement. Omeros' obligation to purchase, and Patobios and the Founders' right to sell, the MOCA Technology pursuant to this Section 3.3 shall be subject to the fulfillment or waiver (as permitted) on or before such Closing Date of the conditions set forth in Article VI, and should one party fail to fulfill any obligation of such party that is a condition for Closing set forth in Article VI, the other party may elect upon written notice to delay the Closing Date until such obligation has either been

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fulfilled or such other party waives the associated condition. The delivery or non-delivery of a Put Objection Notice, any disagreement about whether the De-Orphanization Milestone has been achieved and/or any determination that the De-Orphanization Milestone has not been achieved, shall not suspend or terminate an Option Period or the parties' respective rights and obligations during such Option Period including, without limitation, Omeros' continued right to purchase the MOCA Technology during the Option Period as provided in Section 3.2.

(b) **Arbitration.** Any dispute submitted to arbitration pursuant to Section 3.3(a) shall be settled by arbitration conducted by one arbitrator mutually agreeable to Omeros and Patobios. In the event that, within thirty (30) days after submission of any dispute to arbitration, Omeros and Patobios cannot mutually agree on one arbitrator, then, within fifteen (15) days after the end of such thirty (30)-day period, Omeros and Patobios shall each select one arbitrator. The two arbitrators so selected shall select a third arbitrator. If Patobios fails to select an arbitrator during this fifteen (15) day period, then the parties agree that the arbitration will be conducted by one arbitrator selected by Omeros. Any arbitration shall be held in King County, Washington, under the rules then in effect of the American Arbitration Association. The arbitrator(s) shall determine how all expenses relating to the arbitration shall be paid, including, without limitation, the respective expenses of each party, the fees of each arbitrator and the administrative fee of the American Arbitration Association. The arbitrator or arbitrators, as the case may be, shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator or majority of the three arbitrators, as the case may be, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator, or a majority of the three arbitrators, as the case may be, shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrators or a majority of the three arbitrators, as the case may be, determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to whether the De-Orphanization Milestone was achieved shall be final, binding, and conclusive upon the parties to this Agreement. Such decision shall be written and shall be supported by written findings of fact and conclusions. If the decision of the arbitrator(s) is that the De-Orphanization Milestone was achieved, then Omeros shall pay (i) the Expert Expenses and (ii) the Acquisition Price in accordance with the Payment Instructions on the Closing Date (subject to Section 8.4), which shall not be less than thirty (30) days, nor more than sixty (60) days, from the date of such decision, provided that Patobios and the Founders have fulfilled, or Omeros has waived, the conditions set forth in Article VI. If the decision of the arbitrator(s) is that the De-Orphanization Milestone was not achieved as claimed in the Put Notice, then the Put Notice shall be disregarded and this Agreement shall continue in full force and effect in accordance with its terms and Patobios shall pay the Expert Expenses. Judgment upon any award rendered by the arbitrator(s) may be entered in any court having jurisdiction.

3.4 **No-Sale Obligations.** During the Option Period, none of Patobios or the Founders may enter into any written or oral agreement with any person or entity other than Omeros (a) providing for the sale or other transfer of any equity interest in Patobios or the MOCA Technology,

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(b) providing for the acquisition of Patobios or the MOCA Technology or any interest in either thereof, whether by merger, amalgamation, share exchange, recapitalization, consolidation, liquidation, stock sale, option, purchase of assets, license, tender offer or otherwise or (c) that may result in any lien, pledge, charge, claim, mortgage, security interest or other encumbrance of any sort (a "Lien") being placed on Patobios, the MOCA Technology or any intellectual property or other right included in the MOCA Technology and each of Patobios and the Founders shall take all such action as shall be necessary to avoid any Lien being placed on Patobios, the MOCA Technology or any intellectual property or other right included in the MOCA Technology. Patobios and the Founders are not prohibited from soliciting offers to purchase Patobios or to purchase or license the MOCA Technology during the Option Period from third parties, provided that (i) any of such efforts shall be subject to all of the terms and conditions of this Agreement, (ii) Omeros shall retain the sole and exclusive right to acquire the MOCA Technology during the Option Period by paying the Acquisition Price as described in Section 3.2, (iii) Patobios shall disclose in writing to Omeros the identity of any such third party that engages in any due diligence or other review of Patobios or the MOCA Technology concurrently with the beginning of such due diligence or other review and (iv) Patobios shall disclose to any such third party the existence of this Agreement and the obligations in this Section 3.4 (but none of Patobios or the Founders shall disclose any other terms of this Agreement).

3.5 Third-Party Use and Disclosure. During the Option Period, each of Patobios and the Founders shall not (a) allow or otherwise permit any other person or entity (other than Toronto as permitted pursuant to the Toronto Consent and Omeros and Third Parties) to use the MOCA Technology, or (b) publish, present or otherwise disclose, or permit any other person or entity to publish, present or otherwise disclose, to any person or entity (other than Omeros and Third Parties) any aspect of the Assays or the MOCA Technology, any Improvements, or any target- or compound-specific results of attempted surrogate de-orphanization using the MOCA Technology, including, without limitation, any reference to the location of the nuclear localization sequence (collectively "New Data"), to any person or entity (other than Omeros), that is not, as of the date of this Agreement as shown by Patobios' written records, already disclosed in prior scientific journal publications, published pending patent application(s) or issued patents included in the MOCA Technology, without Omeros' prior written consent. If Patobios or the Founders wish to publish, present or otherwise disclose, or permit any other person or entity to publish, present or otherwise disclose, any New Data, the Founders shall provide Omeros written notice including a copy of such intended publication, presentation or other disclosure at least sixty (60) days in advance of the earlier of the proposed submission of the New Data for publication or presentation or the proposed publication, presentation or other disclosure of the New Data to seek Omeros' consent to the proposed publication, presentation or other disclosure. Omeros' consent to the proposed publication, presentation or other disclosure may not be unreasonably withheld but may be withheld to preserve or protect rights in Intellectual Property or to preserve a competitive business advantage as determined by Omeros.

3.6 Patent Prosecution and Maintenance.

(a) During the Option Period and prior to Omeros' purchase of the MOCA Technology in accordance with this Agreement, the Founders and Patobios shall have the sole

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right to apply for, prosecute and maintain patents and patent applications for inventions included within the MOCA Technology (the “**Patents**” and the “**Patent Applications**”, respectively); provided, however, that (i) the Founders and Patobios shall consult with and keep Omeros timely informed of the status and progress of all Patent Applications and Patents, including the prompt delivery of copies of all official correspondence filed with or received from international, national and regional patent offices and patent counsel and advance notification of any proposed actions to be taken or foregone with respect to the Patents and the good faith consideration of all comments provided by Omeros, and the right for Omeros’ patent counsel to communicate directly with the Founders’ and Patobios’ patent counsel, (ii) Omeros shall reimburse the Founders and Patobios for all reasonable legal fees and government filing fees incurred by Patobios or the Founders during the Option Period for application, prosecution and maintenance of the Patent Applications and Patents; provided, however, that should the Founders or Patobios determine to undertake the filing of any Patent Application (including, without limitation, regional or national phase entry from an international patent application) for which Omeros does not wish to reimburse the Founders and Patobios, Omeros shall so notify the Founders and Patobios in writing, in which event Omeros shall be relieved of the obligation to reimburse the Founders and Patobios for such filing, and such filing shall be excluded from the MOCA Technology and (iii) the Founders and Patobios shall exert commercially reasonable efforts to diligently pursue all Patent Applications to issuance or a final determination of unpatentability.

(b) Patobios shall provide Omeros advance written notice of all upcoming actions required for the filing, prosecution and maintenance of the Patents and the Patent Applications (“**Patent Action**”), including a specific description of such Patent Action required, the deadline for taking such Patent Action to avoid loss of right, the good faith estimated cost of such Patent Action, and the patent office and patent attorney or patent agent communications addressing such Patent Action, promptly after Patobios becomes aware of the upcoming action and in any event, where possible, at least [†] days in advance of the deadline for completing such Patent Action (it being acknowledged by Omeros that such notice will be for shorter periods in circumstances where Patobios receives notice of a Patent Action and has less than [†] days to complete such Patent Action). Omeros shall, before the later of [†] days prior to the deadline for taking such Patent Action or [†] days following Omeros’ receipt of the notice of such Patent Action but in any event prior to the deadline for completing such Patent Action, provide Patobios a written response indicating either that Omeros (i) wishes Patobios to complete such patent Action, in which case Patobios shall timely complete or timely cause the completion of such Patent Action and Omeros shall be obligated to reimburse Patobios for Patobios’ documented third-party costs for completion of such Patent Action incurred during the Option Period and prior to Omeros’ purchase of the MOCA Technology as provided for in Section 3.6(a) or (ii) does not wish Patobios to complete or cause the completion of such Patent Action, in which event Omeros shall have no obligation to reimburse Patobios for any costs associated with such Patent Action and the specific Patent or Patent Application for which such Patent Action was requested shall thereafter be excluded from the MOCA Technology as provided in Section 3.6(c). Should Omeros fail to provide instructions within the time periods set forth in the foregoing sentence, Omeros shall be deemed to have timely instructed Patobios that Omeros wishes to have Patobios complete such Patent Action. Any instruction provided by Omeros with respect to completing a Patent Action for a specific Patent or Patent Application shall not obligate Omeros with respect to future

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additional Patent Actions that may be required for such specific Patent or Patent Application, which instead shall be addressed in turn in accordance with the procedures of this Section 3.6(b). Any reimbursement payable due to Patobios pursuant to Sections 3.6(a) and 3.6(b) shall be made by Omeros within [†] days from Omeros' receipt of an invoice from Patobios including supporting receipt or third party invoice documentation. With respect to Patent Actions for which Omeros has agreed to reimburse Patobios' for its costs, Omeros and Patobios may agree in advance for Omeros to be invoiced directly by third party service providers for authorized work, in which event Omeros shall make payment directly to such service providers within [†] days from Omeros' receipt of an invoice.

(c) The Founders and Patobios shall promptly provide written disclosure to Omeros of any inventions and Improvements included within the MOCA Technology promptly following the conception or reduction to practice of such inventions and Improvements.

3.7 Patent Enforcement.

(a) If any party learns of the infringement of any Patent, published Patent Application or other Intellectual Property right included in the MOCA Technology, such party shall promptly notify the other parties of such infringement in writing and will provide the other parties with all evidence of infringement in the notifying party's possession. All parties shall use their best efforts in cooperation with each other to terminate third party infringement without litigation.

(b) During the Option Period and prior to Omeros' purchase of the MOCA Technology in accordance with this Agreement, the Founders and Patobios shall have the sole right, after consulting with Omeros and considering in good faith all comments and suggestions from Omeros, to enforce the Patents, Patent Applications (to the extent enforceable) or other Intellectual Property right included in the MOCA Technology against any third party infringers at the sole cost and expense of Patobios. If after such consultation Patobios elects not to enforce the Patents, Patent Applications (to the extent enforceable) or other Intellectual Property Right included in the MOCA Technology, then Patobios shall immediately notify Omeros, in which event Omeros shall have the right, at its sole cost and expense, to enforce the Patents, Patent Applications (to the extent enforceable) or other Intellectual Property right included in the MOCA Technology against the third party infringer(s), in which event any award, judgment, settlement or damages collected ("**Enforcement Proceeds**") shall belong solely to Omeros without duty to account to any other party; provided, however, that if Omeros does not acquire the MOCA Technology prior to the expiration of the Option Period, then following the expiration of the Option Period Omeros shall pay to Patobios any Enforcement Proceeds it receives less an amount equal to Omeros' costs and expenses incurred in connection with such enforcement action. During the Option Period and prior to Omeros' purchase of the MOCA Technology, none of Patobios, the Founders or Omeros shall enter into any settlement, agreement or understanding invalidating, limiting or reducing the Patents, Patent Applications or other Intellectual Property rights in the MOCA Technology, or granting any license to any third party to the Patents, Patent Applications or other Intellectual Property rights in the MOCA Technology without the prior

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written consent of all of the other parties to this Agreement (other than the Escrow Agent), which consent shall not be unreasonably withheld.

3.8 **Post-Acquisition Use of the MOCA Technology.** Following the purchase by Omeros of the MOCA Technology pursuant to this Agreement, Patobios shall have no further right to use the MOCA Technology for any purpose, and the Founders shall have no further right to use the MOCA Technology for any purpose except for such retained non-commercial academic research use rights as may be enjoyed by the Founders by virtue of their employment by Toronto as provided for and in accordance with the terms of the Toronto Assignment and the Toronto Consent. Following the purchase by Omeros of the MOCA Technology pursuant to this Agreement, Patobios and the Founders shall have no right to and shall not publish, present or otherwise disclose, or permit any other person or entity to publish, present or otherwise disclose, any New Data unless expressly authorized by Omeros in advance in writing.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PATOBIOS AND THE FOUNDERS

Patobios and the Founders (each, a “**Seller**” and together, the “**Sellers**”), jointly and severally, hereby represent and warrant to Omeros on the date hereof and, if applicable, the date of the Closing (as defined in Article VI) (the “**Closing Date**”), as though made on the Closing Date, as follows:

4.1 **Organization.** Patobios is a corporation duly organized, validly existing and in good standing under the laws of the Province of Ontario. Patobios has the corporate power to own its properties and to carry on its business as currently conducted. Patobios is duly qualified or licensed to do business and in good standing in each jurisdiction in which the character or location of its assets or properties (whether owned, leased or licensed) or the nature of its business make such qualifications necessary.

4.2 **Capital Structure.** The authorized capital stock of Patobios consists of: an unlimited number of Class A Preference shares, six thousand (6,000) of which are issued and outstanding; an unlimited number of Class B Preference shares, four thousand (4,000) of which are issued and outstanding; an unlimited number of Class I common shares, six thousand (6,000) of which are issued and outstanding; and an unlimited number of Class II common shares, four thousand (4,000) of which are issued and outstanding (“**Patobios Capital Stock**”). Each Founder holds three thousand (3,000) Class A Preference shares, fifteen hundred (1,500) Class B Preference shares, three thousand Class I common shares and fifteen hundred (1,500) Class II common shares, and Toronto holds one thousand (1,000) Class B Preference shares and one thousand (1,000) Class II common shares. The Founders and Toronto are the only holders of Patobios Capital Stock. There are no options, warrants or other rights to purchase any outstanding Patobios Capital Stock or authorized and unissued Patobios Capital Stock

4.3 **Subsidiaries.** Patobios does not have and has never had any subsidiaries or affiliated companies and does not otherwise own and has never otherwise owned any shares of capital stock or

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any interest in, or control, directly or indirectly, any other corporation, limited liability company, partnership, association, joint venture or other business entity.

4.4 **Authority.** Patobios and each of the Founders has all requisite power and authority or capacity (as applicable) to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Patobios and no further action is required on the part of Patobios or the Founders to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly executed and delivered by Patobios and the Founders and assuming the due authorization, execution and delivery by the other parties hereto, constitutes the valid and binding obligations of Patobios and the Founders enforceable against each of them in accordance with its terms, except as such enforceability may be subject to the laws of general application relating to bankruptcy, insolvency, and the relief of debtors and rules of law governing specific performance, injunctive relief, or other equitable remedies.

4.5 **No Conflict.** The execution and delivery by Patobios and the Founders of this Agreement, and the consummation of the transactions contemplated hereby, will not conflict with or result in any violation of or default under (with or without notice or lapse of time, or both) or give rise to a right of termination, cancellation, modification or acceleration of any obligation or loss of any benefit under (any such event, a "**Conflict**") (i) any provision of the organizational documents of Patobios, (ii) except as set forth in the Toronto Agreements, any license, mortgage, indenture, lease, contract, covenant or other agreement, instrument or commitment, permit, concession, franchise or other license (each a "**Contract**" and collectively the "**Contracts**") to which Patobios or any of the Founders or any of their respective properties or assets (whether tangible or intangible) are bound, or (iii) any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Patobios or the Founders or any of their respective properties or assets (whether tangible or intangible). Patobios is in compliance with and has not breached, violated or defaulted under, or received notice that it has breached, violated or defaulted under, any of the terms or conditions of any Contract, nor does Patobios or any of the Founders have any knowledge of any event that would constitute such a breach, violation or default with the lapse of time, giving of notice or both. Omeros shall be able to evaluate and test the MOCA Technology during the Option Period in accordance with the Plan for MOCA Evaluation without the payment of any amounts or other consideration or without giving up any rights, except for those amounts and rights that are specifically set forth in this Agreement, including without limitation, any payments to be made by Omeros to a Third Party as contemplated in Section 3.1(b) and any other payments Omeros may of its own accord agree to make to any other Person. If Omeros acquires the MOCA Technology pursuant to this Agreement, the MOCA Technology and Omeros' ownership or use thereof will not be subject to any Contracts, rights, non-competition obligations, royalty payment obligations, assessments, fees or other obligations (other than pursuant to Contracts to which Omeros may be a party, or other obligations that Omeros has knowingly incurred).

4.6 **Consents.** Assuming the execution and delivery of the Toronto Consent by Toronto, no consent, notice, waiver, approval, order or authorization of, or registration, declaration or filing with any court, administrative agency or commission or other provincial, federal, state, county, local

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or other foreign governmental authority, instrumentality, agency or commission (each, a “**Governmental Entity**”) or any third party, including a party to any agreement with Patobios and/or the Founders (so as not to trigger any Conflict), is required by, or with respect to, Patobios or any of the Founders in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

4.7 **Tax Matters.** Patobios has not been advised in writing (i) that any of its tax returns have been or are being audited, or (ii) of any deficiency in assessment or proposed judgment with respect to its taxes. There are (and, if applicable immediately following the Closing Date there will be) no Liens on the assets of Patobios or the MOCA Technology relating to or attributable to taxes. Neither Patobios nor any Founder has knowledge of any basis for the assertion of any claim relating or attributable to taxes which, if adversely determined, would result in any Lien on the assets of Patobios including, without limitation, the MOCA Technology.

4.8 **Title to MOCA Technology; Absence of Liens and Encumbrance.** Patobios has good and valid title to the MOCA Technology, including, without limitation, the Assays, the Improvements, the Patents, the Patent Applications and all other rights set forth in Section 1.34, free and clear of any Liens except as set forth in the Toronto Agreements, and upon Omeros’ purchase of the MOCA Technology pursuant to this Agreement, title to the MOCA Technology, including, without limitation, the Assays, the Improvements, the Patents, the Patent Applications and all other rights set forth in Section 1.34, will be transferred to Omeros.

4.9 **Litigation.** There is no action, suit, claim or proceeding of any nature pending, or to the knowledge of Patobios or any of the Founders, threatened, against Patobios or any of the Founders, their properties (tangible or intangible) or any of Patobios’ officers or directors that relates directly or indirectly to the MOCA Technology, nor to the knowledge of Patobios or the Founders is there any reasonable basis therefor. There is no investigation or other proceeding pending or, to the knowledge of Patobios or any of the Founders, threatened, against Patobios or any of the Founders, any of their respective properties (tangible or intangible) or any of Patobios’ officers or directors by or before any Governmental Entity, nor to the knowledge of Patobios or any of the Founders is there any reasonable basis therefor. No Governmental Entity has at any time challenged or questioned the legal right of Patobios to conduct its operations as presently or previously conducted or as currently contemplated to be conducted.

4.10 **Brokers’ and Finders’ Fees; Third Party Expenses.** Neither Patobios nor any of the Founders has incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders’ fees or agents’ commissions, fees related to investment banking or similar advisory services or any similar charges in connection with the Agreement or any transaction contemplated hereby.

4.11 **Compliance with Laws.** Patobios has complied with, is not in violation of, and has not received any notices of violation with respect to, any provincial, federal, state or local statute, law or regulation.

4.12 **Prior Disclosures.** Patobios and the Founders have not made or submitted for publication or presentation, or made any disclosure other than under valid agreements including

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industry standard obligations of nondisclosure and non-use, of any technical or scientific aspect of the MOCA Technology, or any results or data generated using the MOCA Technology, that are not included in the Patents included in the MOCA Technology, except for the following disclosures, publications or presentations: (a) O'Dowd et al., *Dopamine Receptor Oligomerization Visualized in Living Cells*, J. Biol. Chem 280:37225-35 (2005), (b) O'Dowd et al., *Using Ligand-Induced Conformational Change to Screen for Compounds Targeting G-Protein-Coupled Receptors*, J. Biomol. Screen. 12:175-85 (2007), (c) O'Dowd et al., *A Novel Drug Screening Assay for G Protein-coupled Receptors*. In: *Ligand Design for G Protein-Coupled Receptors*. Ed. D. Rognan, Wiley-VCH Verlag GmbH and Co., p51-60 (2006), (d) Juhasz et al., *Mu-opioid Receptor Heterooligomer Formation With The Dopamine D1 Receptor As Directly Visualized In Living Cells*. Eur. J. Pharmacol. 581:235-243 (2008) and [†] (collectively, the "Listed Disclosures").

4.13 **Prior Testing.** Patobios and the Founders have disclosed to Omeros all material data and results from all screening, testing, or other use or evaluation of the MOCA Technology by Patobios, the Founders, Toronto or any third party, and have disclosed to Omeros any and all other information known to Patobios or the Founders that are material to evaluation of the utility of the MOCA Technology. None of Patobios or the Founders is aware of any data, results or other information that could reasonably be interpreted by scientists of skill in the art as evidence that the Assays included in the MOCA Technology will be unable, inefficient or ineffective for the identification of transmembrane protein-interacting molecules when utilized in high-throughput screening and broadly applicable for the surrogate-deorphanization of orphan G protein-coupled receptors.

4.14 **Representations Complete.** None of the representations or warranties made by Patobios or the Founders in this Agreement, and none of the statements made in any exhibit, schedule or certificate furnished by Patobios or the Founders pursuant to this Agreement contains, or will contain on the Closing Date, any untrue statement of a material fact, or omits or will omit on the Closing Date to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

4.15 **Intellectual Property.**

(a) All Patent Applications and Patents are listed in Section 1.34 of this Agreement, and are all active and pending or issued. True and complete copies of all submissions and filings to, and all office actions, search reports, communications and other correspondence from, the United States Patent and Trademark Office (the "USPTO") and other national, regional and international patent offices have been provided to Omeros. Other than examination of the Patent Applications at such patent offices as reflected in such documents, there are no proceedings or actions before any court, tribunal, the USPTO or other national, regional and international patent office related to any of the Patents and Patent Applications.

(b) To the extent required by then current rules of the USPTO, all prior art and other information material to the patentability of the claims of the Patent Applications known to Patobios and the Founders or other individuals involved with the prosecution of US Patent Applications and US Patents in the MOCA Technology has been timely disclosed to the USPTO,

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in keeping with the duty of candor, good faith and disclosure owed to the USPTO, and no material misrepresentation have been made to the USPTO in such Patents and Patent Applications. Patobios and the Founders have timely complied with applicable duties of disclosure owed to other national, regional and international patent offices in relation to the Patents and Patent Applications and have made no material misrepresentations to such patent offices.

(c) All inventions claimed in the Patents and Patent Applications have been invented solely by the Founders. None of Patobios or any of the Founders have been notified of any inventorship challenges nor has any interference been declared or provoked nor are Patobios or any of the Founders aware of any conflicting inventorship claims in relation to any of the Patents or Patent Applications. There are no third parties known to Patobios or any of the Founders who have or will be able to assert rights, and no third parties have provided written notice to Patobios or any of the Founders alleging that such third party may establish rights, to any Intellectual Property included in the MOCA Technology. Except as may be set forth in any office action, search report, communications and other correspondence from the USPTO and other national, regional and international patent offices, no third party has asserted that any of the claims of the Patents and Patent Applications are unpatentable, invalid or unenforceable. There is no pending or threatened action, suit or proceeding or written claim by any third party challenging Patobios' or the Founders' rights in or to, or the patentability, enforceability or validity of, any Intellectual Property included in the MOCA Technology.

(d) The Patent Applications claim what Patobios and the Founders reasonably believe after due searching to be patentable subject matter, and all issued Patents are valid and enforceable. All Patent Applications and Patents have been duly filed in or issued by the USPTO or other national, regional and international patent offices and have been timely maintained and renewed in accordance with all applicable provisions of law and administrative regulations in the United States and all such other jurisdictions, and all necessary declarations, assignments, documents, certificates and fees in connection with the Patents and Patent Applications have been timely filed with the relevant patent offices. Patobios and the Founders have taken all commercially reasonable steps to establish and preserve their ownership of all Intellectual Property included in the MOCA Technology.

(e) Except as set forth in the Toronto Agreements, none of Patobios or the Founders has entered into any agreement with any third party granting such third party any rights related to the MOCA Technology. Except as set forth in the Toronto Agreements, neither Patobios nor any of the Founders has granted or otherwise transferred ownership of, or granted any nonexclusive or exclusive license or right to use, or authorized the retention of any exclusive rights to use or joint ownership of, any Intellectual Property included in the MOCA Technology to any third parties. To the knowledge of Patobios and the Founders, Toronto has not granted or otherwise transferred ownership of, or granted any nonexclusive or exclusive license or right to use, or authorized the retention of any exclusive rights to use or joint ownership of, any Intellectual Property included in the MOCA Technology to any party except to the Founders under the Toronto Assignment. All Intellectual Property, including, without limitation, all Patents and Patent Applications, included in the MOCA Technology are free and clear of any Liens or

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encumbrances, except as set forth in the Toronto Agreements. Patobios is the exclusive owner of all Intellectual Property included in the MOCA Technology. All Intellectual Property included in the MOCA Technology will be fully transferable, alienable or licensable by Omeros on the Closing Date without restriction and without payment of any kind to any third party. No Intellectual Property included in the MOCA Technology is subject to any proceeding or outstanding decree, order, judgment or settlement agreement or stipulation that restricts in any manner the use, transfer or licensing thereof by Patobios or any of the Founders or that may affect the validity, use or enforceability of such Intellectual Property.

(f) None of Patobios or the Founders are aware of infringement by third parties of any Intellectual Property included in the MOCA Technology. None of Patobios or the Founders are aware of any licenses or other third party rights required to utilize the MOCA Technology in its current form and state, and the use of the MOCA Technology does not infringe other Intellectual Property rights of any third party. There is no pending, or to Patobios' or the Founder's knowledge, threatened action, suit or proceeding or written claim by any third party that the MOCA Technology infringes or otherwise violates the Intellectual Property of a third party.

(g) If Omeros purchases the MOCA Technology pursuant to this Agreement, Patobios and the Founders will have disclosed to Omeros in writing all filings, responses and other actions that must be taken by Omeros following the purchase of the MOCA Technology within sixty (60) days of the Closing for the purposes of maintaining, perfecting and preserving all patents, patent applications and other Intellectual Property included in the MOCA Technology. In each case in which Patobios or any of the Founders has acquired any Intellectual Property included in the MOCA Technology from any other person or entity, Patobios and the Founders, as the case may be, have obtained a valid and enforceable assignment sufficient to irrevocably transfer all rights in such Intellectual Property and the associated Intellectual Property rights, and, to the maximum extent provided for by, and in accordance with, applicable laws and regulations, have recorded each such assignment with the relevant governmental authorities, including the USPTO and applicable foreign, regional and international patent offices.

(h) Except pursuant to the publication of the Patents and Patent Applications filed in respect of the MOCA Technology and the Listed Disclosures, none of Patobios or any of the Founders has permitted any of the Intellectual Property included in the MOCA Technology to enter into the public domain.

(i) There are no contracts, licenses or agreements between Patobios or any of the Founders and any other person with respect to the Intellectual Property included in the MOCA Technology under which there is any dispute regarding the scope of such agreement, or performance under such agreement, including with respect to any payments to be made or received by Patobios or any of the Founders.

(j) Neither this Agreement nor the transactions contemplated hereby will result in: (i) Omeros granting to any third party any right to or with respect to any Intellectual Property included in the MOCA Technology or otherwise owned by, or licensed to, Omeros, (ii) Omeros

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being bound by, or subject to, any non-compete or other material restriction on the operation or scope of its business or research activities, or (iii) Omeros being obligated to pay any royalties or other amounts to any person or entity.

(k) Each of Patobios and the Founders has taken all reasonable steps that are required or necessary to protect Patobios' and the Founders' rights in confidential information and trade secrets of Patobios or any the Founders or provided by any other person to Patobios or the Founders.

(l) No government funding, or facilities or resources of a university, college, other educational institution or research center other than Toronto, or funding from third parties, was used in the development of the Intellectual Property included in the MOCA Technology, except for: Proof of Principle Grant – Canadian Institutes for Health Research (a grant in the amount of \$100,000 CAD), Canadian Institutes for Health Research Grant (a grant in the amount of \$175,000 CAD per annum for five years), Canada Research Chair Award (a grant in the amount of \$200,000 CAD per annum for five years) and University of Toronto (free use of facilities). No Governmental Entity, university, college, other educational institution or research center has any claim or right in or to the Intellectual Property included in the MOCA Technology other than Toronto to the extent provided in the Toronto Assignment.

4.16 **Payment Allocation.** The allocation of the Option Fees and Acquisition Price in accordance with the Payment Instructions is consistent with all written or oral agreements among Patobios, the Founders or Toronto or any other holders of Patobios Capital Stock and does not violate the organizational documents of Patobios.

4.17 **Toronto Agreement.** The Assignment of Rights from the University of Toronto between Toronto and the Founders dated June 28, 2002 (the "**Toronto Assignment**") was duly executed and delivered by the Founders and Toronto, and constitutes a valid and binding agreement among the Founders and Toronto, enforceable against each of them in accordance with its terms, except as such enforceability may be subject to the laws of general application relating to bankruptcy, insolvency, and the relief of debtors and rules of law governing specific performance, injunctive relief, or other equitable remedies. Except as set forth in the Toronto Consent, (a) all obligations and covenants of the Founders to Toronto under the Toronto Agreement shall be fully satisfied upon payment by Omeros of each Option Fee (as may be applicable) and the Acquisition Price in accordance with the Payment Instructions (subject to Section 9.4), and (b) upon completion of all such payments Toronto shall have no other interest or rights in or to the MOCA Technology.

4.18 **Regulation S**

(a) This Agreement is made by Omeros with the Sellers, who are all Non-U.S. persons (as defined below in this Section 4.18(c)), in reliance upon each such Non-U.S. person's representations, warranties and covenants made in this Section 4.18.

(b) Such Non-U.S. person has been advised and acknowledges that:

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(i) any shares of Omeros Common Stock or Preferred Stock, including Common Stock issuable upon conversion of such Preferred Stock (the “**Shares**”), as the case may be, that may be issued to such Non-U.S. person pursuant to this Agreement have not been, and when issued, will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), the securities laws of any state of the United States or the securities laws of any other country;

(ii) in issuing and selling the Shares to such Non-U.S. person pursuant hereto, Omeros is relying upon the “safe harbor” provided by Regulation S (“**Regulation S**”) and/or on Section 4(2) under the Securities Act;

(iii) it is a condition to the availability of the Regulation S “safe harbor” that the Shares not be offered or sold in the United States or to a U.S. person until the expiration of a one-year “distribution compliance period” (or a six-month “distribution compliance period”, if Omeros is a “reporting issuer”, as defined in Regulation S) following the Closing Date; and

(iv) notwithstanding the foregoing, prior to the expiration of the one-year “distribution compliance period” (or six-month “distribution compliance period”, if Omeros is a “reporting issuer”, as defined in Regulation S) after the Closing Date (the “**Restricted Period**”), the Shares may be offered and sold by the holder thereof only if such offer and sale is made in compliance with the terms of this Agreement and either: (A) if the offer or sale is within the United States or to or for the account of a U.S. person (as such terms are defined in Regulation S), the securities are offered and sold pursuant to an effective registration statement or pursuant to Rule 144 under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act; or (B) the offer and sale is outside the United States and to other than a U.S. person.

(c) As used herein, the term “**United States**” means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia, and the term “**U.S. person**” (as defined in Regulation S) means:

- (i) a natural person resident in the United States;
- (ii) any partnership or corporation organized or incorporated under the laws of the United States;
- (iii) any estate of which any executor or administrator is a U.S. person;
- (iv) any trust of which any trustee is a U.S. person;
- (v) any agency or branch of a foreign entity located in the United States;
- (vi) any nondiscretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person;

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(vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated and (if an individual) resident in the United States; and

(viii) a corporation or partnership organized under the laws of any foreign jurisdiction and formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

As used herein, the term “**Non-U.S. person**” means any person who is not a U.S. person or is deemed not to be a U.S. person under Rule 902(k)(2) of the Securities Act.

(d) Such Non-U.S. person agrees that with respect to the Shares, until the expiration of the Restricted Period:

(i) such Non-U.S. person, its agents or its representatives have not and will not solicit offers to buy, offer for sale or sell any of the Shares, or any beneficial interest therein in the United States or to or for the account of a U.S. person; and

(ii) notwithstanding the foregoing, the Shares may be offered and sold by the holder thereof only if such offer and sale is made in compliance with the terms of this Agreement and either: (A) if the offer or sale is within the United States or to or for the account of a U.S. person (as such terms are defined in Regulation S), the securities are offered and sold pursuant to an effective registration statement or pursuant to Rule 144 under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act; or (B) the offer and sale is outside the United States and to other than a U.S. person; and

(iii) such Non-U.S. person shall not engage in hedging transactions with regard to the Shares unless in compliance with the Securities Act.

The foregoing restrictions are binding upon subsequent transferees of the Shares, except for transferees pursuant to an effective registration statement. Such Non-U.S. person agrees that after the Restricted Period, the Shares may be offered or sold within the United States or to or for the account of a U.S. person only pursuant to applicable securities laws.

(e) Such Non-U.S. person has not engaged, nor is it aware that any party has engaged, and such Non-U.S. person will not engage or cause any third party to engage, in any directed selling efforts (as such term is defined in Regulation S) in the United States with respect to the Shares.

(f) Such Non-U.S. person: (i) is domiciled and has its principal place of business outside the United States; (ii) certifies it is not a U.S. person and is not acquiring the Shares for the account or benefit of any U.S. person; and (iii) at the time of the Closing Date, the Non-U.S. person or persons acting on Non-U.S. person's behalf in connection therewith will be located outside the United States.

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(g) At the time of offering to such Non-U.S. person and communication of such Non-U.S. person's order to purchase the Shares and at the time of such Non-U.S. Person's execution of this Agreement, the Non-U.S. person or persons acting on Non-U.S. person's behalf in connection therewith were located outside the United States.

(h) Such Non-U.S. person is not a "distributor" (as defined in Regulation S) or a "dealer" (as defined in the Securities Act).

(i) Such Non-U.S. person acknowledges that Omeros shall make a notation in its stock books regarding the restrictions on transfer set forth in this Section 4.18 and shall transfer such shares on the books of Omeros only to the extent consistent therewith.

In particular, such Non-U.S. person acknowledges that Omeros shall refuse to register any transfer of the Shares not made in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or pursuant to an available exemption from registration.

(j) Such Non-U.S. person understands and agrees that each certificate held by such Non-U.S. person representing the Shares, or any other securities issued in respect of the Shares upon conversion thereof upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event, shall bear the following legend (in addition to any legend required by this Agreement or under applicable state securities laws):

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S PROMULGATED UNDER THE SECURITIES ACT, PURSUANT TO REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. HEDGING TRANSACTIONS INVOLVING THE SHARES REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE, HYPOTHECATION OR ANY OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SHARES REPRESENTED BY THIS CERTIFICATE.

(k) Such Non-U.S. person hereby represents that it is satisfied as to the full observance of the laws of its jurisdiction in connection with any acquisition of the Shares and the execution and delivery of this Agreement, including (i) the legal requirements within such Non-U.S. person's jurisdiction for the purchase of the Shares, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase,

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holding, redemption, sale or transfer of such securities. Such Non-U.S. person's receipt and beneficial ownership of the Shares will not violate any applicable securities or other laws of such Non-U.S. person's jurisdiction.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF OMEROS

Omeros hereby represents and warrants to Patobios that on the date hereof and as of the Closing Date, as though made on the Closing Date, as follows:

5.1 **Organization.** Omeros is a corporation duly organized and validly existing under the laws of the State of Washington. Omeros is duly qualified or licensed to do business and in good standing as a foreign corporation in each jurisdiction in which the character or location of its assets or properties (whether owned, leased or licensed) or the nature of its business make such qualifications necessary.

5.2 **Authority.** Omeros has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby; provided, however, that additional board and shareholder action and the filing of an amendment to Omeros' Articles of Incorporation may be required if Omeros issues its Preferred Stock as the Stock Consideration. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Omeros; provided, however, that additional board and shareholder action and the filing of an amendment to Omeros' Articles of Incorporation may be required if Omeros issues its Preferred Stock as the Stock Consideration. This Agreement has been duly executed and delivered by Omeros and constitutes the valid and binding obligation of Omeros, enforceable against Omeros in accordance with its terms, except as such enforceability may be limited by principles of public policy and subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

5.3 **Consents.** No consent, waiver, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, or any third party is required by or with respect to Omeros in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings as may be required under applicable securities laws; (ii) such consents, waivers, approvals, orders, authorizations, registrations, declarations and filings which, if not obtained or made, would not have a material adverse effect on the business, assets (including intangible assets), condition (financial or otherwise), results of operations or capitalization of Omeros; and (iii) shareholder approval of, and the filing of, an amendment to Omeros' Articles of Incorporation if Omeros issues its Preferred Stock as the Stock Consideration, which Omeros shall use its reasonable best efforts to obtain and file, as applicable, if it issues Preferred Stock as the Stock Consideration.

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5.4 **Shares.** When and if issued to the Founders, the Shares will be duly authorized, validly issued, fully paid and nonassessable and free and clear of any liens and encumbrances; *provided, however*, that the Shares may be subject to restrictions on transfer under Canadian or U.S. provincial, state and/or federal securities laws and as set forth herein and, if Omeros issues its Preferred Stock as the Stock Consideration, in any stock purchase agreement and/or shareholder agreement to which the Founders may become parties.

5.5 **SEC Documents; Omeros Financial Statements.** If as of the Closing Date Omeros has a class of stock registered under Section 12(b) of the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and issues Common Stock as the Stock Consideration, Omeros shall make the representations and warranties set forth in this Section 5.5 as of the Closing Date:

A true and complete copy of each annual, quarterly and other report, registration statement, and definitive proxy statement (as applicable) filed by Omeros with the United States Securities and Exchange Commission (“**SEC**”) for the one-year period ending on the Closing Date (the “**Omeros SEC Documents**”) is available on the Web site maintained by the SEC at <http://www.sec.gov>. As of their respective filing dates, the Omeros SEC Documents complied in all material respects with the requirements of the Securities Act and the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Omeros SEC Documents, and none of the Omeros SEC Documents contained on their filing dates any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except to the extent corrected by a subsequently filed Omeros SEC Document. The financial statements of Omeros included in the Omeros SEC Documents (the “**Omeros Financial Statements**”) complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with GAAP applied on a consistent basis throughout the periods indicated (except as may be indicated in the notes thereto, except in the case of pro forma statements, or, in the case of unaudited financial statements, except as permitted under Form 10-Q under the Exchange Act) and fairly presented the consolidated financial position of Omeros and its consolidated subsidiaries as of the respective dates thereof and the consolidated results of Omeros’ operations and cash flows for the periods indicated (subject to, in the case of unaudited statements, normal and recurring year-end audit adjustments). As of the Closing Date, Omeros has filed with the SEC all filings required to be made under the Exchange Act that were required to be filed during the one-year period ending on the Closing Date and, since the date of Omeros’ last SEC filing, no event has occurred (other than the closing of the transactions contemplated by this Agreement), which will require Omeros to complete such a filing by the fourth (4th) day following the Closing Date.

5.6 **Preferred Stock Purchase Agreement.** If as of the Closing Date Omeros does not have a class of stock registered under Section 12(b) of the Exchange Act and issues Preferred Stock as the Stock Consideration, Omeros shall not make the representations and warranties in Section 5.5 and instead shall make the representations and warranties set forth in the stock purchase agreement that Omeros previously negotiated for the its last arms-length sale and issuance of its Preferred Stock, as modified by any schedule of exceptions delivered therewith. The Sellers will also be entitled to be

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added as parties to any shareholder agreement that all of the previous purchasers of such Preferred Stock were made parties to in connection with the purchase of such Preferred Stock.

ARTICLE VI

CONDITIONS TO THE CLOSING OF THE PURCHASE AND SALE OF THE MOCA TECHNOLOGY

Subject to the terms and conditions of this Agreement, if an Exercise Notice or a Put Notice is provided within the Option Period, then the purchase and sale of the MOCA Technology and the payment of the Acquisition Price shall occur at a closing (the "**Closing**") to take place at such time and at such place as mutually agreed by Omeros and Patobios, which shall not be less than thirty (30) days, nor more than sixty (60) days, from the date of the Exercise Notice or Put Notice, on which date Patobios shall sell to Omeros all right, title and interests in and to the MOCA Technology; provided, however, that Omeros' right to purchase, and Patobios' obligation to sell, the MOCA Technology shall be subject to the fulfillment or waiver (as permitted) on or before such date of the conditions set forth in this Article VI.

6.1 **Conditions to Omeros' Obligation to Close.** The obligations of Omeros to purchase the MOCA Technology shall be subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by Omeros on or prior to the Closing:

(a) **Representations, Warranties and Covenants.** (i) The representations and warranties of the Sellers in this Agreement shall have been true and correct on the date they were made and shall be true and correct in all material respects (without giving effect to any limitation as to "materiality") on and as of the Closing Date as though such representations and warranties were made on and as of such time, and (ii) the Sellers shall have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by the Sellers as of the Closing.

(b) **Bill of Sale.** Patobios and the Founders shall have duly executed and delivered a Bill of Sale to Omeros, in a form acceptable to Omeros, assigning, transferring and conveying to Omeros all rights and title to and in the MOCA Technology.

(c) **Patent Assignments.** Patobios shall have duly executed and delivered to Omeros a Patent Assignment, in a form acceptable to Omeros, conveying all rights and title to and interest in all patents, patent applications and inventions included in the MOCA Technology to Omeros.

(d) **Governmental Approval.** Approvals from any Governmental Entity (if any) deemed appropriate or necessary by Omeros shall have been timely obtained.

(e) **Third Party Consents.** Patobios shall have delivered to Omeros all necessary consents, waivers and approvals of parties to any Contract set as are required thereunder in

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connection with sale of the MOCA Technology, or for any such Contract to remain in full force and effect without limitation, modification or alteration after the Closing.

(f) **Legal Opinion.** Omeros shall have received a legal opinion from legal counsel to Patobios, substantially in the form attached hereto as **Exhibit C**.

(g) **Certificate of Patobios and the Founders.** Omeros shall have received a certificate, validly executed by the Chief Executive Officer of Patobios for and on Patobios's behalf and by the Founders, to the effect that, as of the Closing:

(i) the representations and warranties of Patobios and the Founders in this Agreement were true and correct on the date they were made and are true and correct on and as of the Closing Date as though such representations and warranties were made on and as of such time;

(ii) Patobios and the Founders have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by such parties as of the Closing; and

(iii) the conditions to the obligations of Omeros set forth in this Section 6.1 have been satisfied (unless otherwise waived in accordance with the terms hereof).

(h) **Valid Placement.** The issuance of Shares in connection with the Agreement shall qualify as a valid exemption from the registration requirements of the Securities Act as a valid private placement under Regulation S under the Securities Act.

6.2 **Conditions to Patobios' Obligation to Close.** The obligations of Patobios to sell and transfer the MOCA Technology shall be subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by Patobios on or prior to the Closing:

(a) **Acquisition Price.** Omeros shall have delivered the Acquisition Price in accordance with the Payment Instructions, subject to Section 8.4. Notwithstanding the foregoing or anything to the contrary contained in this Agreement, if (i) Omeros Common Stock is not traded on a Public Market as of the Closing Date and (ii) at least ten (10) days prior to the Closing Date Omeros or Patobios gives written notice to the other party electing to pay or receive (as applicable) cash in lieu of and in full satisfaction of the Stock Consideration, then in lieu of and in full satisfaction of Omeros' obligation to deliver the Stock Consideration portion of the Acquisition Price pursuant to this Section 6.2(a), Omeros shall instead deliver to Patobios two million five hundred thousand (\$2.5 MM) CAD in accordance with the Payment Instructions. For the avoidance of doubt, if Omeros is obligated to deliver cash in lieu of the Stock Consideration pursuant to the preceding sentence, and Omeros delivers, in accordance with the Payment Instructions (subject to Section 8.4), cash in an amount equal to (I) seven million seven hundred sixteen thousand (\$7.716MM) CAD less any Option Fee Credit, plus (II) two million five hundred thousand (\$2.5 MM) CAD, plus (III) if Omeros paid Option Fee Two, the Patent Fee Amount (but only to the extent that the Patent Fee Amount reduced Option Fee Two), then Omeros shall have no obligation to issue any of its equity or any additional cash to Patobios, the

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Founders or any other party pursuant to this Agreement and Omeros will have fully satisfied its obligations pursuant to this Section 6.2(a).

(b) **Representations, Warranties and Covenants.** (i) The representations and warranties of Omeros in this Agreement (other than the representations and warranties of the Omeros as of a specified date, which shall be true and correct as of such date) shall have been true and correct on the date they were made and shall be true and correct in all material respects (without giving effect to any limitation as to “materiality”) on and as of the Closing Date as though such representations and warranties were made on and as of such time, and (ii) Omeros shall have performed and complied in all material respects with all covenants and obligations under this Agreement required to be performed and complied with by such parties as of the Closing.

(c) **Governmental Approval.** Approvals from any Governmental Entity necessary for Omeros to purchase the MOCA Technology (if any) shall have been timely obtained.

(d) **Third Party Consents.** Omeros shall have delivered to Patobios all necessary consents, waivers and approvals of parties to any material contract to which Omeros is a party and that are required in connection with purchase of the MOCA Technology, where the failure to obtain such consent, waiver or approval would have a material adverse effect on Omeros.

(e) **Legal Opinion.** Patobios shall have received a legal opinion from legal counsel to Omeros, substantially in the form attached hereto as **Exhibit D**.

(f) **Certificate of Omeros.** Patobios shall have received a certificate executed on behalf of Omeros by its Chief Executive Officer for and on its behalf to the effect that, as of the Closing:

(i) all representations and warranties made by Omeros in this Agreement (other than the representations and warranties of Omeros as of a specified date, which were true and correct as of such date) were true and correct on the date they were made and are true and correct in all material respects on and as of the Closing Date as though such representations and warranties were made on and as of such time; and

(ii) all covenants and obligations under this Agreement to be performed by Omeros on or before the Closing have been so performed in all material respects.

6.3 **Conditions to Obligations of Each Party to Close.** The respective obligations of Omeros to purchase, and Patobios’ obligation to sell and transfer, the MOCA Technology shall be subject to the satisfaction at or prior to the Closing of the following conditions, unless waived in writing by Omeros and Patobios:

(a) **No Order.** No Governmental Entity shall have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, executive order, decree, injunction or other order (whether temporary, preliminary or permanent) which is in effect and which has the effect of

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making the sale and purchase of the MOCA Technology pursuant to this Agreement illegal or otherwise prohibiting consummation of sale and purchase of the MOCA Technology pursuant to this Agreement.

(b) **No Injunctions or Restraints; Illegality.** No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the sale and purchase of the MOCA Technology shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, seeking any of the foregoing be threatened or pending.

ARTICLE VII

ADDITIONAL AGREEMENTS

7.1 **Confidentiality.** Prior to and during the term of this Agreement, Omeros, Patobios and the Founders (in each case the “**Disclosing Party**”) may disclose, directly or indirectly, to one or more other parties hereto (in each case the “**Receiving Party**”) confidential and proprietary information (“**Confidential Information**”) that has been developed or is owned by the Disclosing Party. Confidential Information may include, without limitation, research and development information, know-how, inventions, trade secrets, technical data, targets (genes or proteins), knock-out and knock-in mouse strains, gene expression profiles, behavioral and physiological assays, phenotypes, cell lines, cellular, biochemical and chemical assays, chemical structures, chemical structure-activity relationships, formulae, treatment methods, clinical trial design criteria, protocols, drawings, designs, models, samples, processes, chemistry, manufacturing and controls information, regulatory information, and any type of product development, business or marketing plans or strategies, financial information or business information. For purposes of clarity, all data and results generated by Patobios or the Founders using the MOCA Technology shall be considered as Patobios’ Confidential Information, and all data and results generated by Omeros using the MOCA Technology shall be considered Omeros’ Confidential Information.

(a) For a period of [†] from the date of termination of this Agreement, the Receiving Party will not at any time disclose or otherwise make known or available to any person, firm, corporation or other entity, or use for its own account or for any purpose other than attendant to performance in accordance with this Agreement, any Confidential Information disclosed by the Disclosing Party prior to or during the term of this Agreement, without the express prior written consent of the Disclosing Party. The Receiving Party shall utilize reasonable procedures to safeguard Confidential Information, including releasing Confidential Information only to employees, consultants, directors, officers and advisors, on a “need-to-know” basis, who have agreed to abide by obligations limiting use and disclosure substantially similar to the Receiving Party’s obligations under this Section 7.1. Notwithstanding the provisions of this Section 7.1, Omeros shall be permitted to disclose all information it possesses related to the MOCA Technology in response to due diligence and similar requests from third parties who have agreed to abide by obligations limiting use and disclosure substantially similar to Omeros’ obligations under this Section 7.1

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(b) Confidential Information does not include information that the Receiving Party can establish:

(i) is or becomes generally available to the public other than as a result of a disclosure by the Receiving Party;

(ii) was in the possession of the Receiving Party prior to its being furnished to the Receiving Party under this Agreement, provided that the source of such information was not known to the Receiving Party to be bound by a confidentiality agreement with, or other contractual, legal, or fiduciary obligation of confidentiality to the Disclosing Party or any other party with respect to such information and that such prior possession can reasonably be proven by the Receiving Party by written records;

(iii) becomes available to the Receiving Party on a non-confidential basis from a source other than the Disclosing Party, provided that such source is not bound by a confidentiality agreement with, or other contractual, legal, or fiduciary obligation of confidentiality to the Disclosing Party or any other party with respect to such information; or

(iv) was independently developed by the Receiving Party without reference to the Confidential Information, provided that such independent development can reasonably be proven by the Receiving Party by written records.

(c) If the Receiving Party is required by law, regulation or order of a court of law, administrative agency, or other governmental body to disclose any of the Confidential Information, the Receiving Party will promptly provide the Disclosing Party with reasonable advance written notice of such required disclosure, and will disclose only the legally required portion of the Confidential Information.

7.2 Ownership of Intellectual Property Related to Drug Targets and Compounds. Except for, and subject to, Patobios' ownership of Improvements to the MOCA Technology prior to Omeros' purchase of the MOCA Technology as set forth in Section 3.1, Omeros shall own any and all Intellectual Property conceived, reduced to practice, developed, improved or enhanced by Omeros, with or without the contribution of the Founders and Patobios, during performance of the Plan for MOCA Evaluation, including without limitation all Intellectual Property related to potential drug targets and compounds related to potential drug targets discovered during the surrogate de-orphanization of an orphan GPCR during performance of the Plan for MOCA Evaluation, except as expressly follows in the remainder of this Section 7.2. Notwithstanding anything in the foregoing sentence or elsewhere in this Section 7.2, Patobios shall, prior to (but not after) the Closing, continue to own all Intellectual Property rights in the MOCA Technology including any improvements thereto. If the surrogate de-orphanization activities conducted during the performance of the Plan for MOCA Evaluation result in one or more compounds that are hits (as such term is defined in Section 1.14) but there are an insufficient number of hits to meet the De-Orphanization Milestone, and Omeros does not exercise its option to purchase the MOCA Technology prior to termination of this Agreement, then within thirty (30) days of termination of this Agreement, Omeros may pay to Patobios a fee of [†] ("**Compound Fee**") for which Omeros wishes to own all Intellectual Property

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rights that claim the composition of matter of such compound, and for any hit(s) for which Omeros does not pay such a Compound Fee, Patobios shall own all Intellectual Property rights that claim the composition of matter of such compound(s).

7.3 **Expenses.** Except as set forth in Section 3.6, all fees and expenses incurred in connection with this Agreement including, without limitation, all legal, accounting, financial advisory, consulting and all other fees and expenses of third parties incurred by a party in connection with the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby, shall be the obligation of the respective party incurring such fees and expenses.

7.4 **Public Disclosure.** Except as required by applicable law or regulation, no party hereto may use any other party's name or identifying marks or information in any promotional, advertising or other materials without the other party's prior written consent; provided, however, Omeros may through written or oral communications disclose the names and identifying marks and information of the Sellers to Omeros' employees, consultants, shareholders, underwriters (including their attorneys) and potential partners, investors and consultants and for regulatory filings. Each of the parties hereto shall not disclose to any third party the terms of this Agreement without the prior written consent of the other parties, except to advisors, investors, and others on a need-to-know basis under circumstances that reasonably ensure the confidentiality thereof, or to the extent required by applicable law or regulation. The Sellers acknowledge and provide their consent to Omeros filing this Agreement with the SEC and describing this Agreement in any filings it may make with the SEC.

7.5 **Notification of Certain Matters.** Patobios or any Founder, as the case may be, shall give prompt notice to Omeros of: (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of Patobios or any Founder, respectively and as the case may be, contained in this Agreement to be untrue or inaccurate at or prior to the Closing Date, and (ii) any failure of any Seller to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 7.5 shall not (a) limit or otherwise affect any remedies available to the party receiving such notice or (b) constitute an acknowledgment or admission of a breach of this Agreement. No disclosure pursuant to this Section 7.5, however, shall be deemed to prevent or cure any misrepresentations, breach of warranty or breach of covenant.

7.6 **Additional Documents and Further Assurances.** Subject to the terms and conditions in this Agreement, each of the parties hereto shall use reasonable efforts to take promptly, or cause to be taken, all actions, and to do promptly, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated hereby, to obtain all necessary waivers, consents and approvals, to satisfy the closing conditions (if applicable) and to effect all necessary registrations and filings and to remove any injunctions or other impediments or delays, legal or otherwise, in order to consummate and make effective the transactions contemplated by this Agreement for the purpose of securing to the parties hereto the benefits contemplated by this Agreement; provided, however, that nothing in this Agreement shall be interpreted or construed to obligate Omeros to deliver an Exercise Notice or pay

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Option Fee Two or Option Fee Three nor to obligate Patobios to deliver a Put Notice upon achievement of the De-Orphanization Milestone.

7.7 Patents and Reasonable Assistance. After any purchase by Omeros of the MOCA Technology in accordance with this Agreement, Omeros shall have the sole right, in its sole discretion, to apply for, prosecute and maintain the Patent Applications and Patents. The Founders and Patobios will provide all reasonable assistance, including review of documents and the execution of all assignments, declarations and other documents, and will cause Patobios' officers and employees to review and execute all documents, necessary to make, prosecute, maintain and enforce the Patents, and to confirm title in Omeros' name if Omeros completes the purchase of the MOCA Technology, all for no additional consideration but with reimbursement by Omeros of the Founders' and Patobios' reasonable expenses for such assistance.

7.8 Patent Infringement. After any purchase by Omeros of the MOCA Technology in accordance with this Agreement, Omeros shall have the sole right, in its sole discretion, to enforce the Patents, published Patent Applications or other Intellectual Property right included in the MOCA Technology against any infringers, at the sole cost of Omeros, and without duty to account for any Enforcement Proceeds to any other party.

7.9 Laboratory Records. After any purchase by Omeros of the MOCA Technology in accordance with this Agreement, the Founders and Patobios shall deliver to Omeros all available original laboratory notebooks and scientific records, in true and complete form, pertaining to the conception, reduction to practice, testing, evaluation and use of the Assays and the MOCA Technology by the Founders and Patobios.

ARTICLE VIII

SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ESCROW

8.1 Survival of Representations, Warranties and Covenants. If Omeros purchases the MOCA Technology pursuant to this Agreement, the representations and warranties of the Sellers and Omeros contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement, shall survive for a period of two years following the Closing Date (the expiration of such two-year period, the "**Survival Date**").

8.2 Indemnification.

(a) Subject to the limitations set forth in Section 8.3(a), the Sellers agree to jointly and severally indemnify and hold harmless Omeros and its officers, directors, affiliates, employees, agents and representatives (the "**Indemnified Parties**"), against all claims, losses, liabilities, damages, deficiencies, costs, interest, awards, judgments, penalties and expenses, including attorneys' and consultants' fees and expenses and including any such expenses incurred in connection with investigating, defending against or settling any of the foregoing (hereinafter individually a "**Loss**" and collectively "**Losses**") incurred or sustained by the Indemnified Parties, or any of them, directly or indirectly, as a result of (i) any breach or inaccuracy of a representation

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or warranty of any of the Sellers contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement and (ii) any failure by any Seller to perform or comply with any covenant applicable to any of them contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement. The Sellers shall not have any right of contribution, indemnification or right of advancement from Omeros with respect to any Loss claimed by an Indemnified Party.

(b) Any Seller committing fraud or any willful breach of any representation, warranty or covenant contained in this Agreement, certificate or other instrument delivered pursuant to this Agreement shall be severally, and not jointly, liable for, and shall indemnify and hold the Indemnified Parties harmless for, any Losses incurred or sustained by the Indemnified Parties, or any of them, directly or indirectly, as a result of such fraud or willful breach of a representation or warranty, inaccuracy of any representation, warranty or covenant committed by such Seller.

8.3 Maximum Payments; Remedy.

(a) Except as set forth in Section 8.3(b), the maximum amount an Indemnified Party may recover from a Seller individually pursuant to the indemnity set forth in Section 8.2 for Losses shall be limited to such Seller's Pro Rata Portion of the Escrow Fund as set forth in Schedule 9.3 ("**Pro Rata Portion**"); provided, however, that except as set forth in Section 8.3(b), the liability of each of the Sellers for breaches of the representations and warranties contained in Section 4.8 (Title to MOCA Technology; Absence of Liens and Encumbrances) and Section 4.15 (Intellectual Property) hereof shall be limited to a CAD dollar amount equal to the aggregate proceeds received, directly or indirectly, by such Seller (any payments made by Omeros pursuant to Section 3.6 shall not be counted for purposes of determining the aggregate proceeds received by a Seller).

(b) Notwithstanding anything to the contrary set forth in this Agreement, nothing in this Agreement shall limit the liability of any Seller (and the Escrow Fund shall not be the exclusive remedy) in respect of Losses arising out of any fraud committed by such Seller or any willful breach by such Seller of any representation, warranty or covenant contained in this Agreement, certificate or other instrument delivered pursuant to this Agreement on the part of such Seller.

8.4 Escrow Arrangements.

(a) **Escrow Fund.** By virtue of this Agreement and as partial security for the indemnity obligations provided for in Section 8.2 hereof, on the Closing Date, Omeros will notify and deposit with the Escrow Agent the Escrow Amount without any act of Patobios or the Founders, such deposit of the Escrow Amount to constitute an escrow fund (the "**Escrow Fund**") to be governed by the terms set forth herein. The Escrow Amount (plus any interest earned on such Escrow Amount in accordance with Section 8.4(e)(ii)) shall be available to compensate the Indemnified Parties for any claims by such parties for any Losses suffered or incurred by them and for which they are entitled to recovery under this Article VIII. The Escrow Agent may

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execute this Agreement following the date hereof and prior to the Closing, and such later execution, if so executed after the date hereof, shall not affect the binding nature of this Agreement as of the date hereof between the other signatories hereto.

(b) **Deductible Amount.** Notwithstanding any provision of this Agreement to the contrary, an Indemnified Party may not recover any Losses under Section 8.2(a)(i) unless and until one or more Officer's Certificates (as defined below) identifying such Losses under Section 8.2(a)(i) hereof in excess of \$25,000 CAD in the aggregate (the "**Deductible Amount**") has or have been delivered to the Escrow Agent or the Seller Representative (as defined in Section 8.5) as provided in Section 8.4(f), in which case Omeros shall be entitled to recover all Losses so identified including the Deductible Amount. For the purposes hereof, "**Officer's Certificate**" shall mean a certificate signed by any officer of Omeros: (1) stating that an Indemnified Party has paid, sustained, incurred, or properly accrued, or reasonably anticipates that it will have to pay, sustain, incur, or accrue Losses, and (2) specifying in reasonable detail the individual items of Losses included in the amount so stated, the date each such item was paid, sustained, incurred, or properly accrued, or the basis for such anticipated liability, and, if applicable, the nature of the misrepresentation, breach of warranty or covenant to which such item is related.

(c) **Satisfaction of Claims.** Except to the extent that the Losses resulted from fraud or any willful breach of any representation, warranty or covenant contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement, committed by any Seller, claims by an Indemnified Party for Losses shall be satisfied solely from the Escrow Fund. Claims by an Indemnified Party for Losses resulting from fraud or any willful breach of any representation, warranty or covenant contained in this Agreement or in any certificate or other instruments delivered pursuant to this Agreement, committed by any Seller shall be satisfied: (A) first, from the Escrow Fund, but only after (i) satisfying all other claims not related to fraud or any willful breaches of covenants committed by any Seller, and (ii) making appropriate reserve as provided herein for Unresolved Claims (as defined in Section 8.4(d)), not related to fraud or any willful breaches of covenants committed by any Seller, and (B) second, if the Escrow Fund is insufficient after such satisfaction or reserve, solely and directly against such Seller.

(d) **Escrow Period; Distribution upon Termination of Escrow Periods.** Subject to the following requirements, the Escrow Fund shall be in existence immediately following the Closing and shall terminate at 5:00 p.m. Seattle time, on the date thirty (30) days after the Survival Date (the "**Escrow Period**").

(i) At 5:00 p.m. Seattle time on the eighteen (18)-month anniversary of the Closing Date (the "**Initial Escrow Termination Date**") the Escrow Fund shall terminate with respect to five hundred thousand (\$500,000) CAD initially deposited into the Escrow Fund, less: (A) any amounts that have been distributed out of the Escrow Fund prior to the Initial Escrow Termination Date pursuant to Section 8.4(f) in satisfaction of indemnification claims pursuant to this Section 8.4, and (B) any amounts (the "**Initial Escrow Holdback Amount**") which, in the reasonable judgment of Omeros, subject to the reasonable objection of the Seller Representative, is necessary to satisfy any then pending and unsatisfied claims specified in any Officer's Certificate(s)

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delivered to the Escrow Agent prior to the tenth (10th) day following the Initial Escrow Termination Date with respect to facts and circumstances existing prior to the Initial Escrow Termination Date. The Escrow Agent shall distribute to Patobios the portion of the Escrow Fund that is available for distribution pursuant to this section in accordance with Section 8.4(d)(iii); provided, however, that the Escrow Agent will not distribute the Initial Escrow Holdback Amount until all related claims have been resolved, at which time the Escrow Agent shall deliver to Patobios the remaining portion of the Initial Escrow Holdback Amount, if any, not required to satisfy the claims described in Section 8.4(d)(i)(B). For clarification purposes, Initial Escrow Termination Date funds will not be released until the expiration of the ten (10) day period referenced in 8.4(d)(i) and 8.4(d)(iii).

(ii) At 5:00 p.m. Seattle time on the last day of the Escrow Period (the "**Escrow Termination Date**") the Escrow Fund shall terminate with respect to any amounts remaining in the Escrow Fund at that time; provided, however, that the Escrow Period shall not terminate with respect to any amount which is necessary to satisfy any unsatisfied claims specified in any Officer's Certificate ("**Unresolved Claims**") delivered to the Escrow Agent and the Seller Representative prior to the Escrow Termination Date with respect to facts and circumstances existing prior to the Survival Date. The Escrow Agent shall distribute to Patobios the portion of the Escrow Fund that is available for distribution pursuant to this section in accordance with Section 8.4(d)(iii); provided, however, that the Escrow Agent will not distribute any amounts related to any Unresolved Claims until all such claims have been resolved, at which time the Escrow Agent shall deliver to Patobios the remaining portion of the Escrow Fund, if any, not required to satisfy such claims. For clarification purposes, Escrow Termination Date funds will not be released until the expiration of the Escrow Period (as defined in Section 8.4(d)) and the ten (10) day period referenced 8.4(d)(iii).

(iii) Within ten (10) days of the Initial Escrow Termination Date and the Escrow Termination Date, Omeros will notify the Seller Representative and the Escrow Agent in writing of the portion of the Escrow Fund that may be distributed pursuant to Section 8.4(d)(i) or Section 8.4(d)(ii), as applicable, and the allocation of such distribution (an "**Escrow Distribution Notice**"). If the Escrow Agent does not timely receive any Escrow Distribution Notice from Omeros, the Escrow Agent shall promptly (and in any event within ten (10) days) after the expiration of such ten (10) day period deliver to Patobios the portion of the Escrow Fund available to be released from the Escrow Fund on such date, subject to the limitations in Section 8.4(d)(i) and Section 8.4(d)(ii). The Seller Representative shall have twenty (20) days following receipt of the Escrow Distribution Notice from Omeros during which to object to the contents thereof by sending written notice thereof to Omeros and the Escrow Agent. If the Escrow Agent does not timely receive any such written objection from the Seller Representative, or if such notice period is waived in writing by the Seller Representative, the Escrow Agent shall distribute the Escrow Fund in accordance with the Escrow Distribution Notice and will incur no liability, and shall be fully protected, in relying on the Escrow Distribution Notice.

(e) Protection of Escrow Fund.

(i) The Escrow Agent shall hold and safeguard the Escrow Fund during the Escrow Period, shall treat such fund as a trust fund in accordance with the terms of this

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Agreement and shall hold and dispose of the Escrow Fund only in accordance with the terms of this Article VIII.

(ii) The Escrow Amount shall be invested in Canadian dollar denominated funds as directed by Omeros and Patobios and pending availability to U.S. Bank National Association. Patobios shall be treated as having received and recontributed to the Escrow Fund income earned on the Escrow Fund, and shall be liable and responsible for any taxes due with respect to such income. For clarification purposes, Omeros and Patobios acknowledge that absent the aforementioned joint written investment instruction, funds will remain uninvested.

(f) Claims for Indemnification.

(i) Upon receipt by the Escrow Agent at any time on or before the Escrow Termination Date of an Officer's Certificate, the Escrow Agent shall, subject to the provisions of Section 8.4(g) and Section 8.4(h), deliver to Omeros, as promptly as practicable, cash held in the Escrow Fund equal to such Losses. If the Losses are denominated in USD, then the amount of CAD removed from the Escrow Fund shall be sufficient to pay the Losses in USD using the daily noon USD to CAD exchange rate for the day that such CAD are removed from the Escrow Fund and paid to Omeros (the "**Indemnity Exchange Rate**"), as quoted by the The Federal Reserve Board of the United States (or the Bank of Canada if The Federal Reserve Board does not quote such daily noon rate). Omeros shall set forth the applicable Indemnity Exchange Rate in any such Officer's Certificate delivered to the Escrow Agent.

(ii) If the Seller Representative does not object in writing within the 30-day period after delivery by the Omeros of the Officer's Certificate, such failure to so object shall be an irrevocable acknowledgment by the Seller Representative and the Sellers that the Indemnified Party is entitled to the full amount of the claim for Losses set forth in such Officer's Certificate.

(g) Objections to Claims against the Escrow Fund. At the time of delivery of any Officer's Certificate to the Escrow Agent, a duplicate copy of such certificate shall be delivered to the Seller Representative, and for a period of thirty (30) days after such delivery, the Escrow Agent shall make no delivery to Omeros of any Escrow Amount pursuant to Section 8.4(f) unless the Escrow Agent shall have received written authorization from the Seller Representative to make such delivery. After the expiration of such thirty (30)-day period, subject to the limitations set forth in Section 8.4(f)(i), the Escrow Agent shall make delivery of cash from the Escrow Fund equal to the amount of Losses (converted to USD using the Indemnity Exchange Rate set forth by Omeros in the Officer's Certificate) claimed in the Officer's Certificate; *provided* that no such payment or delivery may be made if the Seller Representative shall object in a written statement to the claim made in the Officer's Certificate (an "**Objection Notice**"), and such Objection Notice shall have been delivered to the Escrow Agent prior to the expiration of such thirty (30)-day period.

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(h) Resolution of Conflicts; Arbitration.

(i) In case the Seller Representative delivers an Objection Notice in accordance with Section 8.4(g) hereof, the Seller Representative and Omeros shall attempt in good faith to agree upon the rights of the respective parties with respect to each of such claims. If the Seller Representative and Omeros should so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties and, in the case of a claim against the Escrow Fund, shall be furnished to the Escrow Agent and, in the case of a claim directly against the Sellers, to the Sellers. The Escrow Agent shall be entitled to rely on any such memorandum and make distributions from the Escrow Fund in accordance with the terms thereof.

(ii) If no such agreement can be reached after good faith negotiation and prior to thirty (30) days after delivery of an Objection Notice, either Omeros or the Seller Representative may demand arbitration of the matter unless the amount of the Loss that is at issue is the subject of a pending litigation with a third party, in which event arbitration shall not be commenced until such amount is ascertained or both parties agree to arbitration, and in either such event the matter shall be settled by arbitration conducted by one arbitrator mutually agreeable to Omeros and the Seller Representative. In the event that, within thirty (30) days after submission of any dispute to arbitration, Omeros and the Seller Representative cannot mutually agree on one arbitrator, then, within fifteen (15) days after the end of such thirty (30)-day period, Omeros and the Seller Representative shall each select one arbitrator. The two arbitrators so selected shall select a third arbitrator. If the Seller Representative fails to select an arbitrator during this fifteen (15)-day period, then the parties agree that the arbitration will be conducted by one arbitrator selected by Omeros.

(iii) Any arbitration shall be held in King County, Washington, under the rules then in effect of the American Arbitration Association. The arbitrator(s) shall determine how all expenses relating to the arbitration shall be paid, including without limitation, the respective expenses of each party, the fees of each arbitrator and the administrative fee of the American Arbitration Association. The arbitrator or arbitrators, as the case may be, shall set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator or majority of the three arbitrators, as the case may be, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator, or a majority of the three arbitrators, as the case may be, shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrators or a majority of the three arbitrators, as the case may be, determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of the arbitrator or a majority of the three arbitrators, as the case may be, as to the validity and amount of any claim in such Officer's Certificate shall be final, binding, and conclusive upon the parties to this Agreement. Such decision shall be written and shall be supported by written findings of fact and conclusions which shall set forth the award, judgment, decree or order awarded by the arbitrator(s), and the Escrow Agent shall be entitled to rely on, and make distributions from the Escrow Fund in accordance with, the terms of such award.

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judgment, decree or order as applicable. Within thirty (30) days of a decision of the arbitrator(s) requiring payment by one party to another, such party shall make the payment to such other party.

(iv) Judgment upon any award rendered by the arbitrator(s) may be entered in any court having jurisdiction. The forgoing arbitration provision shall apply to any dispute among the Sellers and the Indemnified Parties under this Article VIII, whether relating to claims upon the Escrow Fund or to the other indemnification obligations set forth in this Article VIII.

(i) **Third-Party Claims.** In the event Omeros becomes aware of a third party claim which Omeros reasonably believes may result in a demand against the Escrow Fund or for other indemnification pursuant to this Article VIII (a "**Third Party Claim**"), Omeros shall notify the Seller Representative of such claim, and the Seller Representative shall be entitled on behalf of the Sellers, at their expense, to participate in, but not to determine or conduct, the defense of such Third Party Claim. Omeros shall have the right in its sole discretion to conduct the defense of, and to settle, any such claim; provided, however, that except with the consent of the Seller Representative, no settlement of any such Third Party Claim with third party claimants shall be determinative of the amount of Losses relating to such matter. In the event that the Seller Representative has consented to any such settlement, the Sellers shall have no power or authority to object under any provision of this Article VIII to the amount of any Third Party Claim by Omeros against the Escrow Fund with respect to such settlement.

(j) **Escrow Agent's Duties.**

(i) The duties and responsibilities of the Escrow Agent shall be limited to those expressly set forth in Article VIII and Article X of this Agreement. No implied duties or discretionary powers may be imputed to it by the terms of this Agreement, or otherwise. The Escrow Agent shall not be subject to, nor obliged to recognize, any other instrument governing the rights or duties of the other parties to this Agreement, even though reference thereto may be made in this Agreement.

(ii) The Escrow Agent may disregard any and all notices or instructions received from any source, except only (1) such notices or instructions as are specifically provided for in this Agreement and (2) orders or process of any court entered or issued with jurisdiction. If from time to time any property held pursuant to this Agreement becomes subject to any order, judgment, decree, injunction or other judicial process ("**Order**"), the Escrow Agent may comply with any such Order without liability to any person, even though such Order may thereafter be annulled, reversed, modified or vacated.

(iii) Whenever the Escrow Agent should receive or become aware of any conflicting demands or claims with respect to this Agreement or the rights of any of the parties hereto or any property held hereunder, the Escrow Agent may without liability refrain from any action until the conflict has been resolved or, alternatively, may tender into the registry or custody of any court which the Escrow Agent determines to have jurisdiction all money or property in its hands under this Agreement, together with such legal pleadings as it deems appropriate, less a reasonable allowance for its legal fees and expenses, and thereupon be discharged from all further duties and

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liabilities under this Agreement. Any inaction or filing of proceedings pursuant to this section shall not deprive the Escrow Agent of its compensation during such inaction or prior to such filing.

(iv) Unless otherwise specifically indicated herein, the Escrow Agent shall proceed as soon as practicable to collect any checks or other collection items at any time deposited hereunder. All such collections shall be subject to the usual collection agreement regarding items received by its commercial banking department for deposit or collection. The Escrow Agent shall have no duty (1) to collect from any party any money, securities or documents required to be deposited with it, (2) to notify anyone of any payment or maturity under the terms of any instrument deposited hereunder, or (3) to take any legal action to enforce payment of any check, note or security deposited with it. In the case of physical securities registered as to principal, income or both, the registered holder thereof shall furnish to the Escrow Agent such stock or bond powers, endorsements or other documents, properly executed with any necessary signature guarantees, necessary to permit the transfer or negotiation of such securities to third persons by delivery alone.

(v) Except as may be specifically provided herein concerning investments of cash, the Escrow Agent shall have no liability to pay interest on any money held pursuant to this Agreement. The Escrow Agent may use its own bond department or brokerage affiliate in purchasing or selling securities. The Escrow Agent shall not be liable for any depreciation or change in the value of such documents or securities or any property evidenced thereby or for any losses incurred in liquidating securities or other property to satisfy a distribution request. All distributions provided for hereunder shall be made by the Escrow Agent from the principal of the deposit to the extent thereof, subject to any unpaid fees and unreimbursed expenses of the Escrow Agent then outstanding, in the order that proper requests therefor are received by the Escrow Agent. In no event shall the Escrow Agent be required to seek contributions from any source or to advance its own funds in order to satisfy a distribution request.

(vi) The Escrow Agent shall not be responsible for any recitals of fact in this Agreement, or for the sufficiency, form, execution, validity or genuineness of any documents or securities deposited under this Agreement or for any signature, endorsement or any lack of endorsement thereon, or for the accuracy of any description therein, or for the identity, authority or rights of the persons executing or delivering the same or this Agreement.

(vii) The Escrow Agent shall be fully protected in relying without investigation upon any written notice, demand, certificate or document that it in good faith believes to be genuine, as to the truth and accuracy of the statements made therein, the identity and authority of the persons executing the same and the validity of any signature thereon. Although the Escrow Agent may demand specific authorizations (including corporate resolutions, incumbency certificates and the like) or identification from a party or its representative prior to taking any action hereunder, no such demand shall constitute a waiver or deprive the Escrow Agent of the protections afforded by this Section.

(viii) The Escrow Agent shall not be personally liable for any act taken or omitted by it under this Agreement in good faith and in the exercise of its own best judgment. In no event shall the Escrow Agent be liable to any person for punitive, special, indirect or consequential

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damages of any kind, even if it is advised of the possibility thereof. The parties shall jointly and severally indemnify, defend and hold harmless the Escrow Agent from and against any and all claims that may be asserted against the Escrow Agent by any third parties and any and all liability, loss, cost or expense (including reasonable attorneys' fees) that may be incurred by the Escrow Agent as a result of any such claim or otherwise as a result of acting as Escrow Agent hereunder, other than those arising out of the gross negligence or willful misconduct of the Escrow Agent (the "**Agent Indemnification Expenses**"), as follows: fifty percent (50%) to be paid by Omeros and fifty percent (50%) to be paid by the Sellers on the basis of the Sellers' Pro Rata Portions; provided, however, that in the event any Seller fails to timely pay his or her Pro Rata Portion of the Agent Indemnification Expenses, the parties agree that Omeros may at its option pay such Seller's Pro Rata Portion of the Agent Indemnification Expenses and recover an equal amount (without regard to deductible amount in Section 8.4(b)) from such Founder's Pro Rata Portion of the Escrow Fund (converted to USD using the Indemnity Exchange Rate). The obligations of the parties under this Section shall survive termination of this Agreement and distribution of the Escrow Fund.

(ix) The Escrow Agent may engage counsel of its own choosing to advise it concerning any of its duties in connection with this Agreement, or in case it becomes involved in litigation on account of being Escrow Agent under this Agreement, and good faith reliance on the advice of such counsel shall fully protect the Escrow Agent.

(x) The Escrow Agent may resign by written notice to the other parties to this Agreement. Any such resignation shall be effective upon delivery of the property then held in escrow to the successor Escrow Agent, whereupon the resigning Escrow Agent shall be discharged of any further duties under this Agreement. If an Escrow Agent resigns, the other parties shall appoint a successor Escrow Agent; provided that if no successor is appointed within 30 days after resignation, the resigning Escrow Agent may appoint as successor any corporation with trust powers in the United States or may tender the Escrow Fund into court as provided in Section 8.4(j)(iii).

(xi) Upon distribution of the Escrow Funds in accordance with Section 8.4(d)(ii) or pursuant to instructions given in accordance with this Agreement, the duties of the Escrow Agent shall terminate and the Escrow Agent shall be discharged from any further liability under this Agreement.

(xii) The Escrow Agent shall not be responsible for any delays or failure to perform any obligation hereunder caused by circumstances reasonably beyond its control, including but not limited to breaches by other parties of their obligations hereunder, delays by messengers or other independent contractors; mechanical or computer failures, malfunctioning or breakdowns in electrical power, heat, light, air conditioning or telecommunications equipment, securities exchanges, Federal Reserve Banks, clearing organizations or securities depositories; interference by any industrial, juridical, governmental, civil or military action, acts of terrorism, insurrection or revolution, nuclear fusion, fission or radiation; fires or other casualties, acts of God or other similar occurrences.

(xiii) Patobios shall provide the Escrow Agent with its taxpayer identification number documented by appropriate original Form W-8 or W-9 within 30 days after the

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Closing Date and prior to any investment of the Escrow Funds hereunder. Failure to so provide such forms may prevent or delay final disbursement of the Escrow Funds and may incur a penalty and cause Escrow Agent to be required to withhold tax on any income payable hereunder. In the event that income of the Escrow Fund may not be distributed during any year, such income shall be reported to the Internal Revenue Service as the income of Patobios. Any payments of income may be subject to applicable United States withholding regulations then in force.

(k) **Fees.** All fees of the Escrow Agent for performance of its duties hereunder shall be paid equally by Omeros and Patobios in accordance with the standard fee schedule of the Escrow Agent attached hereto as **Exhibit E**. It is understood that the fees and usual charges agreed upon for services of the Escrow Agent shall be considered compensation for ordinary services as contemplated by this Agreement. In the event that the conditions of this Agreement are not promptly fulfilled, or if the Escrow Agent renders any service not provided for in this Agreement, or if the parties request a substantial modification of the terms of the Agreement, or if any controversy arises, or if the Escrow Agent is made a party to, or intervenes in, any litigation pertaining to the Escrow Fund or its subject matter, the Escrow Agent shall be reasonably compensated for such extraordinary services and reimbursed for all costs, attorney's fees, including allocated costs of in-house counsel, and expenses occasioned by such default, delay, controversy or litigation.

(l) **Successor Escrow Agents.** Any corporation into which the Escrow Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Escrow Agent in its individual capacity shall be a party, or any corporation to which substantially all the corporate trust business of the Escrow Agent in its individual capacity may be transferred, shall be the Escrow Agent under this Escrow Agreement without further act.

8.5 Seller Representative.

(a) Each Seller appoints Dr. O'Dowd as its agent and attorney-in-fact, as the "**Seller Representative**" for and on behalf of the Sellers to give and receive notices and communications, to authorize payment to any Indemnified Party from the Escrow Fund in satisfaction of claims by any Indemnified Party, to object to such payments, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, to assert, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to, any other claim by any Indemnified Party against any Seller or by any such Seller against any Indemnified Party or any dispute between any Indemnified Party and any such Seller, in each case relating to this Agreement or the transactions contemplated hereby, and to take all other actions that are either (i) necessary or appropriate in the judgment of the Seller Representative for the accomplishment of the foregoing or (ii) specifically mandated by the terms of this Agreement. Such agency may be changed by the Sellers from time to time upon not less than thirty (30) days prior written notice to Omeros; provided, however, that the Seller Representative may not be removed unless holders of a majority in interest of the Escrow Fund agree to such removal and to the identity of the substituted agent. Notwithstanding

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the foregoing, a vacancy in the position of Seller Representative may be filled by the holders of a majority in interest of the Escrow Fund. No bond shall be required of the Seller Representative, and the Seller Representative shall not receive any compensation for its services. Notices or communications to or from the Seller Representative shall constitute notice to or from the Sellers.

(b) The Seller Representative shall not be liable for any act done or omitted hereunder as Seller Representative while acting in good faith and in the exercise of reasonable judgment. The Sellers on whose behalf the Escrow Amount was contributed to the Escrow Fund shall indemnify the Seller Representative and hold the Seller Representative harmless against any loss, liability or expense incurred without gross negligence or bad faith on the part of the Seller Representative and arising out of or in connection with the acceptance or administration of the Seller Representative's duties hereunder, including the reasonable fees and expenses of any legal counsel retained by the Seller Representative. A decision, act, consent or instruction of the Seller Representative shall constitute a decision of the Sellers and shall be final, binding and conclusive upon the Sellers; and the Escrow Agent and Omeros may rely upon any such decision, act, consent or instruction of the Seller Representative as being the decision, act, consent or instruction of the Sellers. The Escrow Agent and Omeros are hereby relieved from any liability to any person for any acts done by them in accordance with such decision, act, consent or instruction of the Seller Representative.

ARTICLE IX

TERMINATION, AMENDMENT AND WAIVER

9.1 **Termination.** This Agreement may be terminated:

(a) at any time by mutual written consent of Omeros and Patobios;

(b) at any time by Omeros prior to its receipt of a Put Notice by providing written notice thereof to Patobios; provided, however, that if within ten (10) days of providing such notice, Patobios gives Omeros a valid and timely Put Notice in accordance with Section 3.3(a), then this Agreement will continue and may not be terminated by Omeros pursuant to this Section 9.1(b);

(c) at any time by Patobios prior to receipt of an Exercise Notice by Patobios if it is not in material breach of its obligations under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement of Omeros contained in this Agreement and such breach has not been cured within sixty (60) calendar days after written notice thereof to Omeros; provided, however, that no cure period shall be required for a breach which by its nature cannot be cured;

(d) at any time by Omeros if it is not in material breach of its obligations under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement of Patobios or the Founders contained in this Agreement and such breach has not been

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cured within sixty (60) calendar days after written notice thereof to Patobios; provided, however, that no cure period shall be required for a breach which by its nature cannot be cured; or

(e) by Omeros or Patobios prior to the Closing: (i) if there shall be a final non-appealable order of a provincial, federal or state court in effect preventing consummation of the Closing, (ii) if there shall be any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Closing by any Governmental Entity that would make consummation of the Closing illegal, (iii) if Omeros is deemed to be Bankrupt and is thereby materially limited in performing its obligations hereunder (provided that if Omeros is deemed to be Bankrupt and lawfully tenders a total of ten million seven hundred and sixteen thousand dollars (\$10.716MM) CAD in cash to Patobios and provides evidence reasonably satisfactory to Patobios that such payment is lawful and does not violate any material agreements to which Omeros is a party, then Patobios may not terminate this Agreement pursuant to this subsection and may accept all of such cash as full and complete consideration of the Acquisition Price), or (iv) if the Closing has not occurred, at any time following the expiration of all the Option Periods for which the corresponding Option Fees have been paid.

9.2 Effect of Termination. In the event of termination of this Agreement, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Omeros, Patobios or the Founders, or their respective officers, directors or shareholders, if applicable; provided, however, that, subject to the limitations provided herein (a) each party hereto shall remain liable for any breaches of this Agreement or in any certificate or other instruments delivered pursuant to this Agreement prior to its termination, (b) the provisions of Article I, the Enforcement Proceeds provisions of Section 3.7, Sections 7.1, 7.2, 7.3 and 7.4, Article VIII, Section 9.2 and Article X shall remain in full force and effect and survive any termination of this Agreement pursuant to the terms of this Article IX, and (c) if Omeros terminates this Agreement pursuant to Section 9.1(b) or Section 9.1(d) during Option Period Two or Option Period Three, then within twenty (20) days of Omeros giving notice of such termination, Patobios shall pay to Omeros an amount equal to the Option Fee Refund in accordance with Omeros' written instructions. The obligation to pay the Option Fee Refund pursuant to Section 9.2(c) shall be a joint and several liability of Patobios and the Founders.

9.3 Amendment and Waiver. This Agreement may be amended, and any term may be waived, by the parties hereto at any time by execution of an instrument in writing signed by Omeros, Patobios and the Founders, provided that the duties and liabilities of the Escrow Agent may not be changed without its prior written consent.

ARTICLE X

GENERAL PROVISIONS

10.1 Notices. All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by overnight courier, by facsimile or otherwise delivered by hand or by messenger addressed:

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(a) if to Omeros, to:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attention: Chief Executive Officer
Facsimile No.: (206) 676-5005

with a copy to:

Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attention: General Counsel
Facsimile No.: (206) 676-5005

and to:

Wilson Sonsini Goodrich & Rosati
Professional Corporation
701 Fifth Avenue, Suite 5100
Seattle, WA 98104
Attention: Craig Sherman
Facsimile No.: (206) 883-2699

(b) if to Patobios, the Founders or the Seller Representative, to:

Dr. Brian O'Dowd and Dr. Susan George
c/o 19 Boarhill Drive
Scarborough, Ontario
M1S 2L9
Facsimile No.: (416) 971-2868

with a copy to:

Hoey Remus LLP
One University Avenue, Suite 400
Toronto, Ontario
M5J 2P1
Attention: Mr. Gregory R. Mallough
Facsimile No.: (416) 362-3646

(c) If to the Escrow Agent, to:

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US Bank National Association
60 Livingston Avenue
EP-MN-WS3T
St. Paul, MN 55107
Attention: Scott Kjar
Phone (651)-495-3808
Fax: (651) 495-8087

with a faxed copy to:

Shirley Young
Fax: (206) 344-4630

All such notices and communications will be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) one Business Day after being delivered by facsimile (with receipt of appropriate confirmation) or (iv) one Business Day after being deposited with an overnight courier service of recognized standing.

10.2 **Interpretation.** The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

10.3 **Counterparts.** This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that all parties need not sign the same counterpart.

10.4 **Entire Agreement; Assignment.** This Agreement, the Exhibits hereto, and the documents and instruments and other agreements among the parties hereto referenced herein: (i) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings both written and oral, among the parties with respect to the subject matter hereof, (ii) are not intended to confer upon any other person any rights or remedies hereunder, and (iii) may not be assigned without the consent of all parties hereto, provided, however, that the Founders and Patobios hereby consent to Omeros' assignment of this Agreement to any successor in interest to Omeros as part of a merger, acquisition, other change of control or together with a sale, transfer or other conveyance of all or substantially all of that part of Omeros' assets that pertain to this Agreement. For the avoidance of doubt, the Escrow Agent shall have no duty, express or implied, to any person who is not a party to this Agreement and no such person shall be deemed a "third party beneficiary" of this Agreement.

10.5 **Specific Performance.** The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with its specific terms or were otherwise breached. Each party agrees that, in the event of any breach or

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threatened breach by any other party of any covenant or obligation contained in this Agreement, the non-breaching party shall be entitled (in addition to any other remedy that may be available to it whether in law or equity, including monetary damages) to seek and obtain (a) a decree or order of specific performance to enforce the observance and performance of such covenant or obligation, and (b) an injunction restraining such breach or threatened breach. Without limiting the foregoing, the parties acknowledge that (a) if pursuant to Section 3.2 of the Agreement Omeros validly delivers a Exercise Notice during the Option Period and tenders the Acquisition Price in accordance with the Payment Instructions, Omeros shall be entitled to enforce specifically Patobios' and the Founders' obligations to sell the MOCA Technology to Omeros on the terms set forth in this Agreement, (b) if pursuant to Section 3.3 of the Agreement Patobios validly delivers a Put Notice during the Option Period and Omeros does not object to the Put Notice under the terms in Section 3.3, then Patobios and the Founders shall be entitled to enforce specifically Omeros' obligation to purchase the MOCA Technology for the Acquisition Price on the terms set forth in this Agreement and (c) Omeros shall be entitled to specifically enforce the Sellers' obligations in Section 3.4 to not sell Patobios or the MOCA Technology to a third party during the Option Period. Each party further agrees that no other party hereto or any other person or entity shall be required to obtain, furnish or post any bond or similar instrument in connection with or as a condition to obtaining any remedy referred to in this Section 10.5, and each party hereto irrevocably waives any right it may have to require the obtaining, furnishing or posting of any such bond or similar instrument.

10.6 Severability. In the event that any provision of this Agreement or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.7 Other Remedies. Any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

10.8 Governing Law. The rights and duties of Omeros, Patobios and the Founders pursuant to this Agreement shall be governed by and construed in accordance with the laws of the State of Washington, USA, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. The rights and duties of the Escrow Agent pursuant to this Agreement shall be governed by and construed in accordance with the laws of the State of Washington, USA, regardless of the laws that might otherwise govern under applicable principles of conflicts of law thereof. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any court within King County, State of Washington, USA, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of Washington

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for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process.

10.9 **Taxes.** Each party hereto has reviewed with its own tax advisors the provincial, federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement. Each party hereto is relying solely on such advisors and not on any statements or representations of any other party hereto or any of its agents. Each party hereto understands that it (and not any other party hereto) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement. If agreed in writing by Omeros and the Founders prior to the Closing Date, the Acquisition Price may be paid all in cash (in CAD). Omeros further agrees to consider any proposals by the Founders to change the structure of the Acquisition Price to minimize the taxes to the Founders without detriment to Omeros; provided, however, that Omeros shall not be obligated to accept any of such proposals and this sentence shall not in any way be construed to limit or otherwise alter Omeros' ability to enforce the terms of this Agreement. The parties agree to account for all consideration payable to the Sellers by Omeros under this Agreement, including the Option Fee and the Acquisition Price, as the acquisition of intellectual property for Canadian G.S.T. purposes.

10.10 **Rules of Construction.** The parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefor, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

10.11 **WAIVER OF JURY TRIAL.** EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY AND ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ACTIONS OF ANY PARTY HERETO IN NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

[remainder of page intentionally left blank]

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IN WITNESS WHEREOF, Omeros, Patobios, the Founders and the Escrow Agent have caused this Agreement to be signed, all as of the date first written above.

OMEROS CORPORATION

By: /s/ Gregory A. Demopulos
Gregory A. Demopulos, M.D.
CEO & Chairman

SUSAN R. GEORGE, M.D.

/s/ Susan R. George

PATOBIOS LIMITED

By: /s/ Brian O'Dowd
Name: Brian O'Dowd

Title: President

BRIAN F. O'DOWD, PH.D.

/s/ Brian O'Dowd

**U.S. BANK NATIONAL ASSOCIATION
as Escrow Agent**

By: /s/ Kyle J. Lunde

Name: Kyle J. Lunde

Title: AVP

SIGNATURE PAGE TO EXCLUSIVE TECHNOLOGY OPTION AGREEMENT

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LOAN AND SECURITY AGREEMENT
No. V08302

This Loan and Security Agreement (this "Loan Agreement"), made as of September 12, 2008 by and between BlueCrest Capital Finance, L.P. ("Lender"), a Delaware limited partnership with its principal place of business at 225 West Washington Street, Suite 200, Chicago, Illinois 60606, and Omeros Corporation ("Borrower"), a Washington corporation with its principal place of business at 1420 Fifth Avenue, Suite 2600, Seattle, WA 98101.

In consideration of the promises set forth herein, Lender and Borrower agree upon the following terms and conditions:

1. General Definitions

The following words, terms and /or phrases shall have the meanings set forth thereafter and such meanings shall be applicable to the singular and plural form thereof giving effect to the numerical difference:

A. "Account" means any "account," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and, in any event, shall include all accounts receivable, book debts, rights to payment, and other forms of obligations now owned or hereafter received or acquired by or belonging or owing to Borrower (including under any trade name, style or division thereof), whether or not arising out of goods or software sold or licensed or services rendered by Borrower or from any other transaction (including any such obligation that may be characterized as an account or contract right under the UCC), and all of Borrower's rights in, to and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of Borrower's rights to any goods represented by any of the foregoing (including unpaid seller's rights of rescission, replevin, reclamation and stoppage in transit and rights to returned, reclaimed or repossessed goods), and all monies due or to become due to Borrower under all purchase orders and contracts for the sale of goods or the performance of services or both by Borrower or in connection with any other transaction (whether or not yet earned by performance on the part of Borrower), now in existence or hereafter occurring, including the right to receive the proceeds of said purchase orders and contracts, and all collateral security and guarantees of any kind given by any Person with respect to any of the foregoing.

B. "Account Debtor" means any Person obligated on an Account.

C. "Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power (i) to vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

D. "Borrower's Liabilities" means all obligations and liabilities of Borrower to Lender (including without limitation all debts, claims, and indebtedness) whether primary, secondary, direct, contingent, fixed or otherwise, heretofore, now and/or from time to time hereafter owing, due or payable, however evidenced, created, incurred, acquired or owing and however arising, whether under this Loan Agreement and/or any promissory note or other instrument issued pursuant hereto or the "Other Agreements" (hereinafter defined), or by oral agreement or operation of law or otherwise.

E. "Business Day" means a day of the year on which banks are not required or authorized to close in New York City or Chicago, Illinois.

F. "Cash" means all cash, money (as such term is defined in the UCC), currency, and liquid funds, wherever held, in which Borrower now or hereafter acquires any right, title, or interest.

G. "Change of Control" means, at any time, a transaction or series of related transactions in which the shareholders of Borrower immediately prior to such transaction or series of transactions shall cease to beneficially own and control, directly or indirectly, a majority of the voting interests in the capital stock or other ownership interests of Borrower or the right to elect a majority of the seats on Borrower's board of directors immediately after such transaction or series of transactions; provided, however, that an equity financing for the purpose of raising capital from accredited investors, including, without limitation, venture capital, private equity, strategic or institutional investors shall not be deemed to be a Change of Control so long as (i) Borrower gives Lender at least

ten (10) Business Days prior notice of the names of such investors, and (ii) existing venture capital, private equity, strategic or institutional investors shall not sell any of their existing stakes in Borrower in such financing transaction.

H. "Charges" means all national, federal, state, county, city, municipal and/or other governmental taxes, levies, assessments, charges, liens, claims or encumbrances upon and/or relating to the Collateral, Borrower's Liabilities, Borrower's business, Borrower's ownership and/or use of any of its assets, and/or Borrower's income and/or gross receipts.

I. "Chattel Paper" means any "chattel paper," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

J. "Cleanup" means all actions required to: (1) clean up, remove, treat or remediate Hazardous Materials in the indoor or outdoor environment; (2) prevent the release of Hazardous Materials so that they do not migrate, endanger or threaten to endanger public health or welfare or the indoor or outdoor environment; (3) perform pre-remedial studies and investigations and post-remedial monitoring and care; or (4) respond to any government requests for information or documents in any way relating to cleanup, removal, treatment or remediation or potential cleanup, removal, treatment or remediation of Hazardous Materials in the indoor or outdoor environment.

K. "Collateral" has the meaning set forth in Section 5.1 hereof.

L. "Copyright License" means any written agreement granting any right to use any Copyright or Copyright registration, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest

M. "Copyrights" means all of the following property, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (i) all copyrights, whether registered or unregistered, held pursuant to the laws of the United States, any State thereof or of any other country; (ii) all registrations, applications and recordings in the United States Copyright Office or in any similar office or agency of the United States, of any State thereof or of any other country; (iii) all continuations, renewals or extensions thereof; and (iv) all registrations to be issued under any pending applications.

N. "Default" means any condition or event that, after notice or lapse of time or both, would constitute an Event of Default.

O. "Deposit Accounts" means any "deposit accounts," as such term is defined in the UCC, and in any event includes any checking account, savings account, or certificate of deposit now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

P. "Documents" means any "documents," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

Q. "Environmental Claim" means any claim, action, cause of action, investigation or notice (written or oral) by any Person alleging potential liability (including, without limitation, an obligation to conduct a Cleanup or potential liability for investigatory costs, Cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (a) the presence or release of any Hazardous Materials at any location, whether or not owned, leased or operated by Borrower or any of its Subsidiaries, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law.

R. "Environmental Laws" means all federal, state, local and foreign laws and regulations relating to pollution or protection of human health or the environment, including, without limitation, laws relating to releases or threatened releases of Hazardous Materials or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, disposal, transport or handling of Hazardous Materials, laws and regulations with regard to recordkeeping, notification, disclosure and reporting requirements respecting Hazardous Materials and laws relating to the management or use of natural resources.

S. "Equipment" means any "equipment", as such term is defined in the UCC, and in any event shall include but not be limited to computers and peripherals, laboratory equipment, manufacturing equipment, networking equipment, switching and backbone equipment, servers and routers and other hardware including disk drives and laser printers, office furniture, fixtures and office equipment, test and other equipment, and software, and all accessions, additions, attachments, accessories and improvements thereof and all replacements and/or substitutions therefore and all proceeds and products thereof.

T. "Event of Default" has the meaning set forth in Section 8.1 hereof.

U. "Financials" means those financial statements described in Section 7.3 hereof.

V. "Fixtures" means any "fixtures," as such term is defined in the UCC, together with all right, title and interest of Borrower in and to all extensions, improvements, betterments, accessions, renewals, substitutes, and replacements of, and all additions and appurtenances to any of the foregoing property, and all conversions of the security constituted thereby, immediately upon any acquisition or release thereof or any such conversion, as the case may be, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

W. "GAAP" means generally accepted accounting principles in the United States, in effect from time to time, consistently applied.

X. "General Intangibles" means any "general intangibles," as such term is defined in the UCC, and, in any event, shall include all right, title and interest which Borrower may now or hereafter have in or under any rights to payment; payment intangibles; software; proprietary or confidential information; business records and materials; customer lists; interests in partnerships, joint ventures, business associations, corporations, and limited liability companies; permits; claims in or under insurance policies (including unearned premiums and retrospective premium adjustments); and rights to receive tax refunds and other payments and rights of indemnification now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

Y. "Goods" means any "goods," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

Z. "Hazardous Materials" means all substances defined as Hazardous Substances, Oils, Pollutants or Contaminants in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. § 300.5, or defined as such by, or regulated as such under, any Environmental Law.

AA. "Instruments" means any "instrument," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

BB. "Intellectual Property" means

(i) all Copyrights; Trademarks; Patents; and Licenses; and applications therefor and reissues, extensions, or renewals thereof; and goodwill associated with any of the foregoing;

(ii) Any and all trade secrets, inventions, know-how, methods, processes, drawings, specifications or other data or information and all memoranda, notes and records with respect to any research and development and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held; and

(iii) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above, provided, however, that during an Event of Default which is then continuing, such claims shall be considered Proceeds of Intellectual Property for purposes of Section 5.1;

CC. "Inventory" means any "inventory," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, and, in any event, shall include all Goods and personal property that are held by or on behalf of Borrower for sale or lease or are furnished or are to be furnished under a contract of service, or that constitute raw materials, work in process or materials used or consumed or to be used or consumed in Borrower's business, or the processing, packaging, promotion, delivery or shipping of the same, and all finished goods, whether or not the same is in transit or in the constructive, actual or exclusive possession of Borrower or is held by others for Borrower's account, including all property covered by purchase orders and contracts with suppliers and all Goods billed and held by suppliers and all such property that may be in the possession or custody of any carriers, forwarding agents, truckers, warehousemen, vendors, selling agents or other Persons.

DD. "Investment Property" means all "investment property," as such term is defined in the UCC, and in any event includes any certificated security, uncertificated security, money market funds, bonds, mutual funds, and U.S. Treasury bills or notes, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

EE. "Letter of Credit Rights" means any "letter of credit rights," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest, including any right to payment or performance under any letter of credit.

FF. "License" means any Copyright License, Patent License, Trademark License or other license of rights or interests now held or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest and any renewals or extensions thereof.

GG. "Loan" has the meaning set forth in Section 2.1 hereof.

HH. "Material Adverse Effect" means a material adverse effect upon (i) the business operations, properties, assets, results of operations or financial condition of Borrower, taken as a whole with respect to Borrower's viability, that reasonably would be expected to result in the Borrower's inability to repay any portion of the Loans in accordance with the terms hereof, (ii) the validity, perfection, value or priority of Lender's security interest in the Collateral, (iii) the enforceability of any material provision of this Loan Agreement or any Other Agreement or (iv) the ability of Lender to enforce its rights and remedies under this Loan Agreement or any Other Agreement.

II. "Other Agreements" means all agreements, instruments and documents, including, without limitation, the Warrants, the Success Fee Agreement, any notes, guaranties, security agreements, warrants, account pledge and control agreements, fee arrangements, financing statements and all other written matter heretofore, now and/or from time to time hereafter executed by and/or on behalf and/or for the benefit of Borrower and delivered to Lender.

JJ. "Patent License" means any written agreement granting any right with respect to any invention on which a Patent is in existence or a Patent application is pending, in which agreement Borrower now holds or hereafter acquires any interest.

KK. "Patents" means all of the following property, now owned or hereafter acquired by Borrower: (a) all letters patent of, or rights corresponding thereto, in the United States or in any other country, all registrations and recordings thereof, and all applications for letters patent of, or rights corresponding thereto, in the United States or any other country, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country; (b) all reissues, continuations, continuations-in-part or extensions thereof; (c) all petty patents, divisionals, and patents of addition; and (d) all patents to be issued under any such applications.

LL. "Permitted Debt" means (i) Borrower's indebtedness to Lender under this Loan Agreement or any of the Other Agreements; (ii) indebtedness to trade creditors incurred in the ordinary course of business on ordinary trade terms and accrued expenses incurred in the ordinary course of business; (iii) other indebtedness for equipment financing in an aggregate outstanding principal amount not to exceed \$1,500,000 at any time; (iv) Subordinated Debt; (v) other unsecured indebtedness in an aggregate outstanding amount not to exceed \$100,000; or (vi) any extension, renewal or refinancing of the indebtedness described in (iii) above, provided that the principal amount of, and interest rate on, such indebtedness may not be increased.

MM. "Permitted Liens" means all (i) Charges for amounts not yet delinquent or being contested in good faith by appropriate proceedings and for which adequate reserves have been made in accordance with GAAP; (ii) statutory liens of landlords, carriers, warehousemen, mechanics and materialmen incurred in the ordinary course of business for sums not yet delinquent or that are being contested in good faith by appropriate proceedings being diligently conducted and for which Borrower maintains adequate reserves in accordance with GAAP; (iii) liens arising from judgments, decrees or attachments in circumstances which do not constitute an Event of Default hereunder; (iv) the following deposits, to the extent made in the ordinary course of business: deposits under worker's compensation, unemployment insurance, social security and other similar laws, or to secure the performance of bids, tenders or contracts (other than for the repayment of borrowed money) or to secure indemnity, performance or other similar bonds for the performance of bids, tenders or contracts (other than for the repayment of borrowed money) or to secure statutory obligations (other than liens arising under ERISA or environmental liens) or surety or appeal bonds, or to secure indemnity, performance or other similar bonds; (v) banker's liens, rights of setoff and similar liens arising by operation of law on deposits made in the ordinary course of business, including all deposit accounts and securities accounts, provided such liens do not arise in respect of borrowed money; (vi) liens arising in connection with clause (iii) of the definition of Permitted Debt on any Equipment (and any accessions, attachments, replacements or improvements thereon) which was acquired or financed by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment, provided that the lien is confined solely to the Equipment so acquired or financed, and improvements thereon and the proceeds thereof; (vii) leases or subleases and non-exclusive licenses and sublicenses granted to others in the ordinary course of business; (viii) liens in favor of customs and revenue authorities arising as a matter of law to secure payments of custom duties in connection with the importation of goods; and (ix) liens securing Subordinated Debt.

NN. "Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (whether national, federal, state, county, city, municipal or otherwise, including without limitation, any instrumentality, division, agency, body or department thereof).

OO. "Proceeds" means "proceeds," as such term is defined in the UCC.

PP. "Receivables" means (i) all of Borrower's Accounts, Instruments, Documents, Chattel Paper, Supporting Obligations, letters of credit, proceeds of any letter of credit, and Letter of Credit Rights, and (ii) all customer lists, software, and business records related thereto.

QQ. "Securities Account" means any "securities account" as such term is defined in the UCC, and in any event includes any account to which a financial asset is or may be credited in accordance with an agreement under which the person maintaining the account undertakes to treat the person for whom the account is maintained as entitled to exercise the rights that comprise the financial asset.

RR. "Subordinated Debt" means indebtedness owed to a Person other than Lender and subordinated to Borrower's Liabilities pursuant to the terms and conditions of a subordination agreement acceptable to Lender in its sole discretion.

SS. "Subsidiary" means, with respect to any Person, any corporation, partnership, limited liability company, association, joint venture or other business entity of which more than 50% of the total voting power of shares of stock or other ownership interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Person or Persons (whether directors, managers, trustees or other Persons performing similar functions) having the power to direct or cause the direction of the management and policies thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof.

TT. "Success Fee Agreement" has the meaning set forth in Section 2.5(b) hereof.

UU. "Supporting Obligations" means any "supporting obligations," as such term is defined in the UCC, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

VV. "Term Loan" has the meaning set forth in Section 2.1 hereof.

WW. "Trademark License" means any written agreement granting any right to use any Trademark or Trademark registration, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest.

XX. "Trademarks" means all of the following property, now owned or hereafter acquired by Borrower or in which Borrower now holds or hereafter acquires any interest: (a) all trademarks, tradenames, corporate names, business names, trade styles, service marks, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, and designs of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and any applications in connection therewith, including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, (b) all reissues, extensions or renewals thereof, and (c) all rights in World Wide Web addresses, uniform resource locators and domain names and applications and registrations therefor.

YY. "UCC" means the Uniform Commercial Code as in effect from time to time in the State of Illinois, provided that if by reason of mandatory provisions of law, the perfection, the effect of perfection or non-perfection or the priority of the security interest granted hereunder in any Collateral (as hereinafter defined) or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect on or after the date hereof in other jurisdiction(s), then "UCC" means the Uniform Commercial Code as in effect on or after the date hereof in such other jurisdiction(s) for the purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection, or priority or availability of such remedy.

ZZ. "Warrants" has the meaning set forth in Section 2.5(b) hereof.

2. The Loans

2.1 Term Loan. On the terms and subject to the conditions contained in this Loan Agreement, including those listed in Section 2.5 hereof, Lender shall loan to Borrower a term loan (the "Term Loan"), in an amount up to Twenty Million Dollars (\$20,000,000.00), in four tranches as follows: (i) on the date hereof, the initial advance in an amount of Five Million Dollars (\$5,000,000), (ii) on or before December 31, 2008, an additional advance (the "Second Tranche") in an amount of up to Six Million Dollars (\$6,000,000), (iii) on or before December 31, 2008, an

additional advance (the "Third Tranche") in an amount of up to Six Million Dollars (\$6,000,000), and (iv) on or before March 31, 2009, an additional advance (the "Fourth Tranche") in an amount of up to Three Million Dollars (\$3,000,000), each pursuant to a funding request submitted to Lender in the form attached hereto as Exhibit B (the "Funding Request") not later than 9:00 a.m. (prevailing Chicago time) not less than five (5) Business Days prior to the date of such proposed borrowing. In no event shall the aggregate amount of the advances made hereunder exceed Twenty Million Dollars (\$20,000,000.00). This is not a revolving line of credit and Borrower may not repay and re-borrow the amounts advanced or to be advanced under this Section 2.1. Each advance in respect of the Term Loan (each, a "Loan") shall be repaid in thirty-nine (39) monthly installments as follows: (i) commencing on the first Business Day of the first month after the date of the relevant Loan, three (3) monthly payments of interest only (paid in arrears); and then (ii) commencing on the first Business Day of the fourth month after the date of the relevant Loan, thirty-six (36) equal monthly scheduled installments of principal and interest (paid in arrears), each such payment to be made on the first Business Day of the relevant month.

2.2 Evidence and Nature of Loans. Each Loan to be made by Lender to Borrower pursuant to this Loan Agreement will be evidenced by one or more promissory notes (in form and substance satisfactory to Lender) to be executed and delivered by Borrower to Lender before or concurrently with Lender's disbursement of such Loan to or for the account of Borrower. All of Borrower's Liabilities (including all Loans under this Loan Agreement) shall be secured by Lender's security interest in the Collateral and by all other security interests, liens, claims and encumbrances now and/or from time to time hereafter granted by Borrower to Lender, whether hereunder or under the Other Agreements.

2.3 Use of Proceeds. Borrower warrants and represents to Lender that Borrower shall use the proceeds of each Loan made by Lender to Borrower pursuant to this Loan Agreement and any advances made pursuant to the Other Agreements solely for legal and proper corporate purposes (duly authorized by its Board of Directors) and consistent with all applicable laws and statutes.

2.4 Direction to Remit. Borrower hereby authorizes and directs Lender to disburse, for and on behalf of Borrower and for Borrower's account, the proceeds of the Loan made by Lender to Borrower pursuant to this Loan Agreement to such Person or Persons as an officer or director of Borrower shall direct, whether in writing or orally.

2.5 Conditions Precedent. (a) The following conditions precedent must be met before each Loan is made hereunder: (i) No event, condition or change that has had, or could reasonably be expected to have, a Material Adverse Effect shall have occurred since the later of the date of this Loan Agreement or the date of the last Loan made by the Lender to Borrower hereunder, (ii) The representations and warranties contained in this Loan Agreement and in the Other Agreements shall be true and correct in all material respects on and as of the date of such Loan unless such representations and warranties were made as of a specified date, in which case such representations and warranties shall be true and correct in all material respects as of such specified date, (iii) As of the date of such Loan, no event shall have occurred and be continuing or would result from such Loan or the application of the proceeds thereof that would constitute an Event of Default or a Default, and (iv) Such other documents and information as Lender may reasonably request from Borrower from time to time after consultation with Borrower.

(b) In addition, the following conditions precedent must be met before the initial Loan is made hereunder: (i) Payment of all fees required under this Loan Agreement or the Other Agreements, (ii) Receipt by Lender of satisfactory release documents from any and all conflicting secured creditors (other than holders of Permitted Liens), (iii) Receipt by Lender of appropriate filings and other means of perfecting its security interest in the Collateral, including but not limited to specific collateral assignments of Collateral consisting of instruments or evidenced by titles, (iv) Lender shall have received copies of the certificates and evidences of insurance contemplated under Section 5.6 hereof and the Financials described in Section 7.3 for the periods ending June 30, 2008 and July 31, 2008, (v) Receipt by Lender, to the extent requested, of adequate proof of free and clear ownership of the Collateral, including but not limited to paid in full invoices and cancelled checks or other means of payment for said invoices, (vi) Execution by Borrower and applicable financial institution(s) of any required account control agreements for the benefit of Lender, (vii) Delivery by Borrower of a satisfactory landlord waiver duly executed and delivered by Borrower's Seattle, Washington landlord, (viii) Receipt by Lender of Warrants to purchase up to \$400,000 of shares of Borrower's Common Stock, in form and substance satisfactory to Lender (the "Warrants"), (ix) a success fee agreement, in form and substance satisfactory to Lender (the "Success Fee Agreement"), and (ix) Delivery by Borrower of a legal opinion of counsel to Borrower relating to this Loan Agreement and the Other Agreements in form and substance satisfactory to Lender.

(c) In addition, the following conditions must be met before the Second Tranche is made available hereunder: (i) Borrower has demonstrated (by providing minutes and resolutions, or actions by unanimous written consent, of the Board of Directors relating thereto) to Lender that the Board of Directors of Borrower has reviewed OMS201 Phase 1 data from the trial being conducted as of the date hereof and after such review, approved the advancement of OMS201 to the next clinical trial.

(d) In addition, the following conditions must be met before the Third Tranche is made available hereunder: (i) Borrower has demonstrated (by providing minutes and resolutions, or actions by unanimous written consent, of the Board of Directors relating thereto) to Lender that the Board of Directors of Borrower has reviewed OMS302 Phase 1 data from the trial being conducted as of the date hereof and after such review, approved the advancement of OMS302 to the next clinical trial.

(e) In addition, the following conditions must be met before the Fourth Tranche is made available hereunder: (i) Borrower has received not less than \$25 million in cash proceeds on or after the date hereof but prior to March 31, 2009, from any of the following sources: (i) the sale of equity securities (including the exercise of any stock options or warrants), (ii) the incurrence of Subordinated Debt, (iii) the receipt of proceeds of any grants, (iv) the receipt of proceeds from any strategic partnerships or co-development projects and/or (v) the receipt of proceeds from licensing and joint venture fees, evidenced to the reasonable satisfaction of Lender.

2.6 Payments and Taxes. Subject to the satisfaction of Lender's (including any permitted assignee) obligation in the last sentence of this Section 2.6, any and all payments made by Borrower under this Loan Agreement or any Other Agreement shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any governmental authority (including any interest, additions to tax or penalties applicable thereto) other than any taxes imposed on or measured by Lender's overall net income and franchise taxes imposed on it (in lieu of net income taxes), by a jurisdiction (or any political subdivision thereof) as a result of Lender being organized or resident, conducting business (other than a business deemed to arise from Lender having executed, delivered or performed its obligations or received a payment under, or enforced, or otherwise with respect to, this Loan Agreement or any Other Agreement) or having its principal office in such jurisdiction ("**Indemnified Taxes**"). Subject to the satisfaction of Lender's obligation in the last sentence of this Section 2.6, if any Indemnified Taxes shall be required by law to be withheld or deducted from or in respect of any sum payable under this Loan Agreement or any Other Agreement to Lender (w) an additional amount shall be payable as may be necessary so that, after making all required withholdings or deductions (including withholdings or deductions applicable to additional sums payable under this Section) Lender receives an amount equal to the sum it would have received had no such withholdings or deductions been made, (x) Borrower shall make such withholdings or deductions, (y) Borrower shall pay the full amount withheld or deducted to the relevant taxing authority or other authority in accordance with applicable law and (z) Borrower shall deliver to Lender evidence of such payment. Borrower's obligation hereunder shall survive the termination of this Loan Agreement. Lender (including any permitted assignee) shall provide Borrower, within thirty (30) days following the execution of this Loan Agreement (or promptly after any permitted assignment of Lender's interests hereunder), with a properly executed IRS Form W-9 (or such other form) certifying Borrower's exemption from "backup withholding" within the meaning of Section 3406 of the Internal Revenue Code.

3. Interest, Fees and Repayment

3.1 Interest. Each Loan shall bear interest payable monthly in arrears on the first Business Day of each month, calculated on the basis of a 360 day year comprised of twelve (12) thirty day months at a per annum rate equal to the interest rate of 12.50%. In no event shall interest accrue or be payable in connection with any Loan in an amount in excess of that permitted under applicable law. If the note(s) so provide, the interest thereunder may be precomputed for the period ending when payments thereunder are due and on the assumption that all payments will be made on their respective due dates. Payments due under any note and not made by their scheduled due date for a period in excess of five (5) days thereafter shall be overdue and shall be subject to a service charge in an amount equal to two percent (2%) of the delinquent amount, but not more than the maximum rate permitted by law, whichever is less. In addition, and notwithstanding the forgoing, during the continuance of an Event of Default all outstanding Borrower's Liabilities in respect of the Loans shall bear interest (payable on demand) at a rate that is two percent (2%) per annum in excess of the Loan Interest Rate applicable to each Loan and other Borrower's Liabilities from time to time.

3.2 Fees. Borrower agrees to pay to Lender a fee of \$25,000 to cover due diligence and other costs and expenses incurred in connection with the Loan, of which Lender acknowledges receipt of \$25,000. All fees payable hereunder shall be earned when due and payable hereunder, and shall not be refundable in whole or in part. Notwithstanding anything in this Loan Agreement, Borrower's obligation with respect to the Lender's legal fees and costs for negotiating and documenting this Loan Agreement and the Other Agreements in respect of the origination of the Loan shall not exceed \$25,000 and such legal fees and costs shall be paid out of the \$25,000 that Lender has already received pursuant to this Section 3.2.

3.3 Repayment. Borrower's Liabilities under this Loan Agreement are absolute and unconditional. Any and all costs, fees and expenses payable pursuant to this Loan Agreement or any of the Other Agreements shall be payable by Borrower to Lender or to such other person or persons designated by Lender, within three (3) Business Days of

receipt of written invoice with a reasonably detailed itemization of such costs, fees and expenses. All payments to Lender shall be payable by 2:00 p.m. (prevailing Chicago time) at Lender's principal place of business specified at the beginning of this Loan Agreement or at such other place or places as Lender may designate in writing to Borrower. All payments to Persons other than Lender shall be payable at such place or places as Lender may designate in writing to Borrower.

3.4 **Application of Payments.** Provided that an "Event of Default" (hereinafter defined) does not exist, the application of payments received by Lender pursuant to this Loan Agreement shall be applied first to any and all late charges, fees and expenses then due and payable; second to interest then due and payable hereunder; third to the principal of the Loans then due and payable, fourth to the remaining Loans then outstanding and finally, to any other Borrower Liabilities then outstanding. From and after an Event of Default, Lender shall have the continuing and exclusive right to apply any and all such payments received by Lender to any portion of Borrower's Liabilities, including to any of Borrower's Liabilities arising under any of the Other Agreements. Solely for the purpose of computing interest earned by Lender, payments received by Lender shall be applied as aforesaid on the Business Day following receipt by Lender. Checks or other items of payment received after 2:00 p.m. prevailing Chicago, Illinois time shall be deemed received the following Business Day.

3.5 **Accuracy of Statements** Each statement of account by Lender delivered to Borrower relating to Borrower's Liabilities shall be presumed correct and accurate (absent manifest error) and shall constitute an account stated between Borrower and Lender unless thereafter waived in writing by Lender, in Lender's discretion. Any objection to the statement that Borrower may have must be delivered to Lender, by registered or certified mail, within thirty (30) days after Borrower's receipt of said statement.

4. Term and Prepayment

4.1 **Term.** This Loan Agreement shall be in effect until the indefeasible payment in full to Lender of all of Borrower's Liabilities. Except as provided below, Borrower has no right to prepay Borrower's Liabilities under this Loan Agreement and the Other Agreements.

4.2 **Voluntary Prepayment.** Borrower may, upon at least thirty (30) days prior written notice to Lender (stating the proposed date of prepayment, which date shall then be the due date for such Loan), prepay the outstanding principal amount of all Loans then outstanding in whole, but not in part by paying to Lender, immediately available funds, an amount equal to the sum of (i) the outstanding principal amount of all Loans then outstanding, (ii) all accrued and unpaid interest, fees and expenses on the Loans through the date of prepayment, and (iii) (A) in the event that such prepayment is made on or prior to the date which is eighteen (18) months after the date of the relevant Loan, a prepayment premium equal to 2% of the principal amount being prepaid; and (B) in the event that such prepayment is made after the date which is more than eighteen months after the date of the relevant Loan but on or prior to the maturity date of the relevant Loan, a prepayment premium equal to 1% of the principal amount being prepaid.

5. Collateral and Security

5.1 **Grant of Security Interest.** To further secure to Lender the prompt full and faithful payment and performance of Borrower's Liabilities (other than those arising under the Warrants or the Success Fee Agreement) and the prompt, full and complete performance by Borrower of each of its covenants and duties under this Loan Agreement and the Other Agreements, Borrower grants to Lender, a valid, first priority continuing security interest in and lien upon all of the following (except as to assets or property with Permitted Liens, upon which a lien which may be other than a first priority lien is granted), whether now owned or hereafter acquired and wherever located:

- (i) All Receivables;
- (ii) All Equipment;
- (iii) All Fixtures;
- (iv) All General Intangibles (other than Intellectual Property);
- (v) All Inventory;
- (vi) All Investment Property;
- (vii) All Deposit Accounts and Securities Accounts;
- (viii) All Cash;
- (ix) All Documents;

- (x) All Proceeds from the sale, transfer or other disposition of Intellectual Property;
- (xi) All other Goods and tangible and intangible personal property of Borrower other than Intellectual Property, whether now or hereafter owned or existing, leased, consigned by or to, or acquired by, Borrower and wherever located, and
- (xii) to the extent not otherwise included, all Proceeds of each of the foregoing and all accessions to, substitutions and replacements for, and rents, profits and products of each of the foregoing and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located and all products and proceeds of the foregoing including without limitation proceeds of insurance policies insuring the foregoing and all books and records with respect thereto;

(all of the foregoing personal property is hereinafter sometimes individually and sometimes collectively referred to as "Collateral"). Notwithstanding anything herein contained or construed to the contrary, Borrower is not granting to Lender, and Lender is not receiving from Borrower, any grant of a security interest in (i) any of the outstanding capital stock or other equity interests of any directly owned Subsidiary of Borrower organized under the laws of any jurisdiction other than the United States, any State thereof or the District of Columbia in excess of 65% of the voting power of all classes of such capital stock or other equity interests of such Subsidiary entitled to vote or (ii) any of Borrower's now owned or hereafter acquired Intellectual Property (other than a security interest in the Proceeds from the sale, transfer or other disposition of Intellectual Property); provided, however, that software, firmware and operating systems that cannot be removed from the Collateral without rendering the Collateral inoperable shall be deemed to be part of the "Collateral" unless such construction is prohibited by or inconsistent with any relevant license or other agreement respecting such software, firmware or operating system or (iii) any property subject to a lien described in clause (vi) of the definition of Permitted Liens in which the granting of a security interest therein is prohibited by or would constitute a default under any agreement or document governing such property, provided, that immediately upon the ineffectiveness, lapse or termination of any such provision, the Collateral shall include, and Borrower shall be deemed to have granted a security interest in, all such rights and interests as if such provision had never been in effect or (iv) Borrower's cash collateral account maintained at Comerica Bank to secure certain lease obligations, provided that the principal amount of such cash collateral account shall not exceed \$250,000, but only for such times as Borrower is obligated to maintain such cash collateral account in respect of such lease obligations. Borrower shall make appropriate entries upon its financial statements and its books and records disclosing Lender's security interest in the Collateral.

Borrower hereby further agrees that, except as expressly permitted herein including with respect to Permitted Liens, Borrower shall not hereafter grant a security interest in or pledge any of its Intellectual Property to any other party.

5.2 **Further Assurances.** Borrower shall execute and/or deliver to Lender, at any time and from time to time hereafter at the request of Lender, all agreements, instruments, UCC financing statements (or other required perfection instruments), documents and other written matter (hereinafter individually and/or collectively, referred to as "Additional Documentation") that Lender reasonably may request, in a form and substance reasonably acceptable to Lender, to perfect and maintain Lender's perfected security interest in the Collateral and to consummate the transactions contemplated in or by this Loan Agreement and the Other Agreements. Borrower, irrevocably, (a) hereby makes, constitutes and appoints Lender (and all Persons designated by Lender for that purpose) as Borrower's true and lawful attorney (and agent-in-fact) to sign the name of Borrower on the Additional Documentation and to deliver the Additional Documentation to such Persons as Lender, in its sole and absolute discretion, may elect, (b) authorizes completion and filing of any such Additional Documentation by Lender or its agents, whether paper or electronic, (c) hereby ratifies and confirms the completion and filing of Additional Documentation by Lender or its agent, paper or electronic, occurring prior to the date hereof, and (d) declares that Borrower has the present intention to authenticate and process any such Additional Documentation, whether paper or electronic, and whether or not completed and filed by Lender or its agents before or after the date hereof.

5.3 **Inspection of Collateral.** Lender (by any of its officers, employees and/or agents) shall have the right, upon prior written notice (so long as an Event of Default is not continuing) and during Borrower's usual business hours, to inspect the Collateral and all related records (and the premises upon which it is located) and to verify the amount and condition of or any other and all financial records and matters whether or not relating to the Collateral, provided that Lender shall not conduct such inspections more than once per year unless an Event of Default exists. During the continuance of an Event of Default, all costs, fees and expenses incurred by Lender, or for which Lender has become obligated, in connection with such inspection and/or verification shall be payable by Borrower to Lender. Borrower agrees to use its commercially reasonable efforts to cause its employees and agents to cooperate with Lender in all inspections.

5.4 **Controlled Accounts; Proceeds of Collateral.** (a) Except for Deposit Accounts which Borrower and Lender agree shall be closed by Borrower within thirty (30) days from the date hereof, Borrower shall deliver, or cause to be delivered to Lender an account control agreement in form and substance satisfactory to Lender and duly authorized, executed and delivered by Borrower and each bank or financial institution where Borrower maintains a deposit or securities account (each a "Controlled Account"); provided, however, that Lender will not exercise its right to control amounts in a Controlled Account unless an Event of Default hereunder or under the Other Agreements has occurred and is continuing. Borrower will provide such evidence of the closure of any Deposit Accounts as provided above as Lender may reasonably request. With respect to Borrower's subsidiary, nura, inc., Borrower shall not be required to deliver an account control agreement for any deposit accounts maintained by such entity so long as the aggregate amounts of Cash on deposit therein does not exceed \$20,000.

(b) All proceeds arising from the disposition of any Collateral by Borrower shall be deposited in a Controlled Account within one Business Day after receipt by Borrower. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Loan Agreement.

5.5 **Third Party Claims.** Lender, in its sole and absolute discretion, without waiving or releasing any obligation, liability or duty of Borrower under this Loan Agreement or the Other Agreements or any Event of Default, may (but shall be under no obligation to) at any time or times hereafter, pay, acquire and/or accept an assignment of any security interest, lien, encumbrance or claim asserted (other than Permitted Liens) by any Person against the Collateral. All sums paid by Lender in respect thereof and all costs, fees and expenses, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto incurred by Lender on account thereof shall be payable by Borrower to Lender.

5.6 **Insurance.** Borrower shall at all times throughout the term of this Loan Agreement and any extension hereof procure and maintain at its own expense the following minimum insurance coverages which shall be provided by insurance carriers with an AM Best rating of A, Class C or as otherwise acceptable to Lender and with such deductibles and exclusions as approved by Lender: (1) Special Form property damage insurance covering the Collateral which shall include but not be limited to fire and extended coverage and where applicable mechanical breakdown and electrical malfunction, and which shall be written in amount not less than the current replacement cost of Borrower's property; and, (2) Commercial general liability insurance which may include excess liability insurance written on occurrence basis with a limit of not less than \$2,000,000, and (3) Workers' compensation insurance in accordance with statutory limits and employers' liability coverage which may include excess liability in an amount not less than \$1,000,000.

Any insurance carried and maintained in accordance with this Loan Agreement by Borrower shall be endorsed to provide that: (i) Lender shall be additional insured and loss payee with respect to the property insurance described in subsection (1) of the prior paragraph, and Lender shall be an additional insured with respect to the liability insurance described in subsection (2) of the prior paragraph; and (ii) The insurers thereunder waive all rights of subrogation against Lender, any right of setoff and counterclaim and any other right to deduction due to outstanding premiums, whether by attachment or otherwise; (iii) Such insurance shall be primary without right of contribution of any other insurance carried by or on behalf of Lender; and (iv) Inasmuch as such policies are written to cover more than one insured, all terms, conditions, insuring agreements and endorsements (other than the limits of liability) shall operate in the same manner as if there were a separate policy covering each insured; and (v) If such insurance is canceled for any reason whatsoever, including nonpayment of premium, or any substantial change is made in the coverage that affects the interests of Lender the insurer shall use commercially reasonable efforts to notify the Lender of such change or cancellation prior to the effective date of such change or cancellation. Borrower, irrevocably, appoints Lender as Borrower's true and lawful attorney (and agent-in fact) for the purpose of making, settling and adjusting claims under such policies, endorsing the name of Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies and for making all determinations and decisions with respect to such policies, and such appointment will be effective during the existence of an Event of Default hereunder.

On or before the initial funding by Lender hereunder, and at each policy anniversary date, Borrower shall arrange to furnish Lender with appropriate Certificates of Insurance. Such Certificates of Insurance shall be executed by each insurer or by an authorized representative of each insurer, and shall identify insurers, the type of insurance, the insurance limits and the policy term and shall specifically list the special endorsements (i) through (v) above.

In case of the failure to procure or maintain such insurance, Lender shall have the right, but not the obligation, to obtain such insurance and any premium paid by Lender shall be immediately due and payable by Borrower to Lender. The maintenance of any policy or policies of insurance pursuant to this Section shall not limit any obligation or liability of Borrower pursuant to any other Sections or provisions of this Loan Agreement.

If no Event of Default has occurred and is continuing, proceeds from claims under any casualty policy will, at Borrower's option, be payable to Borrower to replace the property subject to the claim or otherwise acquire property useful to the business of Borrower, provided that any such replacement property shall be deemed Collateral in which Lender has been granted a first priority security interest; during the existence of an Event of Default, proceeds from claims payable under any casualty policy will, at Lender's option, be payable to Lender and applied against Borrower's Liabilities. If an Event of Default has occurred and is continuing, all proceeds payable under any such policy shall, at Lender's option, be payable to Lender to be applied on account of the Borrower's Liabilities.

5.7 **Charges on Collateral.** Borrower shall not permit any Charges (other than Permitted Liens) to arise, or to remain, and Borrower shall pay promptly when due, and discharge, such Charges. In the event Borrower, at any time or times hereafter, shall fail to pay such Charges when due or to obtain such discharges, Borrower shall so advise Lender thereof in writing. Lender may, without waiving or releasing any obligation or liability of Borrower hereunder or Event of Default, in its sole and absolute discretion, at any time or times thereafter, make such payment, or any part thereof, or obtain such discharge and take any other action with respect thereto which Lender deems advisable. All sums so paid by Lender and any expenses, including reasonable attorneys' fees, court costs, expenses and other charges relating thereto, shall be payable by Borrower to Lender upon demand.

5.8 **UCC Filing Authorization.** Borrower hereby authorizes Lender and its counsel and other representatives to file, at any time on or after the date hereof, UCC financing statements and continuation statements, and amendments to financing statements, in any jurisdictions and with any filing offices as Lender may determine, in its sole discretion, are necessary or advisable to perfect the security interests granted to Lender hereunder and under the Other Agreements. Such financing statements may describe the Collateral in the same manner as described herein or therein or may contain an indication or description of Collateral that describes such property in any other manner as Lender may determine is necessary or advisable to ensure the perfection of the security interest in the Collateral.

5.9 **Accounts.** So long as no Event of Default has occurred and is continuing, subject to Section 7.4 hereof, Borrower may settle, adjust or compromise any claim, offset, counterclaim or dispute with any Account Debtor. At any time that an Event of Default has occurred and is continuing, Lender may, at its option, notify Borrower that Lender intends to have the exclusive right to settle, adjust or compromise any claim, offset, counterclaim or dispute with Account Debtors or grant any credits, discounts or allowances and on and after such notice from Lender to Borrower, Lender shall have such exclusive right.

6. **Warranties and Representations**

6.1 **Borrower Representations.** Borrower warrants and represents to Lender, as of the date hereof and as of the date of any Loan made hereunder, and agrees and covenants to Lender that:

- (a) Borrower is and at all times hereafter shall be (i) a Person having that legal name and organizational structure as set forth above, duly organized and existing and in good standing under the laws of the state of its organization as set forth above and (ii) qualified or licensed to do business in all other states in which the laws require Borrower to be so qualified and/or licensed, except in such states where the failure to be so qualified or licensed would not reasonably be expected to have a Material Adverse Effect;
- (b) Borrower is duly authorized and empowered to enter into, execute, deliver and perform this Loan Agreement and the Other Agreements and the execution, delivery and/or performance by Borrower of this Loan Agreement and the Other Agreements, and the use by Borrower of the proceeds of the Loans hereunder, shall not, by the lapse of time, the giving of notice or otherwise, conflict with or constitute a violation of any applicable law (including, without limitation, Regulation U or Regulation X of the Board of Governors of the Federal Reserve System or any other regulation thereof) or a breach of any provision contained in Borrower's organizational documents or contained in any agreement, instrument or document to which Borrower is now or hereafter a party or by which it is or may become bound or give rise to or result in any default thereunder, except to the extent that non-compliance either individually or in the aggregate could reasonably be expected to have a Material Adverse Effect;
- (c) This Loan Agreement is (and when executed or delivered, each Other Agreement will be) the legally valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by equitable principles (whether enforcement is sought in equity or at law).
- (d) Except as disclosed to Lender in writing prior to the date hereof, there are no actions or proceedings which are pending, or to its knowledge threatened in writing, against Borrower where such actions or proceedings could reasonably be expected to have a Material Adverse Effect. Borrower is not in breach of or a party to any contract or agreement or subject to any charge, restriction, judgment, decree or order which has or could

reasonably be expected to have a Material Adverse Effect, nor is Borrower in default with respect to any indenture, security agreement, mortgage, deed or other similar agreement relating to the borrowing of monies to which it is a party or by which it is bound that could reasonably be expected to have a Material Adverse Effect;

- (e) Except as disclosed to Lender in writing prior to the date hereof, Borrower has and is in good standing with respect to all licenses, patents, copyrights, trademarks, trade names, governmental permits, certificates, consents and franchises necessary to continue to conduct its business as previously conducted by it and to own or lease and operate its properties as now owned or leased by it, except, in each case, where failure to be in good standing or to obtain such permits, certificates, consents or franchises could not reasonably be expected to have a Material Adverse Effect;
- (f) The financial statements delivered by Borrower to Lender prior to the date hereof and the Financials delivered by Borrower to Lender pursuant to Section 7.3 hereof fairly and accurately present the assets, liabilities and financial conditions and results of operations of Borrower as of the dates and for the periods stated therein and have been prepared in accordance with GAAP (except for (i) the absence of footnotes and subject to normal year end adjustments with respect to interim, unaudited Financials and (ii) non-compliance with GAAP that is disclosed by Borrower to Lender with such specificity as Lender may reasonably require), and, as of the date of this Loan Agreement and as of the date of funding of any Loans hereunder, no event, condition or change that has had, or could reasonably be expected to have, a Material Adverse Effect has occurred since the date of this Loan Agreement;
- (g) As to the Accounts and other Collateral, (i) Borrower has and at all times hereafter shall have good, indefeasible and merchantable title to and ownership of the Collateral and the Accounts described and/or listed on any certificate or schedule relating to the Accounts delivered to Lender, free and clear of all liens, claims, security interests and encumbrances except those of Lender and Permitted Liens; (ii) except for (A) mobile equipment (including laptop computers and other similar office equipment) and (B) other property with an aggregate value of not more than \$125,000, the Collateral shall be kept and/or maintained solely at the addresses identified in writing to Lender; (iii) Borrower, promptly upon reasonable demand by Lender, shall deliver to Lender any and all evidence of ownership of, including without limitation, vendor invoices and proofs of payment thereof, certificates of title to and applications for title to, any Collateral; (iv) Borrower shall keep and maintain the Collateral in good operating condition and repair (ordinary wear and tear excepted) and shall make all necessary replacements thereof and renewals thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved; and (v) Borrower shall not permit any such items to become a fixture to real estate or accession to other personal property.
- (h) As to Lender's security interest, (i) Lender's security interest in the Collateral is now and at all times hereafter shall be perfected and have a first priority (subject to Permitted Liens); (ii) except for (A) mobile equipment (including laptop computers and similar office equipment) and (B) other property with an aggregate value of not more than \$125,000, the offices and/or locations where Borrower keeps the Collateral and Borrower's books and records concerning the Collateral are at the locations identified to Lender in writing and Borrower shall not remove such books and records and/or the Collateral therefrom to any other location unless Borrower gives Lender written notice thereof at least thirty (30) days prior thereto and the same is within the contiguous forty-eight (48) states of the United States of America; and (iii) the addresses identified to Lender in writing as Borrower's chief executive office and principal place(s) of business are Borrower's sole offices and place(s) of business, and Borrower, by written notice delivered to Lender at least thirty (30) days prior thereto, shall advise Lender of any change thereto.
- (i) Borrower is not an "investment company" or a company "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940.
- (j) All income and other tax returns and reports required to be filed by Borrower have been timely filed, and all taxes shown on such tax returns to be due and payable and all other assessments, fees and governmental charges upon Borrower and its properties, assets, income, businesses and franchises have been paid when due and payable except to the extent that (A) such taxes, assessments, charges or claims (j) are being contested in good faith by appropriate proceedings (promptly instituted and diligently conducted) so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor and (ii) such proceeding shall stay the attachment, sale, disposition, foreclosure or forfeiture of any asset of Borrower in connection with any such contested tax, assessment, charge or claim or, (B) the failure to timely pay such taxes, assessments, charges or claims could not reasonably be expected to have a Material Adverse Effect. All necessary and appropriate estimated payments (including any interest and penalties) in respect of assessed tax liability under Borrower's state and federal tax returns have been made on a timely basis, except with respect to any tax liabilities that are being contested in good faith provided adequate reserves have been

made in accordance with GAAP and such proceeding shall stay the attachment, sale, disposition, foreclosure or forfeiture of any asset of Borrower in connection with such contest of such tax, assessment, charge or claim.

- (k) As of the date hereof and of each Loan (i) the sum of Borrower's debt (including contingent liabilities) does not exceed the present fair saleable value of Borrower's present assets; (ii) in Borrower's reasonable belief, Borrower's capital is not unreasonably small in relation to its business as it exists and as is contemplated at such time; and (iii) Borrower has not incurred and does not intend to incur, or believe that it will incur, debts beyond its ability to pay such debts as they become due.
- (l) No information furnished to Lender by or on behalf of Borrower for use in connection with the transactions contemplated hereby contains or will contain, any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein or therein not misleading in light of the circumstances in which the same were made, provided, that any projections contained in such materials are based upon good faith estimates and assumptions believed by Borrower to be reasonable at the time made and such projections are not to be viewed as facts and that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results. There are no facts known to Borrower that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect.
- (m) Borrower has provided to Lender on or prior to the date hereof a schedule that correctly identifies the ownership interest (including all options, warrants and other rights to acquire capital stock) of Borrower and each of its Subsidiaries as of the date hereof.
- (n) (i) Borrower (A) has been and is in compliance in all material respects with all applicable Environmental Laws, except to the extent that the failure to so comply, either individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect; (B) has not received any written communication, whether from a governmental authority or otherwise, alleging that Borrower is not in such compliance, and there are no past or present actions, activities, circumstances conditions, events or incidents that may prevent or interfere with such compliance in the future; (ii) there is no Environmental Claim pending or, to the best knowledge of Borrower, threatened (in writing) against Borrower or against any Person whose liability for any Environmental Claim Borrower has or may have retained or assumed either contractually or by operation of law that individually or in the aggregate could reasonably be expected to have a Material Adverse Effect; and (iii) there are no past or present actions, activities, circumstances, conditions, events or incidents, including, without limitation, the release, threatened release or presence of any Hazardous Material, which could reasonably be expected to form the basis of any Environmental Claim against Borrower or, to the best knowledge of Borrower, against any Person whose liability for any Environmental Claim Borrower has or may have retained or assumed either contractually or by operation of law that individually or in the aggregate could reasonably be expected to have a Material Adverse Effect.
- (o) (i) Borrower is an "operating company" within the meaning of the regulations of the United States Department of Labor included within 29 CFR Section 2510.3-101 (the "DOL Regulations") or is in compliance with such other exception as may be available under such regulations to prevent the assets of Borrower from being treated as the assets of any employee benefit plan for purposes of the DOL Regulations and (ii) neither Borrower nor any subsidiary of Borrower maintains or is obligated to make contributions to any employee benefit plan that is subject to Title IV of the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute ("ERISA").

7. Affirmative and Negative Covenants

7.1 **Affirmative Covenants.** Borrower covenants with Lender that Borrower shall, and shall cause each of its Subsidiaries to: (a) except as permitted pursuant to Section 7.2(a), preserve and keep in full force and effect its existence and all rights and franchises, licenses and permits material to its business, (b) promptly after Borrower becomes aware thereof, pay all income and other taxes and assessments imposed upon it or any of its properties or assets or in respect of any of its income, businesses or franchises before any penalty or fine accrues thereon, provided however, that Borrower may contest any such tax in good faith provided adequate reserves have been made in accordance with GAAP and such proceeding shall stay the attachment, sale, disposition, foreclosure or forfeiture of any asset of Borrower in connection with such contest of such tax, assessment, charge or claim, (c) comply in all material respects with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, (d) keep adequate books of record and account, in which complete entries shall be made of all financial transactions and the assets and of its business, (e) on or prior to September 15, 2008 and promptly after the establishment of any new facilities or co-host locations, deliver to Lender duly executed landlord or collateral access agreements, in form and substance satisfactory to Lender, for all premises (including offices and co-location

facilities) at which any Collateral is located (other than (i) Borrower's offices in Seattle, Washington for which a landlord agreement was delivered to Lender on or prior to the date hereof and (ii) locations where Collateral comprised of mobile equipment and other miscellaneous equipment having an aggregate value not more than \$125,000) and (f) promptly take any and all necessary Cleanup action on, under or affecting any property owned, leased or operated by Borrower in accordance with all laws and the policies, orders and directives of all federal, state and local governmental authorities, and conduct and complete such Cleanup action in material compliance with all applicable Environmental Laws.

7.2 Negative Covenants Borrower covenants with Lender that Borrower shall not, and shall not permit any of its Subsidiaries to:

(a) grant a security interest in, assign, sell or transfer any of the Collateral or any of its Intellectual Property to any person or permit, grant, or suffer or permit a lien, claim or encumbrance upon any of the Collateral or Intellectual Property, except for (i) Permitted Liens, (ii) the sale of Inventory and obsolete or unneeded Equipment in the ordinary course of business, or upon Lender's prior written consent, (iii) (A) non-exclusive licenses and non-exclusive sub-licenses of Borrower's Intellectual Property in the ordinary course of business (which shall include such practices as are customary for companies in the same industry as Borrower) or (B) exclusive licenses and exclusive sublicenses thereof where such exclusivity is with respect to geographic location, fields of use, customized products for specific customers and/or time-based as approved or ratified by Borrower's Board of Directors, (iv) transactions otherwise permitted by this Section 7.2 or (v) other transfers not to exceed \$250,000 in any calendar year;

(b) permit or suffer any Charges to attach to or affect any of the Collateral or Intellectual Property (other than Permitted Liens);

(c) permit or suffer any receiver, trustee or assignee for the benefit of creditors to be appointed to take possession of any of the Collateral;

(d) merge or consolidate with or acquire any Person except in a transaction in which Borrower is the surviving Person or, if Borrower is not the surviving Person, such transaction does not result in a Change of Control;

(e) incur or permit or suffer to exist any indebtedness for borrowed money or for the deferred purchase price for property or services (other than Permitted Debt);

(f) voluntarily prepay any indebtedness for borrowed money prior to its scheduled maturity other than (A) pursuant to the terms hereof or (B) for the conversion of such indebtedness for borrowed money into equity securities and the payment of cash in lieu of the issuance of fractional shares;

(g) make or pay (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of Borrower, except for dividends payable in capital stock or (ii) any redemption, retirement or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of Borrower or any outstanding warrants, options or other rights to acquire such shares, except that Borrower may (i) repurchase capital stock of former employees, directors or consultants pursuant to stock repurchase agreements or other similar in the ordinary course of business and (ii) repurchase capital stock pursuant to Borrower's rights of first refusal pursuant to its investor rights agreement with its investors, provided that such repurchases in the aggregate do not exceed \$200,000 in any fiscal year;

(h) except as otherwise permitted pursuant to this Loan Agreement, enter into (i) any transaction with any Affiliate unless such transaction is on terms that are no less favorable to Borrower, or such Subsidiary, than would be obtained in an arms' length transaction with a non-affiliated Person or (ii) any transaction (including, without limitation, any sale of assets) not in the ordinary course of its business (which shall include such transactions as are customary for companies in the same industry as Borrower);

(i) make any change in any of its business objectives, purposes and operations, which has, or could reasonably be expected to have, a Material Adverse Effect;

(j) without thirty (30) days' prior written notice to Lender, make any change in its legal name or state of formation or organization;

(k) adopt or otherwise become obligated to contribute to any employee benefit plan that is subject to Title IV of ERISA; or

(l) take any action or fail to take an action if, as a result of such action or inaction, Borrower would fail to qualify as an "operating company" within the meaning of the DOL Regulations or otherwise comply with such other

exception as may be available under such regulations to prevent the assets of Borrower from being treated as the assets of any employee benefit plan for purposes of the DOL Regulations.

7.3 Covenants regarding Financial Statements. Borrower shall cause to be furnished to Lender,

- (i) the unqualified (other than a "going-concern" qualification), audited fiscal year end financial statements of Borrower (which shall not contain any exception relating to scope of review) no later than 150 days after the related fiscal year end,
- (ii) no later than 30 days after the related month end, the internally prepared monthly financial statements of Borrower, certified by Borrower's chief financial officer, each containing consolidated and, upon Lender's reasonable request, consolidating profit and loss statements for the month then ended and for Borrower's fiscal year to date, consolidated and, upon Lender's reasonable request, consolidating balance sheets as at the last day of such month and a consolidated statement of cash flows for the month then ended and for Borrower's fiscal year to date,
- (iii) summary monthly bank statements, no later than 30 days after the related month end, reflecting month-end cash balances,
- (iv) a monthly Compliance and Disclosure Certificate, substantially in the form of Exhibit A attached hereto and made a part hereof,
- (v) promptly after becoming available, copies of Borrower's annual operating plan and any revisions thereto and
- (vi) such other financial and business information of Borrower as Lender may reasonably require, including such other financial and operating performance data as is provided to its outside investors or commercial lenders and, if applicable, required to be provided to shareholders by the Securities and Exchange Commission. Each financial statement to be furnished to Lender must be prepared in accordance with GAAP, except for normal year-end adjustments and the absence of footnotes in unaudited interim financial statements. Borrower also agrees to promptly provide to Lender notice of, and such other data and information (financial and otherwise) at any time and from time to time relating to, any legal actions or proceedings pending, or to its knowledge, threatened in writing against Borrower (other than actions such as trade mark oppositions for which Borrower in its reasonable belief determines the potential exposure is de minimis) or the occurrence of any event or change that has, or could reasonably be expected to have, a Material Adverse Effect. Financial statements may be delivered via electronic mail to Lender.

7.4 Further Covenants. (a) Borrower may not grant any credit, discount, allowance or extension, or enter into any agreement for any of the foregoing, except for credits, discounts, allowances or extensions made or given in the ordinary course of Borrower's business in accordance with Borrower's historic credit and collection practices and policies without the prior consent of Lender (which shall include such practices as are customary for companies in the same industry as Borrower).

(b) Lender shall have the right, once per year upon reasonable notice, or during the continuance of and Event of Default at any time or times, in Lender's name or in the name of a nominee of Lender, to verify the validity, amount or any other matter relating to any Accounts, by mail, telephone, facsimile transmission or otherwise.

7.5 Indemnification and Liability. Borrower hereby agrees to indemnify Lender and hold Lender harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, reasonable costs and expenses (including reasonable attorneys' fees) (each a "Claim"), of every nature, character and description, which Lender may sustain or incur based upon or arising out of the Collateral, any of Borrower's Liabilities, any relationship or agreement between Lender and Borrower, or any other matter, cause or thing whatsoever occurred, done, omitted or suffered to be done by Lender relating to Borrower or Borrower's Liabilities (except any Claim arising as the result of the gross negligence or willful misconduct of Lender). Should any third-party suit or proceeding be instituted by or against Lender with respect to any Collateral or relating to Borrower, Borrower shall, without expense to Lender, make available Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Lender may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding. Borrower's obligation hereunder shall survive termination of this Loan Agreement.

8. Default

8.1 Events of Default. The occurrence of any one of the following events shall constitute a default ("Event of Default") by Borrower under this Loan Agreement:

- (a) if Borrower fails to pay any principal of any Loans when due and payable or fails to pay any other Borrower's Liabilities within five (5) days after the same are due and payable;
- (b) if any representation, warranty, financial statement, statement, report or certificate made, deemed made or delivered by Borrower, to Lender in writing is not true and correct in all material respects when made, deemed made or delivered;
- (c) if Borrower fails or neglects to perform, keep or observe any term, provision, condition or covenant contained in this Loan Agreement or in the Other Agreements (except covenants contained in Section 7.2 and 7.3 which must be performed, kept or observed in all respects), which is required to be performed, kept or observed by Borrower, other than the payment of Borrower's Liabilities and the same is not cured within fifteen (15) days;
- (d) if any of the Collateral or any other of Borrower's other material assets are attached, seized, subjected to a writ or distress warrant, or are levied upon, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and such event is not satisfied or dismissed within fifteen (15) days;
- (e) if any event, condition or change shall occur that has had a Material Adverse Effect;
- (f) if a petition under any section or chapter of the Bankruptcy Code or any similar law or regulation shall be filed by or against Borrower (and with respect to any involuntary action, such action is not dismissed or stayed within 45 days) or if Borrower shall make an assignment for the benefit of its creditors or if any case or proceeding is filed by Borrower for its dissolution or liquidation;
- (g) if Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs and such court order is not dismissed or stayed within 15 days;
- (h) if an application is made by Borrower or any Person for the appointment of a receiver, trustee or custodian for the Collateral or any other of Borrower's assets (and with respect to any involuntary action, such action is not dismissed or stayed within 45 days);
- (i) if a notice of lien or Charges (other than Permitted Liens) are filed of record with respect to any of the Collateral by any Person and such notice of lien or Charges are not released within fifteen (15) days;
- (j) if any Change of Control shall occur;
- (k) if any money judgment, writ or warrant of attachment or similar process (if not adequately covered by insurance as to which a solvent and unaffiliated insurance company has acknowledged coverage) in excess of \$500,000 shall be entered or filed against Borrower or any of its Subsidiaries or any of their respective assets and such money judgment, writ or warrant of attachment or similar process is not effectively stayed within thirty (30) days or is not released, vacated or otherwise dismissed within 30 days;
- (l) this Loan Agreement or any Other Agreement shall for any reason fail or cease to be valid and binding on, or enforceable against, Borrower or any other party thereto or Borrower shall so assert;
- (m) this Loan Agreement or any Other Agreement shall for any reason cease to be in full force and effect or cease to create a valid and enforceable lien and security interest on any material portion of the Collateral purported to be covered thereby or any such lien and security interest shall fail or cease to be a perfected and first priority lien and security interest (subject to Permitted Liens); or
- (n) if Borrower is in default (i) in the payment of any of Borrower's indebtedness to Lender under any Other Agreement; or (ii) in the payment of any indebtedness to any Person other than Lender in excess of \$500,000 (other than trade payables which are being contested by Borrower in good faith and for which adequate reserves have been established in accordance with GAAP), or, in the case of clause (i) or (ii), any other event shall occur or condition shall exist under any agreement or instrument relating to any such indebtedness and such default, condition or event gives the holders of such debt (or any agent or trustee on their behalf) the then current right to accelerate such indebtedness. Borrower shall provide written notice of any events or circumstances which would give rise to an Event of Default under this Section 8.1 promptly (but in no event more than two (2) Business Days) after becoming aware of such events or circumstances. Failure of Borrower to give such notice promptly shall constitute an Event of Default hereunder.

8.2 Lender's Rights and Remedies. Upon an Event of Default under Section 8.1(f), without notice by Lender to, or demand by Lender of, Borrower, all of Borrower's Liabilities (other than those arising under the Warrants or the Success Fee Agreement) shall be automatically accelerated and shall be due and payable forthwith and any other commitments to provide any financing hereunder shall automatically terminate, and upon any other Event of Default, without notice by Lender, to or demand by Lender of, Borrower, Lender may accelerate all of Borrower's Liabilities (other than those arising under the Warrants or the Success Fee Agreement) and same shall be due and

payable forthwith and/or Lender may terminate any other commitments to provide any financing hereunder. Lender may, in its sole and absolute discretion: (a) exercise any one or more of the rights and remedies accruing to a Lender under the UCC or other applicable law of the relevant state or states or other applicable jurisdiction, and in equity, and under any other instrument or agreement now or in the future entered into between Lender and Borrower, including under this Loan Agreement and the Other Agreements; (b) enter, with or without process of law and without breach of the peace, any premises where the Collateral or the books and records of Borrower related thereto is or may be located, and without charge or liability to Lender therefor seize and remove the Collateral (and copies of Borrower's books and records relating to the Collateral) from said premises and/or remain upon said premises and use the same (together with said books and records) for the purpose of collecting, preparing and disposing of the Collateral; (c) sell, lease, license or otherwise dispose of the Collateral or any part thereof by one or more public or private sales for cash or credit, provided, however, that Borrower shall be credited with the net proceeds of such sale(s) only when such proceeds are actually received by Lender; and (d) require Borrower to assemble the Collateral and make it available to Lender at a place or places to be designated by Lender which is reasonably convenient to Lender and Borrower.

In addition, at any time an Event of Default has occurred and is continuing, Lender may, in its discretion, enforce the rights of Borrower against any Account Debtor, secondary obligor or other obligor in respect of any of the Accounts. Without limiting the generality of the foregoing, at any time or times that an Event of Default has occurred and is continuing, Lender may, in its discretion, at such time or times (1) notify any or all Account Debtors, secondary obligors or other obligors in respect thereof that the Accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all Account Debtors, secondary obligors and other obligors to make payment of Accounts directly to Lender, (2) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all Accounts or other obligations included in the Collateral and thereby discharge or release the Account Debtor or any secondary obligors or other obligors in respect thereof without affecting any of Borrower's Liabilities, (3) demand, collect or enforce payment of any Accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for any failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (4) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default has occurred and is continuing, at Lender's request, all invoices and statements sent to any Account Debtor shall state that the Accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Borrower shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any Accounts as Lender may require.

All of Lender's rights and remedies under this Loan Agreement and the Other Agreements are cumulative and non-exclusive. Exercise or partial exercise by Lender of one or more of its rights or remedies shall not be deemed an election, nor bar Lender from subsequent exercise or partial exercise of any other rights or remedies. Lender agrees to give notice of any sale to Borrower at least ten (10) days prior to any public sale or at least ten (10) days before the time after which any private sale may be held. Borrower agrees that Lender may purchase any such Collateral (including by way of credit bid), and may postpone or adjourn any such sale from time to time by an announcement at the time and place of sale or by announcement at the time and place of such postponed or adjourned sale, without being required to give a new notice of sale. Borrower agrees that Lender has no obligation to preserve rights against prior parties to the Collateral.

8.3 Power of Attorney. Upon the occurrence and during the continuance of any Event of Default, without limiting Lender's other rights and remedies, Borrower grants to Lender an irrevocable power of attorney coupled with an interest (in addition to such other powers of attorney granted to Lender elsewhere in this Loan Agreement), authorizing and permitting Lender at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to execute on behalf of Borrower any Additional Documentation, or such other instruments or documents as may be reasonably necessary in order to exercise a right of Borrower or Lender, including but not limited to the execution of any proof of claim in bankruptcy, any notice of lien, claim of mechanic's or other lien, or assignment or satisfaction of mechanic's or other lien, or to take control in any manner of any cash or non-cash proceeds of Collateral and take any action or pay any sum required of Borrower pursuant to this Loan Agreement and any Other Agreement. In no event shall Lender's rights under the foregoing power of attorney or any of Lender's other rights under this Loan Agreement be deemed to indicate that Lender is in control of the business, management or properties of Borrower.

9. General Provisions

9.1 Notices. All notices, demands or other communications required or permitted to be given or delivered under or by reason of the provisions hereof shall be in writing and shall be deemed to have been given when (i)

delivered personally to the recipient, (ii) sent via facsimile transmission, (iii) the next Business Day after having been sent to the recipient by reputable overnight courier service (charges prepaid) or (iv) four Business Days after having been mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid. Such notices, demands and other communications shall be sent to the parties hereunder at their respective addresses and transmission numbers indicated on the signature page hereof, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

9.2 **Severability.** Should any provision of this Loan Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Loan Agreement, which shall continue in full force and effect.

9.3 **Integration; Modification.** This Loan Agreement, the Other Agreements and such other written agreements, documents and instruments as may be executed in connection herewith or pursuant hereto are the final, entire and complete agreement between Borrower and Lender and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Loan Agreement and the Other Agreements. There are no oral understandings, representations or agreements between the parties which are not set forth in this Loan Agreement or the Other Agreements or in other written instruments, documents or agreements signed by the parties in connection herewith. If any provision contained in this Loan Agreement is in conflict with, or inconsistent with, any provision in the Other Agreements, the provision contained in this Loan Agreement shall govern and control, it being the intent of the parties, however, that the terms of each of the Loan Agreement and the Other Agreements shall be remain in full force and effect. This Loan Agreement and the Other Agreements may not be modified, altered or amended except by an agreement in writing signed by Borrower and Lender.

9.4 **Time of Essence.** Time is of the essence in the performance by Borrower of each and every obligation under this Loan Agreement.

9.5 **Attorneys' Fees and Other Costs.** Subject to the limitations on legal fees and costs set forth in Section 3.2, Borrower shall reimburse Lender for all out-of-pocket costs and expenses, including but not limited to reasonable attorneys' fees and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by Lender in connection with any amendment or waiver to this Loan Agreement or any Other Agreement; seeking to enforce any of its rights hereunder against Borrower or the Collateral, including in bankruptcy; enforcing Lender's security interest in the Collateral, and representing Lender in all such matters. Borrower shall also pay Lender's standard charges for returned checks in effect from time to time. Borrower's obligation hereunder shall survive termination of this Loan Agreement.

9.6 **Benefit of Agreement; Assignment.** The provisions of this Loan Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and Lender; provided, however, that Borrower may not assign or transfer any of its rights under this Loan Agreement or any of the Other Agreements without the prior written consent of Lender, and any prohibited assignment shall be void. Borrower hereby consents to Lender's sale, assignment, transfer or other disposition, at any time and from time to time hereafter, of this Loan Agreement, or the Other Agreements, or of any portion thereof, including without limitation Lender's rights, titles, interests, remedies, powers and/or duties, provided that Lender shall not assign this Loan Agreement or the Other Agreements to any party known by Lender to be an actual, current competitor of Borrower. Borrower shall establish and maintain a record of ownership (the "Register") in which it agrees to register by book entry Lender's and each initial and subsequent assignee's interest in each Loan, and in the right to receive any payments hereunder and any assignment of any such interest. Notwithstanding anything to the contrary contained in this Loan Agreement, the Loans (including the notes in respect of such Loans) are registered obligations and the right, title, and interest of Lender and its assignees in and to such Loans shall be transferable upon notation of such transfer in the Register, pursuant to Borrower's obligation above. In no event is any note to be considered a bearer instrument or bearer obligation. This Section shall be construed so that the Loans are at all times maintained in "registered form" within the meaning of Sections 163(f), 871(h)(2) and 881(c)(2) of the Internal Revenue Code and any related regulations (or any successor provisions of the Code or such regulations).

9.7 **Joint and Several Liability.** If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

9.8 **Paragraph Headings.** Paragraph headings are only used in this Loan Agreement for convenience. The term "including", whenever used in this Loan Agreement, shall mean "including but not limited to". This Loan Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Loan Agreement shall be construed strictly against Lender or Borrower under any rule of construction or otherwise.

9.9 **Interest Laws.** Notwithstanding any provision to the contrary contained in this Loan Agreement or any Other Agreement, Borrower shall not be required to pay, and Lender shall not be permitted to collect, any amount of interest in excess of the maximum amount of interest permitted by applicable law ("Excess Interest"). If any Excess Interest is provided for or determined by a court of competent jurisdiction to have been provided for in this Loan Agreement or in any Other Agreement, then in such event: (1) the provisions of this subsection shall govern and control; (2) Borrower shall not be obligated to pay any Excess Interest; (3) any Excess Interest that Lender may have received hereunder or under any Other Agreement shall be, at such Lender's option, (a) applied as a credit against the outstanding principal balance of Borrower's Liabilities or accrued and unpaid interest (not to exceed the maximum amount permitted by law), (b) refunded to the payor thereof, or (c) any combination of the foregoing; (4) the interest rate(s) provided for herein or in any Other Agreement shall be automatically reduced to the maximum lawful rate allowed from time to time under applicable law (the "Maximum Rate"), and this Loan Agreement and the Other Agreements shall be deemed to have been and shall be, reformed and modified to reflect such reduction; and (5) Borrower shall not have any action against Lender for any damages arising out of the payment or collection of any Excess Interest.

9.10 **No Implied Waivers.** Lender's failure at any time or times hereafter to exercise any rights or remedies or to require strict performance by Borrower of any provision of this Loan Agreement shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance therewith and all rights and remedies shall continue in full force and effect until all of Borrower's Liabilities have been fully and indefeasibly paid and performed. Any suspension or waiver by Lender of an Event of Default by Borrower under this Loan Agreement or the Other Agreements shall not suspend, waive or affect any other Event of Default by Borrower under this Loan Agreement or the Other Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different type. No waiver by Lender of any Event of Default or of any of the undertakings, agreements, warranties, covenants and representations of Borrower contained in this Loan Agreement or the Other Agreements shall be effective unless specifically waived by an instrument in writing signed by an officer of Lender.

9.11 **Acceptance by Lender.** This Loan Agreement shall become effective upon acceptance by Lender, in writing, at its principal place of business as set forth above. If so accepted by Lender, this Loan Agreement and the Other Agreements shall be deemed to have been made at said place of business.

9.12 **LAW AND VENUE.** THIS LOAN AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS AND DECISIONS OF THE STATE OF ILLINOIS. BORROWER CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF COOK, STATE OF ILLINOIS. BORROWER WAIVES ANY RIGHT IT MAY HAVE TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST BORROWER BY LENDER OR TO ASSERT THAT ANY ACTION INSTITUTED BY LENDER OR BORROWER IN SUCH COURT IS AN IMPROPER VENUE OR SUCH ACTION SHOULD BE TRANSFERRED TO A MORE CONVENIENT FORUM.

9.13 **WAIVER OF TRIAL BY JURY.** BORROWER AND LENDER EACH WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS LOAN AGREEMENT WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

9.14 **CONFIDENTIALITY.** The provisions of this Loan Agreement and the Other Agreements shall be held in strictest confidence by Borrower and shall not be publicized or disclosed in any manner whatsoever; *provided, however,* that Borrower may disclose this Loan Agreement and the Other Agreements (i) in confidence to its attorneys, accountants, auditors, insurers, tax preparers, current and prospective investors or acquirors, and financial advisors, (ii) insofar as such disclosure may be necessary to enforce its terms or (iii) as required by applicable law.

In handling any confidential information (confidential information shall include, without limitation, information about the disclosing party's financial condition and projections; business, marketing or strategic plans; customer lists; price lists; databases; trade secrets; inventions; targets (genes or proteins); product prototypes and designs; techniques, formulae, algorithms and other non-public process information; and software (including source code, object code and machine code) relating to the foregoing), the receiving party and its employees and agents shall maintain the confidentiality of such confidential information and shall not disclose such confidential information to any third party or use the confidential information for any purpose other than for the performance of this Agreement, except that disclosure of such information may be made (i) to the subsidiaries or Affiliates in connection with their present or prospective business relations with the receiving party, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar

investigation and (v) as the receiving party may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall include all non-public information delivered to the receiving party by the disclosing party in connection herewith, provided that confidential information shall not include information that either: (a) is in the public domain or in the knowledge or possession of the receiving party when disclosed, or becomes part of the public domain after disclosure to receiving party through no fault of the receiving party; or (b) is disclosed to the receiving party by a third party, provided the receiving party does not have actual knowledge that such third party is prohibited from disclosing such information.

9.15 Notice to Borrower. Lender hereby notifies Borrower as follows:

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

Signature Page Follows:

In Witness Whereof, this Loan and Security Agreement has been duly executed as of the day and year first above written.

Borrower:

Borrower: Omeros Corporation

By: /s/ Gregory A. Demopoulos

Name: Gregory A. Demopoulos, M.D.
Title: Chairman & CEO

Address for Notices: 1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attention: CEO
Telephone: 206-676-5000
Facsimile: 206-676-5005

with a copy to:

1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
Attention: General Counsel
Telephone: 206-676-5000
Facsimile: 206-676-5005

Accepted By:

Lender: BLUECREST CAPITAL FINANCE, L.P.
By: BLUECREST CAPITAL FINANCE GP, LLC,
ITS GENERAL PARTNER

By: /s/ Mark King

Name: Mark King
Title: Managing Director

Address for Notices: 225 West Washington, Suite 200
Chicago, IL 60606
Attention: Legal Department
Telephone: 312-368-4973
Facsimile: 312-443-0126

with a copy to:

225 West Washington, Suite 200
Chicago, IL 60606
Attention: Mark King
Telephone: 312-368-4978
Facsimile: 312-443-0126

EXHIBIT A

Officer's Compliance and Disclosure Certificate
(attachment to monthly financial reports)

Reference is hereby made to certain loan or credit agreements (together with all instruments, documents and agreements entered into in connection therewith, the "Loan Documents") by and between BlueCrest Capital Finance, L.P. ("Lender") and Omeros Corporation ("Borrower"). The undersigned, _____, hereby certifies to Lender that he/she is the duly elected and acting _____ of Borrower and that, in his/her capacity as the acting _____:

- (i) **FINANCIAL STATEMENTS — General.** The attached financial statements fairly reflect the financial condition of Borrower in all material respects in accordance with GAAP (except for (i) the absence of footnotes and subject to normal year end adjustments with respect to interim, unaudited Financials and (ii) non-compliance with GAAP that is disclosed by Borrower to Lender with such specificity as Lender may reasonably require), except as disclosed on the attached Schedule of Financial Statement Exceptions (if none, so state on said Schedule) and there has been no material adverse change in the assets, liabilities or financial condition of Borrower since Borrower's most recent delivery of financial statements to Lender pursuant to the terms of the Loan Documents;
- (ii) **FINANCIAL STATEMENTS — Off-Balance Sheet.** All material financial obligations and contingent obligations of Borrower not otherwise listed and itemized on the attached financial statements, are disclosed on the attached Schedule of Financial Statement Exceptions, including but not limited to material off-balance sheet leasing obligations, and guarantees of financial obligations of Borrower, its affiliates, subsidiaries, officers and related parties (if none, so state on said Schedule);
- (iii) **FINANCIAL STATEMENTS — Related Party Transactions.** All material related party transactions, including but not limited to loans, receivables or payables due to/from Borrower's officers or employees, affiliates, subsidiaries, or other related parties, are disclosed on the attached Schedule of Financial Statement Exceptions (if none, so state on said Schedule);
- (iv) **COMPLIANCE WITH APPLICABLE LAW.** Except as noted on the attached Schedule of Compliance Issues, there are no material events whereby Borrower or, to the knowledge of Borrower, Borrower's directors, employees, affiliates, subsidiaries or other related parties are acting or conducting business contrary to applicable local, state, or national laws in the country or countries in which said parties are conducting business;
- (v) **ABSENCE OF DEFAULT.** Except as noted on the attached Schedule of Compliance Issues, no Default or Event of Default exists on the date hereof; and
- (vi) **LITIGATION.** Except as disclosed pursuant to the last sentence of this clause (vi), there are no actions, suits or proceedings pending or, to the knowledge of Borrower and the undersigned, threatened (in writing) against or affecting Borrower in any court or before any governmental commission, board or authority which could reasonably be expected to have a material adverse effect (separately or in the aggregate) on the ability of Borrower to perform its obligations under the any of Loan Documents. Borrower is involved in such litigation (other than actions such as trade mark oppositions for which Borrower in its reasonable belief determines the potential exposure is de minimis) as are listed on the attached Schedule of Compliance Issues (if none, so state on said Schedule).

The undersigned has executed this certificate as of _____, 200_.

Signature: _____

By (printed name and title): _____

SCHEDULE OF FINANCIAL STATEMENT EXCEPTIONS

Category of Disclosure	Financial Date	Comments (if none, state "none")
General Exceptions:		
Off-Balance Sheet:		
Related Party Transactions:		

SCHEDULE OF COMPLIANCE ISSUES

Parties Involved	Date of filing/incident	Nature of Dispute or Issue (if none, state "none")
Compliance Issues:		
Litigation Issues:		
Signatory Initials: _____		

EXHIBIT B

**FUNDING REQUEST NO. ____
FOR
LOAN AND SECURITY AGREEMENT NO. V08302
BY AND BETWEEN
BLUECREST CAPITAL FINANCE, L.P., AS LENDER
AND
OMEROS CORPORATION, AS BORROWER**

Borrower hereby requests an advance under the terms of the above described Loan and Security Agreement (the "Loan Agreement") in the original principal amount of _____ Dollars (\$_____).

Borrower hereby acknowledges and agrees that the representations and warranties as set forth in the Loan Agreement are as if fully set forth herein, and further agrees that any and all Conditions Precedent to the making of an advance by the Lender set forth in the Loan Agreement either have been satisfied or will be satisfied as a result of the making by Lender of this advance. Borrower represents and warrants that there has been no Material Adverse Effect since the later of the date of the Loan Agreement or the date of the last Loan made by the Lender thereunder.

The advance requested hereby shall be secured by the Collateral as defined in the Loan Agreement.

The undersigned certifies that the undersigned is a duly authorized signatory of the Borrower, and that as such the undersigned is authorized to execute this request on behalf of the Borrower.

OMEROS CORPORATION

Borrower

By: _____

Name: _____

Its: _____

Date: _____

PROMISSORY NOTE

Dated: September 12, 2008

Chicago, Illinois

The undersigned, **Omeros Corporation**, a Washington corporation with its principal place of business at 1420 Fifth Avenue, Seattle, WA 98101 (herein referred to as "Borrower"), promises to pay to **BlueCrest Capital Finance, L.P.** ("Lender") or its registered assigns **Five Million and 00/100 Dollars (\$5,000,000.00)** at its office at Chicago, Illinois, or at such other place as Lender or its registered assigns may appoint, plus interest thereon as set forth herein.

Interest on the principal amount outstanding shall accrue at the rate equal to 12.50% per annum, computed on the basis of a 360-day year of twelve 30-day months, and on the assumption that each payment of principal shall be made in a timely manner (the "Loan Interest Rate").

Principal and interest hereunder shall be payable on the first calendar day of each month, or, if the first calendar day of any month is not a business day, then on the next succeeding business day (each a "Payment Date"), in the amounts set forth below. Borrower agrees to make (i) three (3) payments of interest only (paid in arrears) of \$52,083.33 each, commencing on the second Payment Date occurring after the date of this Note and (ii) thirty-six (36) equal monthly payments of principal and interest (paid in arrears) in the amount of \$167,268.13 each, commencing on the fifth Payment Date after the date of this Note (each, a "Periodic Payment") and continuing on each Payment Date thereafter until the amounts of principal and interest owing under this Note are paid in full; provided, however, that the final Periodic Payment shall additionally include any accrued and unpaid interest and other charges then outstanding. The foregoing payments include interest at the Loan Interest Rate, which is precomputed for the period ending when such payments are due and on the assumption that all payments will be made on their respective due dates. Borrower further agrees to pay a per diem interest charge equal to \$1,736.11 per day from and including the date that Lender makes the advance to which this Note relates, to and excluding the first Payment Date hereunder.

Any payment of principal and/or interest which is past due for a period in excess of five (5) days after its due date shall be overdue and shall be subject to a service charge in an amount equal to two percent (2 %) of the delinquent amount, but not more than the maximum rate permitted by law, whichever is less. In addition, and notwithstanding the forgoing, during the continuance of an Event of Default all outstanding Borrower Liabilities in respect of the Loans (including the Loan evidenced by this Promissory Note) shall bear interest (payable on demand) at a rate that is two percent (2%) per annum in excess of the Loan Interest Rate (the "Default Interest Rate") and the monthly payment of principal and interest while such Default exists shall be recalculated at the Default Interest Rate. Borrower shall additionally be liable for any costs or expenses incurred by Lender in collecting any sums due from Borrower to Lender including all attorneys' fees and legal expenses incurred by Lender if this note is placed with an attorney for collection.

Demand, presentment for payment, notice of non-payment and protest are hereby waived by the undersigned.

This Note is made by Borrower and delivered to Lender in relation to that certain Funding Request No. 1 issued by Borrower pursuant to that certain Loan and Security Agreement No. V08302 dated as of September 12, 2008 ("Loan Agreement"; capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement) by and between Borrower and Lender. This Note is issued under the terms of and is entitled to the benefits of the Loan Agreement, to which reference is hereby made for a statement of the nature and extent of the protection and security afforded and the rights of the payee hereof and the rights and obligations of the undersigned. Lender's books and records shall be dispositive evidence of the amount disbursed pursuant to this Note and the Loan Agreement.

Upon the occurrence and during the continuance of an "Event of Default," this Note may become or be declared due in the manner and with the effect provided in the Loan Agreement.

Lender (or its registered assigns) shall not be required to look to any collateral for the payment of this Note, but may proceed against Borrower, or any guarantor hereof in such manner as it deems desirable. None of the rights or remedies of Lender (or its registered assigns) hereunder or under the Loan Agreement are to be deemed waived or affected by any failure to exercise same.

All remedies conferred upon Lender (or its registered assigns) under this Note, the Loan Agreement or any other instrument or agreement to which the undersigned or any guarantor hereof is a party or under any or all of them is bound, shall be cumulative and not exclusive, and such remedies may be exercised concurrently or consecutively at the option of Lender or its registered assigns.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS AND DECISIONS OF THE STATE OF ILLINOIS. AT THE ELECTION OF LENDER AND WITHOUT LIMITING LENDER'S RIGHT TO COMMENCE AN ACTION IN OTHER JURISDICTION, BORROWER HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY COURT (FEDERAL, STATE OR LOCAL) HAVING SITUS WITHIN COOK COUNTY IN THE STATE OF ILLINOIS, EXPRESSLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE BY CERTIFIED MAIL, POSTAGE PREPAID, DIRECTED TO THE LAST KNOWN ADDRESS OF BORROWER. BORROWER HEREBY WAIVES ANY RIGHT TO ASSERT THAT ANY ACTION INSTITUTED BY LENDER OR BORROWER IN SUCH COURT IS AN IMPROPER VENUE OR SUCH ACTION SHOULD BE TRANSFERRED TO A MORE CONVENIENT FORUM. LENDER AND BORROWER EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY.

BORROWER AGREES THAT ALL PAYMENTS AND OTHER OBLIGATIONS DUE AND OWING UNDER THIS NOTE AND EACH OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH SHALL BE PAID IN FULL WITHOUT OFFSET OR DEDUCTION FOR ANY REASON, AND BORROWER HEREBY WAIVES ANY RIGHT OF OFFSET ARISING FOR ANY REASON WITH RESPECT TO ANY PAYMENT OR OTHER OBLIGATION DUE AND OWING UNDER THIS NOTE AND EACH OTHER DOCUMENT EXECUTED IN CONNECTION HEREWITH.

IN WITNESS WHEREOF, the undersigned hereunto sets its hand and seal as of the date first set forth above.

Omeros Corporation
Borrower

By: /s/ Gregory A. Demopoulos

Name: Gregory A. Demopoulos, M.D.

Title: Chairman and CEO

PROMISSORY NOTE

Dated: December 23, 2008

Chicago, Illinois

The undersigned, **Omeros Corporation**, a Washington corporation with its principal place of business at 1420 Fifth Avenue, Seattle, WA 98101 (herein referred to as "Borrower"), promises to pay to **BlueCrest Capital Finance, L.P.** ("Lender") or its registered assigns **Twelve Million and 00/100 Dollars (\$12,000,000.00)** at its office at Chicago, Illinois, or at such other place as Lender or its registered assigns may appoint, plus interest thereon as set forth herein.

Interest on the principal amount outstanding shall accrue at the rate equal to 12.50% per annum, computed on the basis of a 360-day year of twelve 30-day months, and on the assumption that each payment of principal shall be made in a timely manner (the "Loan Interest Rate").

Principal and interest hereunder shall be payable on the first calendar day of each month, or, if the first calendar day of any month is not a business day, then on the next succeeding business day (each a "Payment Date"), in the amounts set forth below. Borrower agrees to make (i) three (3) payments of interest only (paid in arrears) of \$125,000.00 each, commencing on the second Payment Date occurring after the date of this Note and (ii) thirty-six (36) equal monthly payments of principal and interest (paid in arrears) in the amount of \$401,443.51 each, commencing on the fifth Payment Date after the date of this Note (each, a "Periodic Payment") and continuing on each Payment Date thereafter until the amounts of principal and interest owing under this Note are paid in full; provided, however, that the final Periodic Payment shall additionally include any accrued and unpaid interest and other charges then outstanding. The foregoing payments include interest at the Loan Interest Rate, which is precomputed for the period ending when such payments are due and on the assumption that all payments will be made on their respective due dates. Borrower further agrees to pay a per diem interest charge equal to \$4,166.67 per day from and including the date that Lender makes the advance to which this Note relates, to and excluding the first Payment Date hereunder.

Any payment of principal and/or interest which is past due for a period in excess of five (5) days after its due date shall be overdue and shall be subject to a service charge in an amount equal to two percent (2 %) of the delinquent amount, but not more than the maximum rate permitted by law, whichever is less. In addition, and notwithstanding the foregoing, during the continuance of an Event of Default all outstanding Borrower Liabilities in respect of the Loans (including the Loan evidenced by this Promissory Note) shall bear interest (payable on demand) at a rate that is two percent (2%) per annum in excess of the Loan Interest Rate (the "Default Interest Rate") and the monthly payment of principal and interest while such Default exists shall be recalculated at the Default Interest Rate. Borrower shall additionally be liable for any costs or expenses incurred by Lender in collecting any sums due from Borrower to Lender including all attorneys' fees and legal expenses incurred by Lender if this note is placed with an attorney for collection.

Demand, presentment for payment, notice of non-payment and protest are hereby waived by the undersigned.

This Note is made by Borrower and delivered to Lender in relation to that certain Funding Request No. 2 issued by Borrower pursuant to that certain Loan and Security Agreement No. V08302 dated as of September 12, 2008 ("Loan Agreement"; capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement) by and between Borrower and Lender. This Note is issued under the terms of and is entitled to the benefits of the Loan Agreement, to which reference is hereby made for a statement of the nature and extent of the protection and security afforded and the rights of the payee hereof and the rights and obligations of the undersigned. Lender's books and records shall be dispositive evidence of the amount disbursed pursuant to this Note and the Loan Agreement.

Upon the occurrence and during the continuance of an "Event of Default," this Note may become or be declared due in the manner and with the effect provided in the Loan Agreement.

Lender (or its registered assigns) shall not be required to look to any collateral for the payment of this Note, but may proceed against Borrower, or any guarantor hereof in such manner as it deems desirable. None of the rights or remedies of Lender (or its registered assigns) hereunder or under the Loan Agreement are to be deemed waived or affected by any failure to exercise same.

All remedies conferred upon Lender (or its registered assigns) under this Note, the Loan Agreement or any other instrument or agreement to which the undersigned or any guarantor hereof is a party or under any or all of them is bound, shall be cumulative and not exclusive, and such remedies may be exercised concurrently or consecutively at the option of Lender or its registered assigns.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS AND DECISIONS OF THE STATE OF ILLINOIS. AT THE ELECTION OF LENDER AND WITHOUT LIMITING LENDER'S RIGHT TO COMMENCE AN ACTION IN OTHER JURISDICTION, BORROWER HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY COURT (FEDERAL, STATE OR LOCAL) HAVING SITUS WITHIN COOK COUNTY IN THE STATE OF ILLINOIS, EXPRESSLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE BY CERTIFIED MAIL, POSTAGE PREPAID, DIRECTED TO THE LAST KNOWN ADDRESS OF BORROWER. BORROWER HEREBY WAIVES ANY RIGHT TO ASSERT THAT ANY ACTION INSTITUTED BY LENDER OR BORROWER IN SUCH COURT IS AN IMPROPER VENUE OR SUCH ACTION SHOULD BE TRANSFERRED TO A MORE CONVENIENT FORUM. LENDER AND BORROWER EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY.

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IN WITNESS WHEREOF, the undersigned hereunto sets its hand and seal as of the date first set forth above.

Omeros Corporation
Borrower

By: /s/ Gregory A. Demopoulos

Name: Gregory A. Demopoulos, M.D.

Title: Chairman and CEO

OMEROS CORPORATION
AGREEMENT FOR ANTIBODY DEVELOPMENT

This Agreement for Antibody Development (this "**Agreement**") is between Omeros Corporation ("**Omeros**"), a Washington corporation having an address at 1420 Fifth Avenue, Suite 2600, Seattle, Washington 98101, and North Coast Biologics LLC ("**North Coast**"), a Washington Limited Liability Company having an address at 2815 Eastlake Avenue East, #300, Seattle, Washington 98102, and is effective as of October 31, 2008 (the "**Effective Date**"). Omeros and North Coast may be referred to herein each as a "**Party**" or together as the "**Parties**".

Omeros' business includes the research and development of pharmaceuticals and biological therapeutic products. North Coast is in the business of the discovery of humanized recombinant antibodies from rabbits. Omeros wishes to access North Coast's expertise to isolate and optimize antibodies to human MASP-2 and additional targets, which Omeros will further develop and commercialize, as further described below, and North Coast wishes to provide such expertise to Omeros.

Therefore, for the above and other consideration, Omeros and North Coast hereby agree as follows:

1 Key Definitions

- 1.1 "**Additional Target Therapeutic**" shall mean a biological therapeutic that contains a North Coast-Originated Additional Target Antibody, the manufacture, sale, offer for sale or use of which, were it not for Omeros' ownership of the Omeros Antibody Patents, would infringe any valid and enforceable claim(s) of any issued patent or any patentable claim(s) of any pending patent application included within the Omeros Antibody Patents in the country or countries in which such products are offered for sale, sold, manufactured or used.
- 1.2 "**Additional Targets**" shall mean the therapeutic targets listed on Exhibit A attached hereto and any other therapeutic targets identified by Omeros to North Coast during the Option Period (as defined below); provided, however, that Additional Targets shall not include the following targets for which North Coast has previously granted a third party an option to have North Coast develop antibodies against such targets pursuant to a written agreement executed prior to the date of this Agreement, if and only if such following targets are timely elected by such third party under the prior agreement prior to December 1, 2008 and only with respect to the ScFV format of antibody fragments against such elected following targets for which North Coast is precluded from developing for Omeros pursuant to the terms of the prior agreement: [†].
- 1.3 "**Chimeric Antibodies**" shall have the meaning set forth in the applicable Research Plan (as defined in Section 2.3).

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

- 1.4 “**Combination Product**” shall mean any (a) MASP-2 Therapeutic containing both a North Coast-Originated MASP-2 Antibody and one or more additional pharmaceutically active agent(s) that do not constitute a North Coast-Originated MASP-2 Antibody and (b) Additional Target Therapeutic containing both a North Coast-Originated Additional Target Antibody and one or more additional pharmaceutically active agent(s) that do not constitute a North Coast-Originated Additional Target Antibody.
- 1.5 “**Deliverables**” shall mean the deliverables to be provided by North Coast to Omeros under any Research Plan.
- 1.6 “**First Due Date**” and “**Second Due Date**” shall mean the dates set forth in a Research Plan by which North Coast agrees to deliver (i), for the First Due Date, [†] and (ii) for the Second Due Date, [†], (all of such Deliverables together, the “**First Due Date Deliverables**” and the “**Second Due Date Deliverables**”, respectively). The First and Second Due Dates in a Research Plan shall be mutually agreed to by Omeros and North Coast at the time of execution of the Research Plan and shall be automatically extended by the number of days that Omeros takes to perform the matters assigned to in the Research Plan in excess of the number of days allotted to Omeros for such matters in the Research Plan, unless such failure is caused by North Coast not timely providing any of the Services and Deliverables by the deadlines set forth in the Research Plan.
- 1.7 “**FDA**” shall mean the US Food and Drug Administration.
- 1.8 “**IND**” shall mean an Investigational New Drug Application, if submitted to FDA, or corresponding application to permit the commencement of clinical trials for the evaluation of a pharmaceutical or biological therapeutic if submitted to another Regulatory Agency.
- 1.9 “**Intellectual Property Rights**” shall mean all inventions, ideas, discoveries, issued, reissued or reexamined patents, pending and future patent applications, continuation and continuation-in-part patent applications, divisional patent applications, utility models, inventor’s certificates, trade secrets, know-how, copyrights, computer programs, databases and trademarks.
- 1.10 “**Lead Candidate**” shall have the meaning set forth in the applicable Research Plan.
- 1.11 “**MASP-2**” shall refer to human mannan binding lectin-associated serine protease 2.
- 1.12 “**MASP-2 Therapeutic**” shall mean a biological therapeutic that contains a North Coast-Originated MASP-2 Antibody, the manufacture, sale, offer for sale or use of which, were it not for Omeros’ ownership of the Omeros Antibody Patents, would infringe any valid and enforceable claim(s) of any issued patent or any patentable claim(s) of any pending patent application included within the Omeros Antibody Patents in the country or countries in which such products are offered for sale, sold, manufactured or used.
- 1.13 “**Net Sales**” shall refer, with respect to an Omeros Therapeutic, to (a) the gross total of the monetary amounts invoiced and collected by Omeros or, if Omeros has licensed

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manufacturing and distribution rights to a licensee, by Omeros' licensee, for the initial sale or distribution of such Omeros Therapeutic, but excluding any amounts invoiced or collected by parties other than Omeros or Omeros' licensee for subsequent sales or distribution provided no part of such amounts invoiced or collected by such parties is directly or indirectly paid to Omeros or Omeros' licensee, less (b) the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; sales commissions to third parties (but excluding sales commissions to Omeros' employees); wholesale charge backs; distributor fees; Medicare/Medicaid rebates; customer rebates; refunds for recalls; and allowances or credits to customers because of rejections or returns, provided such deductions are documented. If a North Coast-Originated Antibody is sold in combination with one or more additional active agents as a Combination Product, Net Sales shall be the product obtained by multiplying Net Sales of the Combination Product by the fraction $A/(A+B)$ where A is the sales price of the North Coast-Originated Antibody in the Combination Product when sold separately in an Omeros Therapeutic including a North Coast-Originated Antibody as the only active agent and B is the total sales price of all additional active agents in the Combination Product when sold separately in a pharmaceutical or biologic therapeutic product including such additional active agents as the only active agents. If the North Coast-Originated Antibody and the other active agents are not sold in separate pharmaceutical or biologic therapeutic products, the portion of the total cost of the Combination Product attributed to the North Coast-Originated Antibody shall be a fraction, the numerator of which shall be the cost of the North Coast-Originated Antibody and the denominator of which shall be the total cost of the Combination Product, and the fraction shall be multiplied by the sales price of the Combination Product to arrive at Net Sales. For purposes of this paragraph, the acquisition of Omeros Therapeutics from Omeros as part of an acquisition or other transfer or conveyance of all or a part of the assets of Omeros' business to which this Agreement pertains, or as part of a merger, acquisition, reorganization or other change of control of Omeros, shall not be considered a sale or distribution of Omeros Therapeutics.

- 1.14 **“North Coast-Originated Additional Target Antibody”** shall mean any Additional Target antibody or antibody fragment that specifically binds to an Additional Target or portions thereof that was isolated and/or developed for and delivered to Omeros by North Coast under this Agreement or that is derived from an Additional Target antibody or antibody fragment that was isolated and/or developed for and delivered to Omeros by North Coast under this Agreement.
- 1.15 **“North Coast-Originated Antibody”** shall mean any North Coast-Originated MASP-2 Antibody or North Coast-Originated Additional Target Antibody.
- 1.16 **“North Coast-Originated MASP-2 Antibody”** shall mean any MASP-2 antibody or antibody fragment that specifically binds to MASP-2 polypeptides or portions thereof that was isolated and/or developed for and delivered to Omeros by North Coast under this Agreement or that is derived from an MASP-2 antibody or antibody fragment that was

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isolated and/or developed for and delivered to Omeros by North Coast under this Agreement.

- 1.17 “**Omeros Antibody Patents**” shall mean (a) all patent applications and patents that claim North Coast-Originated MASP-2 Antibodies, MASP-2 Therapeutic compositions, or methods of producing North Coast-Originated MASP-2 Antibodies or MASP-2 Therapeutic compositions and (b) all patent applications and patents that claim North Coast-Originated Additional Target Antibodies, Additional Target Therapeutic compositions, or methods of producing North Coast-Originated Additional Target Antibodies or Additional Target Therapeutic compositions; provided, however, that the Omeros Antibody Patents shall exclude any patents or patent applications owned by third parties.
- 1.18 “**Optional Candidate**” shall have the meaning set forth in the applicable Research Plan.
- 1.19 “**Overall Objective**” shall mean the isolation and optimization of a North Coast-Originated Antibody (as described in each Research Plan) that is suitable for advancement by Omeros through preclinical and clinical development and ultimate manufacture, commercialization, distribution and sale in the form of one or more Omeros Therapeutics.
- 1.20 “**Omeros Therapeutic**” shall mean any MASP-2 Therapeutic or Additional Target Therapeutic.
- 1.21 “**Regulatory Agency**” shall mean FDA or corresponding foreign national or international agency that regulates and approves the clinical testing, marketing and sale of pharmaceuticals and biological therapeutics.
- 1.22 “**Second Generation Candidate**” shall have the meaning set forth in the applicable Research Plan.
- 1.23 “**Services**” shall mean the services to be provided by North Coast to Omeros under any Research Plan.

2 **Services and Deliverables**

- 2.1 **MASP-2 Antibodies.** North Coast shall provide Omeros the Services and Deliverables set forth in the initial research plan (“**Initial Research Plan**”) attached to this Agreement as **Exhibit B**. As consideration for such Services and Deliverables, Omeros agrees to pay to North Coast: the Initial Access Fee, MASP-2 cDNA Fee, Optional MASP-2 Candidate cDNA Fee (if applicable) and the Development Milestone Payments and Sales Royalties (as such terms are defined in Section 3) with respect to any MASP-2 Therapeutic developed under the Initial Research Plan, but only to the extent that such amounts become due and payable under the terms and conditions of this Agreement and the Initial Research Plan.
- 2.2 **Antibodies to Additional Targets.**

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- a) **Option for Additional Targets.** Omeros will have an option (the “**Option**”), exercisable during the period beginning on the date of this Agreement and ending on the earlier of (i) the twelve-(12) year anniversary of the date of this Agreement and (ii) such time as Omeros’ has exercised the Option with respect to [†] Additional Targets (the “**Option Period**”), to have North Coast generate antibodies raised against up to [†] of the Additional Targets that may be selected by Omeros at Omeros’ sole discretion, individually or in group(s), during the Option Period. If Omeros elects to exercise the Option, it shall do so by providing written notice to North Coast and the Parties will execute a research plan for such Additional Target in substantially the form attached hereto as **Exhibit C**, modified as the parties deem reasonably necessary solely to account for any changes to the process necessary to develop and validate antibodies to such Additional Target (an “**Additional Target Research Plan**”), and North Coast will provide Omeros the Services and Deliverables set forth in such Additional Target Research Plan.

If Omeros exercises its Option for an Additional Target, then as consideration for the Services and Deliverables set forth in the applicable Additional Target Research Plan, Omeros agrees to pay to North Coast for such Additional Target: the applicable Subsequent Access Fee (if payable under Section 3.1.a.2), the Additional Target Antibody cDNA Fee, the Optional Additional Target Antibody cDNA Fee (if applicable) and the Development Milestone Payments and Sales Royalties (as such terms are defined in Section 3) with respect to any Additional Target Therapeutic developed under such Additional Target Research Plan, but only to the extent that such amounts become due and payable under the terms and conditions of this Agreement and the applicable Additional Target Research Plan.

- b) **MASP-2 Replacement.** Notwithstanding anything to the contrary contained in this Agreement or the Initial Research Plan, if Omeros determines that in performing the Services and providing the Deliverables described in Task 1 of the Initial Research Plan North Coast did not [†], then (i) unless agreed to in writing by Omeros, North Coast shall continue to perform the Services until delivery of the Deliverables under the Initial Research Plan in order to achieve the Overall Objective described in the Initial Research Plan (including, without limitation, reperforming any Services and Deliverables in Task 1 of the Initial Research Plan) and (ii) at Omeros’ discretion, upon written notice from Omeros to North Coast (the “**MASP-2 Replacement Notice**”), the Parties will enter into an Additional Target Research Plan for an Additional Target selected by Omeros on the terms and conditions set forth in Section 2.2.a, except that (1) Omeros will not be required to pay a Subsequent Access Fee with respect to such Additional Target and (2) such Additional Target will not be counted for purpose of determining how many remaining Additional Targets are subject to the Option under Section 2.2.a; provided, however, that North Coast will not be required to enter into an Additional Target Research Plan for an Additional Target pursuant to this Section 2.2.(ii) unless Omeros gives North Coast the MASP-2 Replacement Notice before the date that North Coast provides Omeros a

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Lead Candidate under the Initial Research Plan that meets the applicable Acceptance Criteria and all of the related Services and Deliverables.

If Omeros provides North Coast a timely MASP-2 Replacement Notice under Section 2.2.b(ii) and the Parties enter into an Additional Target Research Plan under Section 2.2.b(ii) for an Additional Target then, notwithstanding anything to the contrary contained in Section 2.4, Omeros may not require North Coast to enter into an Additional Research Plan under Section 2.4(b) if North Coast fails to deliver to Omeros either the First Due Date Deliverables within ninety (90) days of the First Due Date under the Initial Research Plan or the Second Due Date Deliverables within ninety (90) days of the Second Due Date under the Initial Research Plan; provided, however, that the preceding limitation to Omeros' rights under Section 2.4(b) shall only apply with respect to the Initial Research Plan and not any other Research Plans.

c) [†].

d) **FMAT Machine.** North Coast acknowledges receipt of [†] from Omeros on October 21, 2008 (the "**FMAT Payment**"), which amount North Coast used to [†] the purchase price of a Fluorometric Microvolume Assay Technology machine (the "**FMAT**"). As consideration for the FMAT Payment, notwithstanding anything to the contrary contained in this Agreement:

2.2.d.1 The Additional Target for which Omeros exercises its Option (but not including the Additional Target that Omeros selects pursuant to Section 2.2.b, if any, which will be subject to the terms and conditions of Section 2.2.b) and designates in writing at the time of such exercise as being linked to the FMAT Payment (the "**FMAT Target**") shall be subject to the terms and conditions of Section 2.2.a, except that (i) Omeros will not be required to pay any Development Milestone Payments or Sales Royalties with respect to any Omeros Therapeutic that is developed under the Additional Target Research Plan for the FMAT Target, (ii) the FMAT Target will not be counted for purpose of determining how many remaining Additional Targets are subject to the Option under Section 2.2.a and (iii) unless North Coast has delivered to Omeros the FMAT Repayment Amount (as defined below) prior to Omeros' exercise of its Option for the FMAT Target, if the FMAT Target is the first Additional Target selected by Omeros during a calendar year in which a Subsequent Access Fee would be payable by Omeros under Section 3.1.a.2, then, notwithstanding anything to the contrary contained in this Agreement, Omeros will not be required to pay a Subsequent Access Fee for the FMAT Target and for purposes of determining the Subsequent Access Fee under Section 3.1.a.2 for any Additional Target selected during the same calendar year or in any subsequent calendar year(s), Omeros shall be given credit for the payment of a Subsequent Access Fee during the calendar year in which it exercised its option for the FMAT Target. The "**FMAT Repayment Amount**" is an amount equal to the FMAT Payment plus interest on such amount calculated from the date of this Agreement on the basis of a three hundred sixty (360) day period at a per annum rate equal to the interest rate of [†].

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If the FMAT Target is the first Additional Target selected by Omeros during a calendar year in which a Subsequent Access Fee would be payable by Omeros under Section 3.1.a.2, and if upon Omeros' exercise of its Option and designation of the FMAT Target, North Coast reasonably determines that it would be financially unable to provide the required services for generation of antibodies against the FMAT Target in accordance with the applicable Additional Target Research Plan, North Coast may request that Omeros pay the otherwise applicable Subsequent Access Fee for the FMAT Target in accordance with Section 3.1.a.2 and, unless Omeros elects not to proceed at that time with the FMAT Target (in which case it may reserve election of an FMAT Target for a later time), Omeros shall pay the otherwise applicable Subsequent Access Fee (the "FMAT Access Fee"). If Omeros has paid the FMAT Access Fee, then upon Omeros' written election either (a) an amount equal to [†] the FMAT Access Fee shall be credited against the first to become due and payable of (i) the Additional Target Antibody cDNA Fee for the FMAT Target or (ii) an Additional Target Antibody cDNA Fee for another Additional Target, or (b) the first Development Milestone that becomes due thereafter for the [†].

If North Coast fails to deliver either the First Due Date Deliverables by the First Due Date specified in an Additional Target Research Plan or the Second Due Date Deliverables by the Second Due Date specified in an Additional Target Research Plan for the FMAT Target, then upon written notice to North Coast, Omeros shall have the right to designate any other Additional Target as the FMAT Target in place of the originally designated Additional Target, and all of the provisions in the above paragraph shall apply to the redesignated FMAT Target in place of the originally designated Additional Target, with North Coast being relieved of any further work on the originally designated Additional Target and Omeros being relieved of any further financial obligations concerning the originally designated Additional Target.

2.2.d.2 [†].

[†].

[†].

2.2.d.3 Omeros shall be provided free use of and access to the FMAT machine at North Coast's facility in Omeros' research and development programs, at times to be mutually agreed for convenience to both parties and without undue interruption of North Coast's activities.

2.2.d.4 If under the terms and conditions of the Additional Target Research Plans for the first three (3) Additional Target for which Omeros exercises its Option (including the Additional Target(s) that Omeros selects pursuant to Section 2.2.b, if any, or this Section 2.2.d), North Coast fails to deliver either the First Due Date Deliverables by the First Due Date specified in any of such Additional Target Research Plans or the Second Due Date Deliverables by the Second Due Date

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specified in such Additional Target Research Plan, then within thirty (30) days of receipt from Omeros of a written demand therefor, [†].

- 2.3 **Additional Services and Deliverables.** North Coast and Omeros may mutually agree that additional Services not envisioned by the Initial Research Plan or an Additional Target Research Plan (if any) will be provided under this Agreement, which shall be specified in one or more additional research plans, including all additional Deliverables, any additional fee compensation payable and a timeline for performance, the Initial Research Plan, any Additional Target Research Plan and any additional research plans each referred to herein as a “**Research Plan.**”
- 2.4 **Failure to Provide Services and Deliverables by Due Date and Replacement Target.** If North Coast fails to deliver to Omeros either the First Due Date Deliverables by within [†] of the First Due Date specified in the Initial Research Plan or any Additional Target Research Plan (as applicable) or the Second Due Date Deliverables by within [†] of the Second Due Date specified in such Initial Research Plan or any Additional Target Research Plan (as applicable), then Omeros in its sole discretion may: (a) terminate the Research Plan upon written notice to North Coast; provided, however, that if at any time after such [†] Omeros has not terminated the Research Plan and North Coast provides Omeros a humanized Lead Candidate that meets the Acceptance Criteria and the related Services and Deliverables under the Research Plan, then Omeros may not terminate such Research Plan pursuant to this Section 2.4; and/or (b) select an Additional Target, in which case the Parties will enter into an Additional Target Research Plan for such Additional Target on the terms and conditions set forth in Section 2.2.a, except that (i) Omeros will not be required to pay a Subsequent Access Fee with respect to such Additional Target, (ii) Omeros will not be required to pay an Additional Target Antibody cDNA Fee with respect to the humanized Lead Candidate generated under such Additional Target Research Plan and (iii) such Additional Target will not be counted for purpose of determining how many remaining Additional Targets are subject to the Option under Section 2.2.a.
- If Omeros is entitled under Section 2.4(a) to terminate a Research Plan but has not done so, then until it has exercised its right to terminate the Research Plan (1) North Coast will continue providing the Services and Deliverables described in the Research Plan and (2) North Coast and Omeros will communicate at least monthly to discuss any progress made by North Coast under the Research Plan and Omeros’ continued interest in having North Coast continue work under such Research Plan. If Omeros terminates a Research Plan in accordance with this Section 2.4, Omeros shall have no further obligations to North Coast with respect to any Services or Deliverables provided under such Research Plan (including, without limitation, any obligation to pay any fees in connection with such Research Plan such as Development Milestone Payments or Sales Royalties under Section 3).
- 2.5 **Best Efforts.** North Coast shall use its continuing best efforts to diligently complete all Services, to deliver all Deliverables and meet all milestones set forth in all Research Plans within the timeline set forth within the applicable Research Plans, and to achieve the Overall Objective, and shall ensure that all Services are carried out and Deliverables

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generated and developed using staff that are fully qualified and in accordance with the prevailing professional standards of the industry.

- 2.6 **Subcontracting.** North Coast shall not subcontract with any other entity for the performance of any portion of the Services or for the provision of any Deliverables without Omeros' express written consent. Any approval of a subcontract by Omeros does not grant the right to any approved subcontractor to further subcontract its obligations without first obtaining further express prior written consent of Omeros. Any approved subcontractor shall be subject to all of the terms applicable to the North Coast under this Agreement, provided that North Coast shall be responsible and remain liable for the performance of all obligations of North Coast under this Agreement and any breach thereof by any subcontractor.
- 2.7 **Compliance with Laws.** North Coast shall comply with all applicable international, national, county and local laws, rules and regulations in providing the Services and delivering the Deliverables. North Coast shall promptly notify Omeros if any regulatory agency takes action against North Coast for any defect or deficiency, during the Term (as defined in Section 8.1) of this Agreement, or if any other adverse event occurs that materially limits North Coast's ability to complete the Services and provide the Deliverables.
- 2.8 **Transfer of Antibodies.** North Coast shall assist Omeros and cooperate with transfer of the Chimeric Antibodies, Lead Candidates, Second Generation Candidates and Optional Candidates, their respective physical cDNA's, cDNA sequences in written and electronic form, antibody expression constructs and antibody expressing cell lines, as applicable, as well as the respective Records and Materials (as defined in Section 4.1.b) in physical and electronic form, to third party(ies) designated by Omeros for further development and/or manufacture of preclinical, clinical and commercial supplies of North Coast-Originated Antibodies.
- 3 **Payments and Royalties**
- 3.1 **Payment Terms.** As full and complete consideration for the Services and Deliverables, all licenses, intellectual property and other rights conveyed, and all obligations undertaken in accordance with this Agreement, Omeros shall pay North Coast the amounts set forth in this Section 3 upon satisfaction of the respective conditions for each payment. Any portion of the Services that reasonably need to be reperformed, or any Deliverables that reasonably need to be reproduced, due to no fault of Omeros shall be promptly reperformed or reproduced, if requested by Omeros, without added charge.
- a) **Technology Access Fees.**
- 3.1.a.1 **Initial Access Fee.** Omeros shall pay North Coast a fee of [†] (the "**Initial Access Fee**") on invoice to be submitted upon execution of this Agreement for access rights to North Coast's Pre-existing Intellectual Property and the New North Coast Intellectual Property (as such terms are defined in Sections 7.1 and 7.2.a).

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respectively) to be used by North Coast for Omeros' benefit in performing the Services described under the Initial Research Plan and any other Research Plans covering Additional Targets for which Omeros exercises its Option prior to [†], and to permit Omeros to use, develop, commercialize, sell and distribute the Deliverables provided under the Initial Research Plan and any such other Research Plans. North Coast acknowledges receipt from Omeros on October 10, 2008 of [†] as partial payment towards the Initial Access Fee, and agrees that the invoice for the Initial Access Fee shall show a credit to Omeros for such amount and the total amount owing to North Coast for the Initial Access Fee shall be [†]. The Initial Access Fee is payable by Omeros only one time regardless of how many such Research Plans Omeros and North Coast enter into, and regardless of how many antibodies North Coast generates against MASP-2 and any Additional Targets.

3.1.a.2 **Subsequent Access Fees.** Subject to the terms and conditions of this Agreement, if at any time after [†] (a) Omeros exercises its Option for an Additional Target and (b) such exercise is the first exercise by Omeros of its Option for any Additional Target during the then-current calendar year, then Omeros shall pay North Coast a fee (a "**Subsequent Access Fee**") on invoice, to be submitted upon mutual execution of the Additional Target Research Plan for such Additional Target, for access rights to North Coast's Pre-existing Intellectual Property and the New North Coast Intellectual Property to be used by North Coast for Omeros' benefit in performing the Services described under such Additional Target Research Plan and any other Research Plans covering Additional Targets for which Omeros exercises its Option during such calendar year, and to permit Omeros to use, develop, commercialize, sell and distribute the Deliverables provided under such Additional Target Research Plan and any other such Research Plans. A Subsequent Access Fee is payable by Omeros only one time during such calendar year, regardless of how many Additional Targets Omeros' exercises its Option for during a calendar year, and regardless of how many antibodies North Coast generates against any Additional Targets during such calendar year. The Subsequent Access Fee shall be:

3.1.a.2.1 [†] for the first calendar year after [†] in which Omeros exercises its Option ("**Calendar Year I**"),

3.1.a.2.2 [†] for the first calendar year after Calendar Year I in which Omeros exercises its Option ("**Calendar Year II**"), and

3.1.a.2.3 [†] for the first calendar year after Calendar Year II in which Omeros exercises its Option ("**Calendar Year III**").

For purposes clarification, Calendar Year I can be any calendar year during the Option Period beginning with calendar year [†], and Calendar Year I, Calendar Year II and Calendar Year III do not have to be successive calendar years. Notwithstanding anything in this Agreement to the contrary, Omeros shall not be required to pay a technology access fee (including any Subsequent Access Fees) with respect to any Additional

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Targets for which Omeros exercises its Option after Calendar Year III; provided that in consideration of Omeros' agreement to pay the Subsequent Access Fees during Calendar Year I, Calendar Year II and Calendar Year III, North Coast shall grant access rights to North Coast's Pre-existing Intellectual Property and the New North Coast Intellectual Property to be used by North Coast for Omeros' benefit in performing the Services described under any Research Plans covering Additional Targets for which Omeros exercises its Option after Calendar Year III, and permit Omeros to use, develop, commercialize, sell and distribute the Deliverables provided under such Research Plans.

b) **cDNA Fees.**

3.1.b.1 **MASP-2 cDNA Fee.** If, after North Coast provides all of the Services and Deliverables described in Section 2.3(a) of the Initial Research Plan with respect to [†], then on invoice Omeros shall pay to North Coast a one-time fee of [†].

3.1.b.2 **Optional MASP-2 Candidate cDNA Fee.** If at Omeros' written request North Coast generates a [†], and after North Coast provides all of the Deliverables described in Section 2.3(a) of the Initial Research Plan with respect to [†], then on invoice Omeros shall pay to North Coast a one-time fee of [†] (the "**Optional MASP-2 Candidate cDNA Fee**"). Omeros shall pay North Coast an Optional MASP-2 Candidate cDNA Fee for each [†] and for which North Coast has provided the Deliverables described in Section 2.3(a).

3.1.b.3 **Additional Target Antibody cDNA Fee.** For each Additional Target, if after North Coast provides all of the applicable Services and Deliverables described in the applicable Additional Target Research Plan with respect to the applicable [†], then on invoice Omeros shall pay to North Coast a one-time fee of [†] (the "**Additional Target Antibody cDNA Fee**"); provided, however, that Omeros and North Coast may agree at the time of execution of the applicable Additional Target Research Plan [†].

3.1.b.4 **Optional Additional Target Antibody cDNA Fee.** If at Omeros' written request North Coast generates a [†] under an Additional Target Research Plan, and after North Coast provides all of the Services and Deliverables described in the Additional Target Research Plan with respect to [†], then on invoice Omeros shall pay to North Coast a one-time fee of [†] (the "**Optional Additional Target Antibody cDNA Fee**"). Omeros shall pay North Coast an Optional Additional Target Antibody cDNA Fee for each such humanized Optional Candidate requested by Omeros that [†].

c) **Additional Services and Deliverables.** Fees for any additional Services and Deliverables not envisioned by this Agreement shall be as set forth in any amendments to this Agreement and shall be determined on a per project basis.

d) **Development Milestone Payments.** For each Omeros Therapeutic, Omeros shall pay North Coast the following one-time development milestone payments (each a "**Development Milestone Payment**") on invoice upon completion of the associated development activity (each a "**Development Milestone**") by Omeros or by a licensee of

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Omeros for an Omeros Therapeutic. Omeros shall provide North Coast written notice of the completion of each Development Milestone by Omeros or Omeros' licensee within thirty (30) days of such Development Milestone completion. The Development Milestone Payments that may become due for an Omeros Therapeutic shall be [†], as set forth in the following table:

Development Milestone	Development Milestone Payment [†] for the Omeros Therapeutic [†]:				
	Each by the [†] set forth in applicable Research Plan	Each no later than [†] set forth in applicable Research Plan	Each no later than [†] set forth in applicable Research Plan	Each no later than [†] set forth in applicable Research Plan	Each at least [†] set forth in applicable Research Plan*
[†]	[†]	[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]	[†]	[†]
[†]	[†]	[†]	[†]	[†]	[†]

* Humanized Lead Candidate must meet applicable Acceptance Criteria [†].

- e) **Royalties.** For each Omeros Therapeutic, Omeros shall pay North Coast a royalty as a percentage of Net Sales of such Omeros Therapeutic (the "Sales Royalty"). The applicable Sales Royalty rate that may become due for an Omeros Therapeutic shall be [†], as set forth in the following table:

Each by the [†] set forth in applicable Research Plan	Sales Royalty rate [†] for the Omeros Therapeutic [†]:		
	Each no later than [†] set forth in applicable Research Plan	Each no later than [†] set forth in applicable Research Plan	Each no later than [†] set forth in applicable Research Plan
[†]	[†]	[†]	[†]

Sales Royalties shall be paid on a [†] within [†] following the end of each [†] for Net Sales realized during such [†]. Notwithstanding anything above in this Section 3.1.e, Omeros shall not be required to pay North Coast a Sales Royalty for Net Sales on a MASP-2 Therapeutic or an Additional Target Therapeutic realized during any period in a country or territory in which a third party, without license or other authority from Omeros, also sells or distributes a MASP-2 therapeutic or an Additional Target therapeutic, respectively, that infringes one or more claims of the Omeros Antibody Patents, provided that Omeros has acted with reasonable diligence in seeking to enforce the applicable Omeros Antibody Patents to enjoin such third party sales or distribution after discovery by Omeros of such third party sales or distribution.

- 3.2 **Price Adjustments for Additional Targets.** The Additional Target Antibody cDNA Fee, Optional Additional Target Antibody cDNA Fee and each Development Milestone Payment (collectively "Fees") shall remain fixed for all Additional Targets for which

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Omeros exercises its Option on or before [†]. For any Additional Targets for which Omeros exercises its Option after [†], the Fees will each be increased each year by the lesser of (a) [†] and (b) the seasonally adjusted change in the Producer Price Index for pharmaceutical and medicine manufacturing (commodity code 32541) issued by the Bureau of Labor Statistics, U.S. Department of Labor (“PPI”) for the year ending immediately preceding the year in which the Option is exercised. For example, if Omeros exercises its Option for an Additional Target in [†], the Fees will be increased over the Fees payable in [†] by the lesser of [†] and the PPI for [†]. For an antibody requested in [†], the Fees will be increased over the Fees payable in [†] by (1) the lesser of [†] and the PPI for [†] and (b) the lesser of [†] or the PPI for [†]. No other payments that may become due hereunder, including without limitation the Subsequent Access Fees and Sales Royalty rates, will be subject to increase pursuant to this Section 3.2.

- 3.3 **Invoices.** North Coast shall submit invoices to Omeros for payments, other than Sales Royalties that have become due. The terms of payment are [†] after Omeros’ receipt of North Coast’s invoice, or in the event that any invoice is disputed in good faith, [†] after mutual agreement or other resolution is reached on the disputed invoice or receipt of a corrected invoice. Invoices shall reference this Agreement and the relevant Research Plan (as applicable) and specify the milestone payment or other fee that is being invoiced. Payment for Sales Royalties shall be made by Omeros concurrent with delivery of the Net Sales reports specified in Section 4.1.a.

Invoices shall be sent to Omeros by mail addressed to the following or subsequently updated address:

Accounts Payable
Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101

North Coast shall provide and keep Omeros updated on invoice payment instructions, including wire transfer information or the payee and address for checks.

- 3.4 **Obligation to Pay Taxes.** Payments under this Agreement shall be made in full in the agreed amounts without deduction for taxes of any kind whatsoever. Any taxes that may be due and payable as a result of Omeros’ payments under this Agreement are solely North Coast’s responsibility.

4 **Reports; Records; Audits; Inspections**

4.1 **Reports and Record Maintenance.**

a) **By Omeros.** Following the initial approval by a Regulatory Agency for the sale by Omeros or a licensee of Omeros of an Omeros Therapeutic, Omeros shall provide North Coast with a Net Sales report on a [†] setting forth the quantity of sales of such Omeros Therapeutic, the gross monetary amounts invoiced and collected by either Omeros or by a licensee of Omeros (and reported to Omeros during such [†]) for the initial distribution or

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sale of such Omeros Therapeutic, and the total of all deductions provided for in Section 1.9 during such [†], within [†] following the end of each [†] for Net Sales realized during such [†].

b) **By North Coast.** North Coast shall provide Omeros written status reports regarding its progress on all uncompleted Research Plans on an at least [†] commencing [†], with each report due within [†] of the end of the preceding [†]. North Coast shall maintain complete and accurate written and electronic records, accounts, notes, reports and data, and materials, including, without limitation, B cell cultures, culture supernatants, sequence information, expression construct DNA and viable clones of all Chimeric Antibodies, Lead Candidates, Optional Candidates and Second Generation Candidates (as applicable) and any other records and materials listed in Section 2.8, relating to its performance of the Research Plans (the “**Records and Materials**”) for the longer of the following minimum periods: (i) all Records and Materials related to North Coast-Originated Antibodies or Omeros Therapeutics approved by FDA for marketing shall be retained by North Coast for at least two (2) years after such FDA approval; (ii) all Records and Materials related to North Coast-Originated Antibodies or Omeros Therapeutics for which Omeros submits an IND will be retained by North Coast for at least five (5) years after such submission; and (iii) all records related to North Coast-Originated Antibodies or Omeros Therapeutics for which Omeros notifies North Coast that an IND has not been filed and is not planned to be filed shall be retained by North Coast for at least [†] following North Coast receipt of notice of such determination from Omeros. North Coast shall notify Omeros at least [†] before any Records and Materials are to be disposed of or destroyed. If at any time Omeros requests receipt of all or any portion of the original Records and Materials, North Coast shall send such original Records and Materials to Omeros at Omeros’ reasonable expense.

4.2 **Audit of Omeros Books.** North Coast shall have the right to employ a certified public accountant to review and reconcile the directly relevant accounting records and procedures of Omeros solely as they relate to the determination of Sales Royalties, during reasonable business hours and no more than [†] a year, and Omeros agrees to make available at Omeros’ place of business all such directly relevant accounting records for that purpose within [†] of written request by North Coast. The cost of such review shall be borne by North Coast, unless it is found that Omeros under-paid a [†] Sales Royalty for any [†] by an amount of [†] or greater, in which case the cost of such review shall be borne by Omeros.

4.3 **Visits, Audits and Inspections.** Omeros’ representatives may visit North Coast’s facilities at reasonable times and with reasonable frequency during normal business hours to observe the progress of the Services and Deliverables under any Research Plan, within [†] of written request. North Coast shall assist Omeros in scheduling and implementing such visits. During the visits, Omeros representatives may examine all Records and Materials, facilities and equipment that pertain to any Services and Deliverables, and any other relevant resources pertaining to any Research Plan, as well as any other audit reports prepared by or on behalf of North Coast with respect to quality audits of such relevant

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resources. If North Coast receives a request from any Regulatory Agency to inspect any portion of North Coast's facilities related to the performance of any Services and Deliverables, North Coast shall notify Omeros in advance and provide Omeros an opportunity, at Omeros' expense, to participate in such inspection, and shall fully inform Omeros of the results of such inspection.

5 **Samples**

5.1 **Use of Samples.** Omeros shall transfer to North Coast the sufficient or requested quantities of proteins, reagents, antibodies and/or other materials involved in the Services as specified in any Research Plan ("**Samples**"). Omeros shall provide all pertinent information known to Omeros regarding the Samples to the extent necessary for carrying out any Research Plan. North Coast shall be responsible for and bear the expense of obtaining any other chemicals, materials, equipment, animals and facilities needed to conduct the Services and produce the Deliverables. North Coast shall not use or analyze any Samples provided under this Agreement except as necessary to carry out the relevant Research Plan and shall not administer or permit the Samples to be administered to any person. After completion of the Services, North Coast shall either return the Samples to Omeros or dispose of the Samples, upon written request by Omeros and at Omeros' risk and expense. North Coast accepts full responsibility for safe handling of all Samples or other compounds or materials used in the performance of the Services and shall be responsible for any loss or destruction of the Samples after delivery to North Coast.

5.2 **Ownership of Samples.** The Samples are and shall remain the sole property of Omeros and nothing in this Agreement shall be construed as granting to North Coast, by implication or otherwise, any right or license with respect to the Samples, or any patent or other intellectual property rights with respect to the Samples, except as required to complete the Services and generate the Deliverables, and North Coast shall not file applications or otherwise seek any proprietary rights in respect of the Samples or any Confidential Information (as that term is defined in Section 6.1) that Omeros provides under this Agreement.

6 **Confidentiality and Non-use**

6.1 As used in this Agreement, "**Confidential Information**" shall mean any Samples, other materials, data, research, development, manufacturing, marketing, financial, personnel, sales, business, and other non-public, proprietary or technical information provided by a disclosing Party (the "**Disclosing Party**") to a receiving Party (the "**Recipient**"), including, without limitation, all Deliverables, Records and Materials (which shall be considered Omeros' Confidential Information even if generated or provided by North Coast), except any portion of such information that the Recipient establishes:

- a) is or becomes generally available to the public or within the industry to which such information relates, other than as a result of a breach of this Agreement; or
- b) is known by Recipient at the time of receipt of the Disclosing Party's information, as evidenced by Recipient's contemporaneous written records; or

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c) is provided to Recipient on a non-confidential basis by a third party who has the legal right to make such disclosure; or

d) was or is independently developed by or for Recipient without access to or use of the information of the Disclosing Party, as evidenced by Recipient's contemporaneous written records.

6.2 **Obligations of Confidentiality and Non-use.** Each Party agrees that the Disclosing Party has and shall retain sole and exclusive rights of ownership of all Confidential Information disclosed or owned by such Party. Each Recipient agrees that during the Term of this Agreement and for [†] thereafter it will not use any Confidential Information of the Disclosing Party except for the purposes of performing under this Agreement, unless otherwise agreed by the Parties in writing. Each Recipient agrees not to disclose any Confidential Information of the Disclosing Party to others (except to Recipient's employees, consultants, professional advisors, agents and Affiliates who reasonably require disclosure of such Confidential Information to achieve the purposes of this Agreement and who are bound to the Recipient by like obligations as to confidentiality and non-use no less stringent than those set forth herein) during the Term of this Agreement and for [†] thereafter without the prior written consent of the Disclosing Party. North Coast agrees that with respect to the Records and Materials, which are included in Omeros' Confidential Information, these obligations of non-use and confidentiality shall subsist beyond [†] after the termination of this Agreement. Each Party agrees to maintain and follow reasonable procedures to prevent unauthorized disclosure or use of the other Party's Confidential Information and to prevent it from becoming disclosed or being accessed by unauthorized persons. Each Party agrees that it may disclose to authorized persons only such Confidential Information of the Disclosing Party as is necessary for each such authorized person to perform his/her responsibilities under this Agreement. Recipient shall advise the Disclosing Party of any disclosure, loss, or use of Confidential Information of the Disclosing Party in violation of this Agreement as soon as practicable. Each Party agrees to return or destroy the Confidential Information of the other Party, whether in written, graphic, electronic or other tangible form, upon written request, provided, however, that legal counsel for each Party may retain an archival copy of Confidential Information solely for purposes of ensuring compliance with this Agreement.

6.3 **Disclosure of this Agreement.** The terms of this Agreement shall be considered each Party's Confidential Information, and accordingly except for disclosures expressly permitted under this Agreement, neither Party may release any information to any third party regarding the terms of this Agreement without the prior written consent of the other Party. Notwithstanding the foregoing, the terms of this Agreement may be disclosed by either party to its existing or potential investors, acquirers, merger partners, commercial partners, shareholders, directors, officers and professional advisors as long as such individuals or entities are subject to similar conditions of confidentiality.

6.4 **Permitted Disclosures.** Notwithstanding anything to the contrary, a Party may disclose Confidential Information of the other Party, including, without limitation, the terms of this

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Agreement, to the extent such disclosure is reasonably necessary: (a) to secure patent protection for an Intellectual Property Right developed pursuant to this Agreement consistent with the ownership provisions set forth in Section 7; (b) to comply with applicable laws or regulations, the requirements of any Regulatory Agency or other regulatory or governmental authority, including, without limitation, FDA, the US Securities and Exchange Commission, the Federal Trade Commission and/or the Department of Justice, or judicial order from a court of competent jurisdiction; or (c) as necessary for Omeros to conduct pre-clinical studies, clinical trials, achieve the Overall Objective or to seek regulatory approval to market Omeros Therapeutics. Prior to making any such permitted disclosures, however, the Recipient shall give reasonable advance notice to the Disclosing Party with as much detail as possible in relation to the disclosure. Each Party agrees that it shall cooperate fully and in a timely manner with the other Party with respect to all such permitted disclosures, including determining what information should be released and requests for confidential treatment of Confidential Information of either Party included in any such disclosure where possible; provided that in no event shall a Party be required to delay any filing or release unreasonably hereunder.

6.5 **Remedies.** Because of the unique nature of the Confidential Information, each Recipient acknowledges and agrees that the Disclosing Party may suffer irreparable injury if the Recipient fails to comply with the obligations set forth in this Section 6, and that monetary damages may be inadequate to compensate the Disclosing Party for such breach. Accordingly, each Recipient agrees that the Disclosing Party will, in addition to any other remedies available to it at law, in equity or otherwise, without the requirement to post a bond, be entitled to seek injunctive relief and/or specific performance to enforce the terms, or prevent or remedy the violation, of this Section 6. This provision shall not constitute a waiver by either Party of any rights to damages or other remedies which it may have pursuant to this Agreement or otherwise.

7 **Intellectual Property; Licenses**

7.1 **Pre-existing Intellectual Property.** Except as expressly provided in this Section 7, neither Party shall, as a result of this Agreement, acquire any right, title, or interest in any Intellectual Property Rights that the other Party owned, licensed or controlled as of the Effective Date of, or that the other Party obtains ownership, license or control of separate and apart from the performance of, this Agreement (each Party's "**Pre-existing Intellectual Property**").

7.2 **New Intellectual Property**

a) Except as expressly provided in Section 7.3, North Coast shall own all right, title and interest in "**New North Coast Intellectual Property**", which shall mean Intellectual Property Rights that North Coast develops, conceives, invents, reduces to practice or makes in the course of performance under this Agreement that consists of subject matter of general applicability to the current business of North Coast or therapeutic target other than MASP-2 and any Additional Target for which North Coast and Omeros enter into a

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Research Plan (MASP-2 and any such Additional Targets collectively, the “**Omeros Targets**” and each individually, an “**Omeros Target**”) and that is not specific to, and only to the extent that it does not apply to: any of the Omeros Targets; any inhibitor of an Omeros Target; any Omeros Target antibody or antibody fragment that binds to Omeros Target polypeptides or portions thereof, including, without limitation, North Coast-Originated Antibodies; any pharmaceutical or biological therapeutic for the inhibition of an Omeros Target, including, without limitation, any Omeros Therapeutic; any method or process for generating or producing any Omeros Target antibody or antibody fragment that binds to Omeros Target polypeptides or portions thereof, including, without limitation, North Coast-Originated Antibodies; any process or method for generating or producing Omeros Therapeutics; and any method of treatment by inhibiting an Omeros Target.

b) Omeros shall own all right, title, and interest in (a) the Omeros Antibody Patents, (b) all Intellectual Property Rights that either Party, solely or jointly with others, develops, conceives, invents, reduces to practice, improves, or makes in the course of performance under this Agreement that is directed or specific to: an Omeros Target; any inhibitor of an Omeros Target; any Omeros Target antibody or antibody fragment that binds to Omeros Target polypeptides or portions thereof, including, without limitation, North Coast-Originated Antibodies; any pharmaceutical or biological therapeutic for the inhibition of an Omeros Target, including, without limitation, any Omeros Therapeutic; any method or process for generating or producing any Omeros Target antibody or antibody fragment that binds to Omeros Target polypeptides or portions thereof, including, without limitation, North Coast-Originated Antibodies; any process or method for generating or producing Omeros Therapeutics; and any method of treatment by inhibiting an Omeros Target, and (c) any and all other Intellectual Property Rights, excluding the New North Coast Intellectual Property, and other work product generated by either Party during the course of performance under this Agreement, including, without limitation, all Intellectual Property Rights embodied or documented in the Records and the Materials, (collectively, the “**New Omeros Intellectual Property**”). North Coast hereby assigns, and shall continue to assign to Omeros, all of North Coast’s right, title and interest in any New Omeros Intellectual Property. North Coast shall promptly disclose to Omeros in writing all New Omeros Intellectual Property. North Coast shall execute, and shall require North Coast’s personnel involved in the performance of the Services to execute, any documents required to confirm Omeros’ ownership of the New Omeros Intellectual Property, and any documents required to apply for, maintain and enforce any patents or other rights in the New Omeros Intellectual Property. Upon Omeros’ request and at Omeros’ reasonable expense, and at no cost to North Coast, North Coast shall assist Omeros as may be necessary to apply for, maintain and enforce any patents or other rights in the New Omeros Intellectual Property.

7.3 **Grant of License.** North Coast hereby grants Omeros a non-exclusive, fully paid-up, irrevocable and transferable license, with the right to grant and authorize sublicenses, under (a) all of North Coast’s Pre-existing Intellectual Property, and (b) all New North Coast Intellectual Property, to the extent that North Coast’s Pre-existing Intellectual Property or the New North Coast Intellectual Property is necessary, useful or beneficial to

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express, modify, formulate, manufacture, test, develop, market, commercialize, make, have made, use, sell, import, and distribute any Deliverable called for in any Research Plan, any North Coast-Originated Antibody and any Omeros Therapeutic.

7.4 [†].

8 **Term and Termination**

8.1 **Term.** The term of this Agreement begins on the Effective Date and, unless earlier terminated as provided for below in this Section 8, continues in full force and effect until the later of (a) North Coast's satisfactory completion of all Services and delivery of all Deliverables described in all Research Plans, (b) the expiration of the Option Period and (c) the point in time at which there are no patent application(s) in the process of being prepared for filing, no pending patent applications and no valid and enforceable claim included within any patent, utility model or inventor's certificate within (i) the Omeros Antibody Patents, (ii) North Coast's Pre-existing Intellectual Property that relates to any North Coast-Originated Antibody or any Omeros Therapeutic and (iii) the New North Coast Intellectual Property that relates to any North Coast-Originated Antibody or any Omeros Therapeutic (the "**Term**").

8.2 **Survival.** The provisions of Sections 5-7, 8.2, 8.4, 9, 10 and 12-14 shall survive termination of this Agreement.

8.3 **Termination for Cause.** Either Party may terminate this Agreement at any time in the event that the other Party breaches any material obligation of this Agreement by first submitting written notice of breach to the breaching Party, which breach is not substantially cured within [†] of the receipt of such notice, followed by written notice of termination then being sent to the breaching Party.

9 **Representations and Warranties**

9.1 **Authority.** Each Party represents and warrants that it has full power and authority to execute, deliver and perform this Agreement, and that the terms of this Agreement do not conflict with any other contractual agreement or obligation to which it is a Party.

9.2 **Intellectual Property.** North Coast represents and warrants that:

a) North Coast will provide all Services and deliver all Deliverables to Omeros free and clear of any liens, encumbrances or claims of any third party;

b) North Coast's provision of all Services for, and delivery of all Deliverables to, Omeros in accordance with this Agreement and all Research Plans will not infringe, misappropriate, violate or utilize any third party's Intellectual Property Rights known to North Coast or third party confidential information known to North Coast, and no North Coast employee will violate any non-competition or similar agreements with any third party as a result of providing the Services and Deliverables;

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c) the pending patent applications listed on **Exhibit D** attached hereto (the “**North Coast Patents**”) are owned by North Coast and included in North Coast’s Pre-existing Intellectual Property, the claims of the North Coast Patents are patentable, and the claims of the North Coast Patents read on the processes and systems North Coast shall utilize in the performance of the Services and generation of the Deliverables under this Agreement and will provide North Coast exclusivity with respect to performance of the Services and generation of the Deliverables in the countries and regions in which the North Coast Patents were granted;

d) except with respect to any Intellectual Property Rights claiming methods or systems for the host expression of antibodies or antibody fragments during clinical or commercial manufacture, and except with respect to any Intellectual Property Rights that are specific to MASP-2 or Additional Targets, Omeros’ use of the Deliverables to conduct research and development and to generate, develop, produce and manufacture North Coast-Originated Antibodies and Omeros Therapeutics, and the performance by Omeros of preclinical and clinical development, manufacture, commercialization, distribution and sale of Omeros Therapeutics, shall not infringe any third party’s Intellectual Property Rights known to North Coast.

9.3 **No Other Warranties.** EXCEPT AS EXPRESSLY SET FORTH HEREIN, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY OF THE IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, SAFETY, EFFICACY AND NONINFRINGEMENT REGARDING THE SAMPLES, THE DELIVERABLES, THE NORTH COAST-ORIGINATED ANTIBODIES, THE OMEROS THERAPEUTICS OR ANY OTHER SUBJECT MATTER OF THIS AGREEMENT.

10 **Indemnification; Limitation of Liability.**

10.1 **Indemnification.** Each Party (the “**Indemnifying Party**”) shall indemnify, defend and hold harmless the other Party, its affiliates, subsidiaries, officers, directors, employees, consultants, and agents (collectively the “**Indemnitees**”) from any and all liability, loss (including reasonable attorneys’ fees) or damage any of them may suffer as the result of claims, demands, costs or judgments against them by unaffiliated third parties (collectively “**Claims**”) that arise from the Indemnifying Party’s breach of any of its obligations, representations, covenants and warranties under this Agreement, or the Indemnifying Party’s negligent act or omission, willful misconduct or unlawful act, except and to the extent that such Claims result from the breach by any Indemnitee of any of the Indemnitees’ obligations, representations, covenants and warranties under this Agreement or any of the Indemnitees’ gross negligence, willful misconduct or unlawful act.

10.2 **Procedure.** In the event that any third party claim, action or suit is instituted against an Indemnitee in respect of which indemnity may be sought pursuant to Section 10.1, the Indemnitee will promptly notify the Indemnifying Party in writing (provided that the failure to give such notice promptly will not prejudice the rights of an Indemnitee, except

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to the extent that the failure to give such prompt notice materially adversely affects the ability of the Indemnifying Party to defend the claim, action or suit). Promptly after the Indemnitee gives such written notice, the Indemnifying Party and the Indemnitee shall meet to discuss how to respond to such claim, action or suit. The Indemnifying Party shall control the defense of such claim, action or suit. The Indemnitee shall cooperate with the Indemnifying Party in the defense of such claim, action or suit, at the expense of the Indemnifying Party. In any such proceeding, the Indemnitee shall also have the right to retain its own counsel at its own expense. The Indemnifying Party shall not be liable for damages with respect to a claim, action or suit settled or compromised by the Indemnitee without the Indemnifying Party's prior written consent. No offer of settlement, settlement or compromise by the Indemnifying Party shall be binding on an Indemnitee without the Indemnitee's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed), unless such settlement fully releases the Indemnitee without any liability, loss, cost or obligation to such Indemnitee, provided, however, that the Indemnifying Party shall have no authority to take any action as part of any such defense or settlement that invalidates or otherwise compromises or renders unenforceable any of the Indemnitees' Intellectual Property Rights without the Indemnitees' express prior written consent.

10.3 **Limitation of Liability.** Without limitation of any Party's obligations to indemnify third party Claims under Section 10.1, neither Party shall be liable for any indirect, consequential, exemplary or incidental damages arising under or in association with this Agreement, except for any such liability arising from fraud by the Party or from any breach of the Party's obligations regarding Confidential Information or Intellectual Property Rights under this Agreement.

11 **Insurance**

Each Party will procure and maintain, at its own expense, for the duration of the Agreement, and for [†] thereafter if written on a claims made or occurrence reported form, the types of insurance specified below with carriers rated [†] with A. M. Best or like rating agencies, at levels at all times commensurate with those standard in the industry for like companies at like stages of development but in any event no less than the following levels:

- (a) Workers' Compensation in accordance with applicable statutory requirements and each Party shall provide a waiver of subrogation in favor of the other Party;
- (b) Employer's Liability with a limit of liability in an amount of not less than [†];
- (c) Commercial General Liability including premises operations, products & completed operations, blanket contractual liability, personal injury and advertising injury including fire legal liability for bodily injury and property damage in an amount not less than [†] per occurrence and [†] in the aggregate;
- (d) Products Liability in an amount not less than [†] each occurrence prior to Omeros' initial administration of an antibody developed under this Agreement to humans as part of a clinical trial cleared by FDA or other regulatory agency ("**Initial Dosing**") and

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of not less than [†] each occurrence after Initial Dosing, provided that Omeros shall promptly notify North Coast upon Initial Dosing; and

(e) Excess Liability of [†] over Commercial General Liability and Employer's Liability.

Each Party shall include the other Party and their subsidiaries, affiliates, directors, officers, employees and agents as additional insureds with respect to Commercial General Liability and Excess Liability. Each Party shall make available to the other Party, at such other Party's request, evidence of its maintenance of insurance in satisfaction of its obligations under this Section 11. In the case of cancellation, non-renewal or material change in said coverage, each Party shall promptly provide to the other Party with a new certificate of insurance evidencing that the coverage meets the requirements in this Section 11. Each Party agrees that its insurance shall act as primary and noncontributory from any other valid and collectible insurance maintained by the other Party. Each Party may, at its option, satisfy, in whole or in part, its obligation under this Section 11 through its self-insurance program.

12 **Use of Names**

Except as may be required by law or regulation after first providing reasonable advance notice to the other Party, neither Party may use the other Party's name in any promotional, advertising or other materials without the prior written consent of the other Party. North Coast hereby consents to Omeros' disclosure of North Coast's name in connection with the provision of the Services and the Deliverables under this Agreement to Omeros' current and potential employees, consultants, directors, shareholders, investors and partners, and to any Regulatory Agency or other regulatory authority including, without limitation, FDA and the US Securities and Exchange Commission.

13 **Notices**

Any notice required or permitted to be given hereunder by either Party shall be in writing and shall be (a) delivered personally, (b) sent by registered mail, return receipt requested, postage prepaid, (c) sent by an internationally recognized courier service guaranteeing next-day delivery, charges prepaid, or (d) delivered by facsimile (with the original promptly sent by any of the foregoing manners) to the address or facsimile number of the other Party set forth below, or at such other address as may from time to time be furnished by notice by either Party. The effective date of any notice hereunder shall be the date of receipt by the receiving Party.

If to Omeros:

Omeros Corporation
1420 Fifth Avenue
Suite 2600
Seattle, WA 98101

If to North Coast:

North Coast Biologics LLC
2815 Eastlake Avenue East
#300
Seattle, WA 98102

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Attention: CEO
And copy to: General Counsel

Attention: President

Fax: 206.676.5005
Phone: 206.676.5000

Fax:
Phone: 206.605.0106

14 **Miscellaneous**

- 14.1 **Integration.** This Agreement including all Research Plans, appendices and exhibits attached thereto or incorporated by reference therein constitutes the entire understanding of the Parties hereto regarding the subject matter of this Agreement, and no other representation, agreement, promise or undertaking altering, modifying, taking from or adding to the terms of this Agreement shall have any effect unless the same is reduced to writing and duly executed by the Parties hereto. In the event of any conflict between the main body of this Agreement and any attachments thereto or documents incorporated by reference therein, the provisions of the main body of this Agreement shall control. Without limiting the foregoing, upon execution of this Agreement (a) the Mutual Confidentiality Agreement between the Parties dated as of June 10, 2008 shall terminate, except that the Parties' obligations with respect to each other's Confidential Information (as defined therein) disclosed prior to the date of this Agreement shall remain subject to the terms and condition of such agreement and (b) the FMAT Agreement between the Parties dated October 21, 2008 shall be terminated and of no further force or effect.
- 14.2 **No Waiver.** Either Party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.
- 14.3 **Governing Law.** The laws of the State of Washington, without regard to its conflict-of-laws provisions, shall govern this Agreement, its interpretation and its enforcement, and any disputes arising out of or related to this Agreement.
- 14.4 **Arbitration.** The Parties agree that, except as provided herein below, any claim or controversy arising out of or relating to this Agreement or breach thereof shall be settled by arbitration in King County in the State of Washington, in accordance with the commercial rules of the American Arbitration Association by a panel of three arbitrators, one selected by each Party and the third selected by the other two arbitrators. In any such arbitration proceeding, judgment upon the award rendered by the arbitrator shall be final and binding upon the Parties and may be entered by either Party in any court or forum of competent jurisdiction as provided herein below. Notwithstanding the foregoing, both Parties agree that any claims or controversies concerning the infringement, validity or enforceability of any Intellectual Property Rights, or the actual or threatened disclosure or misuse of any Confidential Information, may alternately be resolved by a civil action in the court of competent jurisdiction specified in Section 14.5, and both Parties further agree that each shall retain the right to seek injunctive relief in the court of competent jurisdiction specified in Section 14.5 to prevent a breach, threatened breach or continuing breach of this Agreement that would cause irreparable injury, including, without limitation, breaches

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of confidentiality, infringement of Intellectual Property Rights or breach of Section 7.4 (Field Exclusivity).

- 14.5 **Jurisdiction and Venue.** Any civil action prosecuted or instituted by either Party as permitted herein above with respect to any matters arising out of or related to this Agreement shall be brought in either the United States District Court located in King County the State of Washington (if federal subject matter jurisdiction therein lies) or the Superior Court for King County in the State of Washington, and each Party hereby consents to the exclusive jurisdiction and venue of such courts for such purposes.
- 14.6 **Attorney's Fees.** In the event that it is necessary for either Party to take legal action to enforce any of the terms, conditions or rights contained herein, or to defend any such action, then the prevailing Party in such action shall be entitled to recover from the other Party all reasonable attorneys fees, costs and expenses related to such legal action.
- 14.7 **Severability.** In the event that any portion of this Agreement is held invalid or unenforceable by a court of law, that provision will be construed and reformed to permit enforcement of the provision to the maximum extent permissible consistent with the Parties' original intent, and if such construction is not possible, such provision shall be struck from this Agreement, and the remainder of the Agreement shall remain in full force and effect as if such provision had never been part of this Agreement.
- 14.8 **Independent Contractors.** For the purposes of this Agreement, the Parties hereto are independent contractors, and nothing in this Agreement shall be construed to place them in the relationship of partners, principal and agent, employer/employee or joint venturers. Except as provided expressly herein, each Party agrees that it shall have no authority to bind or obligate the other Party, nor shall any Party hold itself out as having such authority.
- 14.9 **Force Majeure.** Neither Party will be liable for failure or delay in performing any obligation under this Agreement, or will be considered in breach of this Agreement, if such failure or delay is due to a natural disaster or any cause reasonably beyond such Party's control, provided that such Party resumes performance as soon as possible following the end of the event that caused such delay or failure of performance.
- 14.10 **Assignment.** Neither Party may assign this Agreement, or any obligation or right under this Agreement, in whole or in part, without the other Party's prior written consent, which consent will not be unreasonably withheld. This Section shall not be construed in any way to limit Omeros' rights to grant, at Omeros' sole discretion, sublicenses hereunder. Each Party hereby consents to the other Party's assignment of this Agreement in whole or in part to any successor in interest of the assigning Party as part of a merger, acquisition, other change of control or together with a sale, transfer or other conveyance of all or substantially all of that part of the assigning Party's assets that pertain to this Agreement. Each Party's obligations and rights under this Agreement will be binding upon and will inure to the benefit of the Parties' permitted successors and assignees.
- 14.11 **Counterparts.** This Agreement may be executed in one or more counterparts, each of

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which will be considered an original, and all of which will constitute the same instrument.

This Agreement is accepted and acknowledged by each Party through the signature of its authorized representative below:

NORTH COAST BIOLOGICS LLC

OMEROS CORPORATION

By: /s/ Johnny Stine

By: /s/ Gregory A. Demopulos

Name: Johnny Stine

Name: Gregory A. Demopulos, M.D.

Title: President

Title: Chairman & CEO

Facsimile:

Facsimile: 206 676 5005

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Exhibit A to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES
LIST OF ADDITIONAL TARGETS

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Exhibit B to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES
RESEARCH PLAN FOR ANTIBODIES TO MASP-2

This Research Plan for Antibodies to MASP-2 is dated as of October 31, 2008 and is between Omeros Corporation (“**Omeros**”) and North Coast Biologics LLC (“**North Coast**”) and constitutes the “Initial Research Plan” under the Agreement for Antibody Development dated October 31, 2008 between Omeros and North Coast (the “**Development Agreement**”). Capitalized terms used but not defined in this Initial Research Plan shall have the meanings given to them in the Development Agreement.

Task 1 — [†]

Section 1.1

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 1.1(a) [†].

Section 1.2

(a) *Description.* [†].

(b) *Time to Complete.* [†]. Omeros shall have no liability under this Section 1.2, provided that until Omeros has performed the matters described in this Section 1.2, North Coast will be excused from providing any Services or Deliverables that are directly dependent upon such performance unless Omeros’ delay is caused by North Coast’s failure to timely provide any of the Services and Deliverables called for in this Initial Research Plan.

Task 2 — [†]

Section 2.1

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 2.1(a) within [†].

Section 2.2

(a) *Description.* [†].

(b) *Time to Complete.* [†]. Omeros shall have no liability under this Section 2.2, provided that until Omeros has performed the matters described in this Section 2.2, North Coast will be excused from providing any Services or Deliverables that are directly dependent upon such performance and any deadlines for such Services and Deliverables shall be extended by the

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number of additional days in excess of [†]; provided, however, that North Coast will not be excused from providing any Services or Deliverables and no deadlines for any Services or Deliverables shall be extended if Omeros' delay is caused by North Coast's failure to timely provide any of the Services and Deliverables called for in this Initial Research Plan.

[†].

Section 2.3

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 2.3(a) within no longer than [†].

(c) *Additional Assistance.* [†].

Section 2.4

(a) *Description.* [†].

(b) *Time to Complete.* Omeros intends to complete the testing described in Section 2.4(a) within [†].

Section 2.5

Due Dates for all Deliverables. North Coast shall deliver all Deliverables required by Section 2.1 of this Initial Research Plan, including the delivery to Omeros of [†] (the "**First Due Date**") and all Deliverables required by Section 2.3 of this Initial Research Plan, including the delivery to Omeros of the [†] (the "**Second Due Date**"), which First and Second Due Dates shall be deemed prospectively to have been met only upon Omeros' determination in accordance with Sections 2.3 and 2.4, respectively, after delivery of such Deliverables that at least one of the [†], which First and Second Due Dates may be extended due to certain delays by Omeros as provided for in the Development Agreement and in this Initial Research Plan.

Section 2.6

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables with respect to an Optional Candidate as described in Section 2.3 within [†].

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This Initial Research Plan is accepted and acknowledged by each Party through the signature of its authorized representative below, and is effective as of the date first set forth above in this Initial Research Plan.

NORTH COAST BIOLOGICS LLC

OMEROS CORPORATION

By: /s/ Johnny Stine

By: /s/ Gregory A. Demopulos

Name: Johnny Stine

Name: Gregory A. Demopulos, M.D.

Title: President

Title: Chairman & CEO

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Exhibit C to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES
FORM OF ADDITIONAL TARGET RESEARCH PLAN
RESEARCH PLAN FOR ANTIBODIES TO [ADDITIONAL TARGET]

This Research Plan for Antibodies to [ADDITIONAL TARGET] is dated as of [XXXX] and is between Omeros Corporation (“**Omeros**”) and North Coast Biologics LLC (“**North Coast**”) and constitutes an “Additional Target Research Plan” under the Agreement for Antibody Development dated October 31, 2008 between Omeros and North Coast (the “**Development Agreement**”). Capitalized terms used but not defined in this Additional Target Research Plan shall have the meanings given to them in the Development Agreement.

Task 1 — [†]

Section 1.1

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 1.1(a) by [MONTH/DAY/YEAR]. [†]

Section 1.2

(a) *Description.* [†].

(b) *Time to Complete.* [†] Omeros shall have no liability under this Section 1.2, provided that until Omeros has performed the matters described in this Section 1.2, North Coast will be excused from providing any Services or Deliverables that are directly dependent upon such performance unless Omeros' delay is caused by North Coast's failure to timely provide any of the Services and Deliverables called for in this Additional Target Research Plan. [†]

Task 2 — [†]

Section 2.1

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 2.1(a) within [†].

Section 2.2

(a) *Description.* [†].

(b) *Time to Complete.* [†]. Omeros shall have no liability under this Section 2.2, provided that until Omeros has performed the matters described in this Section 2.2, North Coast will be excused from providing any Services or Deliverables that are directly dependent upon such performance and any deadlines for such Services and Deliverables shall be extended by the

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number of additional days in excess of [†]; provided, however, that North Coast will not be excused from providing any Services or Deliverables and no deadlines for any Services or Deliverables shall be extended if Omeros' delay is caused by North Coast's failure to timely provide any of the Services and Deliverables called for in this Additional Target Research Plan. [†].

[†]

Section 2.3

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables to Omeros as described in Section 2.3(a) within no longer than [†].

(c) *Additional Assistance.* [†].

Section 2.4

(a) *Description.* [†].

(b) *Time to Complete.* Omeros intends to complete the testing described in Section 2.4(a) within [†].

Section 2.5

Due Dates for all Deliverables. Due Dates for all Deliverables. North Coast shall deliver all Deliverables required by Section 2.1 of this Additional Target Research Plan, including the delivery to Omeros of the [†] (the "**First Due Date**") and all Deliverables required by Section 2.3 of this Additional Target Research Plan, including the delivery to Omeros of the [†] (the "**Second Due Date**"), which First and Second Due Dates shall be deemed prospectively to have been met only upon Omeros' determination in accordance with Sections 2.3 and 2.4, respectively, after delivery of such Deliverables that at least one of the [†], which First and Second Due Dates may be extended due to certain delays by Omeros as provided for in the Development Agreement and in this Additional Target Research Plan. [†].

Section 2.6

(a) *Description.* [†].

(b) *Time to Complete.* North Coast will complete the Services and provide the Deliverables with respect to an Optional Candidate as described in Section 2.3 within [†].

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This Additional Target Research Plan is accepted and acknowledged by each Party through the signature of its authorized representative below, and is effective as of the date first set forth above in this Additional Target Research Plan.

NORTH COAST BIOLOGICS LLC

OMEROS CORPORATION

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

† _____ DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

Exhibit D to
Omeros Corporation
AGREEMENT FOR ANTIBODY DEVELOPMENT SERVICES
LIST OF NORTH COAST PATENTS

Application No. [†]
Title: DISCOVERY AND GENERATION OF HIGH AFFINITY, FUNCTIONAL THERAPEUTIC OR DIAGNOSTIC PROTEINS
Filing Date: [†]

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PATENT ASSIGNMENT AGREEMENT

This agreement (the "Agreement") is made effective the 23rd day of February 2009 (the "Effective Date") between Omeros Corporation, a Washington corporation having a principal place of business at 1420 Fifth Avenue, Suite 2600, Seattle WA 98101 USA ("Omeros") and Roberto Ciccocioppo, Ph.D., having a residence at Vicolo San Silvestro n. 25, Camerino, 62032 IT ("Dr. Ciccocioppo").

WHEREAS Dr. Ciccocioppo owns all rights to certain technology invented by Dr. Ciccocioppo related to new uses of peroxisome proliferator-activated receptor gamma ("PPAR γ ") agonists; and

WHEREAS Omeros has provided services for and funded the expenses of filing patent applications for Dr. Ciccocioppo' PPAR γ technology; and

WHEREAS Omeros wishes to acquire all rights to Dr. Ciccocioppo' PPAR γ technology and related patent applications and patents; and

WHEREAS Dr. Ciccocioppo wishes to sell all rights to his PPAR γ technology to Omeros in consideration for Omeros undertaking certain future milestone and royalty obligations;

NOW THEREFORE, in consideration for the mutual covenants and obligations set forth herein as well as other good and valuable consideration, the parties hereby agree as follows:

- 1 **Definitions**
- 1.1 **"Intellectual Property Rights"** shall mean all inventions, ideas, discoveries, issued, reissued or reexamined patents, pending and future patent applications, continuation, continuation-in-part and divisional patent applications, utility models, inventor's certificates, trade secrets, know-how, copyrights and trademarks.
- 1.2 **"Assigned Patents"** shall mean US Provisional Patent Application No. 60/911,201 filed April 11, 2007, US Patent Application No. 12/101,943 filed April 11, 2008, International Patent Application PCT/US08/60146 filed April 11, 2008, all national and regional counterparts of such International Patent Application, all patent applications claiming priority from the foregoing patent applications, a provisional US Patent Application to be filed based on a disclosure provided to Omeros on November 11, 2008 by Dr. Ciccocioppo entitled "Pioglitazone and Opiates" and corresponding US Utility, International PCT and national phase applications claiming priority therefrom, all other patent applications and patents included as of the Effective Date or during the term of this Agreement in the Assigned IP, all future patents, utility models and inventor's certificates issuing from all of the above patent applications, and all divisionals, continuations, continuation-in-parts, reissues and reexaminations of all such patent applications and patents.
- 1.3 **"Assigned IP"** shall mean Dr. Ciccocioppo's entire right and title to and interest in all Intellectual Property Rights owned or held by Dr. Ciccocioppo related to PPAR γ agonists, compositions containing PPAR γ agonist(s) alone or in combination with other

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therapeutic agents, and therapeutic methods and uses for PPARg agonists and compositions containing PPARg agonist(s) alone or in combination with other therapeutic agents, whether such compositions are administered alone or in conjunction with other therapeutic agents or modalities, as of the Effective Date or invented, developed, advanced or improved by Dr. Ciccocioppo during the term of this Agreement, including, without limitation, methods and compositions for the use of PPARg agonists, singly or in combination and/or in conjunction with other therapeutic agents, for prevention and treatment related to alcoholism and addictive disorders (e.g., addictions to alcohol, nicotine, marijuana, opioid agonists, benzodiazepine, barbiturates, psychostimulants and addictive or compulsive behaviors), and the use of PPARg agonists in combination and/or in conjunction with the administration of narcotic analgesics (e.g., to delay or prevent the development of tolerance and/or addiction to opioid agonists) or for the treatment of other central nervous system conditions, diseases and disorders, and all improvements or inventions related to the foregoing examples, the Assigned Patents and all inventions disclosed and/or claimed in the Assigned Patents, and the future right to file US, ex-US and international patent applications for any other inventions that are included in the Assigned IP or that become included in the Assigned IP during the term of this Agreement, in Dr. Ciccocioppo's name or in the name of Omeros, as well as all patents issuing from such patent applications.

- 1.4 **"Subject Products"** shall mean all therapeutic compositions including one or more PPARg agonists, alone or in combination with other therapeutic agents, that, if offered for sale, sold, manufactured or used by a third party without license from Omeros would infringe any valid, subsisting and enforceable claim(s) of any issued patent or any patentable claim(s) of any pending patent application included within the Assigned Patents in the country or countries in which such compositions are offered for sale, sold, manufactured or used.
- 1.5 **"Net Sales"** shall refer, with respect to Subject Products, to (a) the gross total of the monetary compensation invoiced and collected by Omeros for the initial sale or distribution of the Subject Products, but excluding any amounts invoiced or collected by parties other than Omeros for subsequent sales or distribution provided no part of such amounts invoiced or collected by such parties is directly or indirectly paid to Omeros, less (b) the sum of the following actual and customary deductions where applicable: cash, trade, or quantity discounts; sales, use, tariff, import/export duties or other excise taxes, and any other governmental taxes imposed on particular sales; transportation charges and allowances; sales commissions to third parties (but excluding sales commissions to Omeros' employees); wholesale charge backs; distributor fees; Medicare/Medicaid rebates; customer rebates; refunds for recalls; and allowances or credits to customers because of rejections or returns, provided such deductions are documented. For purposes of this paragraph, the acquisition of Subject Products from Omeros as part of an acquisition or other transfer or conveyance of all or a part of the assets of Omeros' business to which this Agreement pertains, or as part of a merger, acquisition, reorganization or other change of control of Omeros, shall not be considered a sale or distribution of Omeros Therapeutics.

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If a Subject Product is sold in combination with one or more additional therapeutic agents as a "**Combination Product**", Net Sales shall be the product obtained by multiplying Net Sales of the Combination Product by the fraction $A/(A+B)$ where A is the sales price of such Subject Product when sold separately as a composition in which the Subject Product is the only therapeutic agent and B is the total sales price of all additional therapeutic agents in the Combination Product when sold separately in a pharmaceutical therapeutic product including such additional therapeutic agents as the only therapeutic agents. If such Subject Product and the other therapeutic agents are not sold in separate pharmaceutical therapeutic products, the portion of the total cost of the Combination Product attributed to such Subject Product shall be a fraction, the numerator of which shall be the cost of the Subject Product and the denominator of which shall be the total cost of the Combination Product, and the fraction shall be multiplied by the sales price of the Combination Product to arrive at Net Sales.

1.6 "**Transfer Fees**" shall mean any monetary compensation received by Omeros in connection with the licensing, assignment or other conveyance of rights in the Assigned IP to third parties for the manufacture, sale or distribution of Subject Products; provided, however, that the Transfer Fees shall not include Net Sales or any compensation from such third parties to Omeros to support Omeros' research and development efforts, to resolve patent infringement disputes concerning the Assigned IP or other Intellectual Property Rights, to purchase equity in Omeros, for licensing under any other Intellectual Property Rights not included in Assigned IP, or for any other purpose other than as direct compensation for the rights conveyed to such third parties in the Assigned IP.

2 **Assignment of Rights**

2.1 In consideration of the obligations undertaken by Omeros in this Agreement, Dr. Ciccocioppo hereby sells, assigns and transfers to Omeros Dr. Ciccocioppo's entire right and title to and interest in the Assigned IP, including, without limitation, the Assigned Patents and all other inventions, patent applications, patents and other Intellectual Property Rights included therein, to be held and enjoyed by Omeros entirely as the same would have been held and enjoyed by Dr. Ciccocioppo had this sale, assignment and transfer not been made. Dr. Ciccocioppo further agrees to execute any memorandum of assignment or other assignment documents as may be necessary or requested by Omeros to document and perfect Omeros' title in the Assigned IP including, without limitation, the Assigned Patents and all other inventions, patent applications, patents and other Intellectual Property Rights included therein.

3 **Royalty and Transfer Fee Share Payments**

3.1 During the term of this Agreement Omeros shall pay Dr. Ciccocioppo on a [†] basis a royalty of [†] of the Net Sales of Subject Products collected by Omeros during each respective [†] (the "**Royalty**"); provided, however, that all Royalty payments owed by Omeros to Dr. Ciccocioppo under this Section 3.1 shall be shared between and payable to Dr. Ciccocioppo and Università di Camerino in accordance with Section 5 below, without increase to the total Royalty owed by Omeros.

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- 3.2 During the term of this Agreement Omeros shall pay Dr. Ciccocioppo on a [†] basis a share (the “**Transfer Fee Share**”) of any Transfer Fees collected by Omeros during each respective quarter; provided, however, that all Transfer Fee Share payments owed by Omeros to Dr. Ciccocioppo under this Section 3.2 shall be shared between and payable to Dr. Ciccocioppo and Università di Camerino in accordance with Section 5 below, without increase to the total Transfer Fee Share owed by Omeros. The Transfer Fee Share shall be (a) [†] of any Transfer Fees collected by Omeros pursuant to an agreement between Omeros and a third party that is executed prior to [†] for a Subject Product or (b) [†] of any Transfer Fees collected by Omeros pursuant to an agreement between Omeros and a third party that is executed on or after [†] for a Subject Product.
- 3.3 [†] Royalty and Transfer Fee Share payments shall be made in US Dollars by Omeros to Dr. Ciccocioppo within [†] following the end of each [†] for Net Sales realized during such [†]. Payments shall be computed based on a conversion from any other denomination to US Dollars for any amounts collected by Omeros during the relevant [†] using the prevailing exchange rate in effect at the date and time that funds are transferred from Omeros’ account to Dr. Ciccocioppo’s account (in the case of payment by wire transfer) or at the date and time of issuance of a check by Omeros (in the case of payment by check). Each [†] payment shall be accompanied by a report specifying the source of the Royalty payments and/or the Transfer Fee Share payments.
- 3.4 Dr. Ciccocioppo shall have the right to employ a certified public accountant to review and reconcile the directly relevant accounting records and procedures of Omeros as they relate to the determination of Royalty and/or Transfer Fee Share payments, during reasonable business hours and no more than [†] a year, and Omeros agrees to make available at Omeros’ place of business all such directly relevant accounting records for that purpose within [†] of written request by Dr. Ciccocioppo. The cost of such review shall be borne by Dr. Ciccocioppo, unless it is found that Omeros under-paid a [†] Royalty or Transfer Fee Share for any [†] by an amount of [†] or greater, in which case the cost of such review shall be borne by Omeros.
- 3.5 Payments under this Agreement shall be made in full in the agreed amounts less any tax withholdings that Omeros is required by law to withhold; provided that any other taxes that may be due and payable as a result of Omeros’ payments to Dr. Ciccocioppo under this Agreement are solely Dr. Ciccocioppo’s responsibility.
- 4 **Milestone Payments**
- 4.1 Omeros shall pay Dr. Ciccocioppo the following one-time development milestone payments (each a “**Milestone Payment**”) upon completion by Omeros of the associated development activity (each a “**Development Milestone**”); provided, however, that all Milestone Payments owed by Omeros to Dr. Ciccocioppo under this Section 4.1 shall be shared between and payable to Dr. Ciccocioppo and Università di Camerino in accordance with Section 5 below, without increase to the total Milestone Payment owed by Omeros. Omeros shall provide Dr. Ciccocioppo written notice of the completion of each Development Milestone by Omeros within [†] of completion of such Development

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Milestone and shall pay to Dr. Ciccocioppo the associated Milestone Payment within [†] of completion of such Development Milestone. For purposes of clarity, upon payment of a Milestone Payment in connection with the completion of the associated Development Milestone for the development of a first Subject Product, no further Milestone Payments for completion of the same associated Development Milestone for subsequent Subject Products shall be payable.

<u>Development Milestone</u>	<u>Milestone Payment</u>
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]
[†]	[†]

5 **University Payment Share**

5.1 Omeros and Dr. Ciccocioppo acknowledge that Dr. Ciccocioppo invented certain of the inventions included in the Assigned IP during the term of his employment with, and using the facilities of, Università di Camerino. In accordance with an arrangement between Dr. Ciccocioppo and Università di Camerino, [†] of each Royalty payment, Transfer Fee payment and Milestone Payment payable in accordance with Sections 3 and 4 of this Agreement shall be paid to Università di Camerino and the remaining [†] of each Royalty payment, Transfer Fee payment and Milestone Payment payable in accordance with Sections 3 and 4 of this Agreement shall be paid to Dr. Ciccocioppo.

5.2 Payments to be made to the Università di Camerino shall be provided to [†] by wire transfer in accordance with the following instructions: [†] (Dr. Ciccocioppo shall provide Omeros prompt written notice of any changes to the foregoing payment instructions during the term of this Agreement.

5.3 Payments to be made to Dr. Ciccocioppo shall be remitted by a wire transfer in accordance with the following instructions:

[†]. Dr. Ciccocioppo shall provide Omeros prompt written notice of any changes to the foregoing payment instructions during the term of this Agreement.

6 **Right of Repurchase**

6.1 If, at any point in time during the term of this Agreement in which Omeros retains ownership of the Assigned IP or any part of the Assigned IP (the "**Retained Assigned IP**"), Omeros' affirmatively determines, at Omeros' sole discretion and as documented in a written resolution by Omeros' board of directors, to abandon all present and future activities related to the Assigned IP and associated PPARg agonist programs, including, without limitation, all patent, research, development, clinical studies, partnering, licensing, transfer, regulatory, manufacturing, distribution and marketing activities,

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Omeros will promptly after the adoption of such resolution provide Dr. Ciccocioppo a written notice of such determination (the “**Notice of Abandonment**”) including a description of the Retained Assigned IP and the US dollar amount that equates to [†] of the sum of all of Omeros’ financial investment in the Assigned IP and Omeros’ related PPARg agonist research and/or development program(s) (the “**Repurchase Price**”). For purposes of clarity, the Repurchase Price shall include [†] of all of Omeros’ reasonably documented direct and indirect financial investments and expenditures, including both out-of-pocket costs and the monetized costs of internal resource utilization. Dr. Ciccocioppo shall have the first right to repurchase the Retained Assigned IP, exercisable by (a) providing Omeros written notice of Dr. Ciccocioppo’s intention to repurchase the Retained Assigned IP within [†] of Dr. Ciccocioppo’s receipt of the Notice of Abandonment and (b) making payment in full to Omeros of the Repurchase Price within [†] of Dr. Ciccocioppo’s receipt of the Notice of Abandonment.

6.2 Upon timely receipt of a notice of intention from Dr. Ciccocioppo and timely payment in full of the Repurchase Price by Dr. Ciccocioppo, Omeros shall sell, transfer and convey to Dr. Ciccocioppo all of Omeros’ rights and title to and interest in the Retained Assigned IP, and thereafter Omeros shall be entitled to the receipt of, and Dr. Ciccocioppo shall be obligated to pay Royalty payments, Transfer Fee Share payments and Milestone Payments from Dr. Ciccocioppo, on the same terms as provided for Dr. Ciccocioppo in Sections 3.1, 3.2 and 4.1 above, in connection with Subject Products within the scope of the Retained Assigned IP.

6.3 If Dr. Ciccocioppo does not timely provide either a notice of intention to repurchase and/or timely payment in full of the Repurchase Price, Omeros shall be free to sell, transfer, assign or otherwise dispose of the Retained Assigned IP and the provisions of Sections 6.1 and 6.2 shall be of no further force or effect.

7 **Patent Prosecution, Maintenance and Enforcement**

7.1 Omeros as sole owner of the Assigned IP shall have the sole right, at its sole discretion and expense, to file, prosecute, maintain and enforce the patents and patent applications within the Assigned IP. Any litigation or other enforcement action undertaken by Omeros to enforce the Assigned IP against infringing third parties shall be undertaken at Omeros’ sole discretion and risk, and any resulting award, judgment, settlement or damages collected shall belong solely to Omeros without duty to account to or share with Dr. Ciccocioppo.

Dr. Ciccocioppo shall reasonably assist Omeros in the filing, prosecution, maintenance and enforcement of patents and patent applications within the Assigned IP for no additional compensation but at no cost to Dr. Ciccocioppo. Dr. Ciccocioppo shall execute all instruments and render all such assistance as Omeros may reasonably request in order for Omeros to file, prosecute, maintain and enforce any and all applications and patents within the Assigned IP, in the name of Omeros or in the name of Dr. Ciccocioppo, all without charge to Omeros but at no expense to Dr. Ciccocioppo.

7.2 Dr. Ciccocioppo shall promptly provide written disclosure to Omeros of any inventions,

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improvements, or applications included within the Assigned IP, made or arising before or during the term of this Agreement. Dr. Ciccocioppo shall promptly provide written disclosure to Omeros of any and all potentially material prior art known to Dr. Ciccocioppo prior to the Effective Date of this Agreement or that becomes known to Dr. Ciccocioppo during the term of this Agreement.

8 **Publication**

8.1 Omeros and Dr. Ciccocioppo shall collaborate on any proposed scientific publications related to the subject matter of the Assigned IP, including a discussion of scientifically appropriate authorship and contents; provided, however, that Omeros acknowledges that only Dr. Ciccocioppo and his collaborators shall be entitled to be named as authors in connection with the publication of the results of research studies completed prior to the Effective Date of this Agreement. Dr. Ciccocioppo shall furnish Omeros with advance copies of any publication or written or oral public disclosure of the results of any research studies related to the Assigned IP that is proposed by Dr. Ciccocioppo, including, without limitation, disclosures in papers or abstracts or at research seminars, lectures, professional meetings, or poster sessions, at least [†] prior to the proposed date for submission for publication or disclosure. During such [†], Omeros shall have the right to review and comment on such publication for accuracy and protection of Omeros' Confidential Information. Additionally, if Omeros so requests in writing during the foregoing [†], the proposed submission for publication or disclosure shall be delayed beyond the proposed date for publication or disclosure (the "Delay Period") until Omeros has completed the filing of any patent applications directed to information contained in such proposed publication or disclosure or based on Omeros' reasonable determination that publication should be delayed due to other business considerations; provided, however, that the Delay Period shall not exceed [†] without Dr. Ciccocioppo's consent and that Omeros acknowledges that in any event Dr. Ciccocioppo shall not be prohibited beyond [†] from submitting for publication the results of research studies of the effect of PPAR-g agonists on alcoholism completed prior to the Effective Date of this Agreement. Dr. Ciccocioppo agrees to consider in good faith any delays longer than the Delay Period that may be reasonably requested by Omeros. Omeros shall have the right, in its sole discretion, to use and disclose all data and results related to the subject matter of the Assigned IP in connection with Omeros' research, development, commercialization and business activities, including, without limitation, in and for submissions to any regulatory agencies and as may be required by law or regulation, and to publish such data and results if Dr. Ciccocioppo does not wish to publish such data and results.

9 **Representations, Warranties and Other Obligations of Omeros**

9.1 Omeros represents and warrants that it has the requisite corporate power and authority and the legal right to enter into this Agreement and to perform its obligations hereunder.

9.2 Prior to Omeros' marketing of any Subject Product, or making any Subject Product available for use in any human patients, Omeros will obtain and maintain reasonably adequate product liability insurance.

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10 **Representations, Warranties and Other Obligations of Dr. Ciccocioppo**

- 10.1 Dr. Ciccocioppo represents and warrants that he is the sole owner of, and has the lawful and unrestricted right to assign, all right and title to and interest in the Assigned Patents and to the Assigned IP, including, without limitation, all inventions and patent applications included in the Assigned IP as of the Effective Date, and that except for payments owed to Università di Camerino in accordance with Section 5 herein, the Assigned IP is not subject to any encumbrances, liens, obligations, restrictions or licenses to third parties.
- 10.2 Except for any third party patents specific to PPARg compounds and compositions, Dr. Ciccocioppo represents and warrants that he is not aware of any third party rights that would be infringed as a result of Omeros' development and commercialization of Subject Products.
- 10.3 Dr. Ciccocioppo represents and warrants that he has provided to Omeros all material and relevant data and results, in complete and accurate form including any contradictory data and results, obtained from studies PPARg agonists conducted by Dr. Ciccocioppo and his collaborators prior to the Effective Date of this Agreement.
- 10.4 Dr. Ciccocioppo covenants and agrees that, during the term of this Agreement, he shall not undertake any obligations with third parties that would be inconsistent in any way with Dr. Ciccocioppo's transfer of the Assigned IP to Omeros or Dr. Ciccocioppo's obligations under this Agreement.
- 10.5 THE WARRANTIES SET FORTH EXPRESSLY IN THIS AGREEMENT ARE THE SOLE WARRANTIES MADE BY EITHER PARTY TO THE OTHER AND THERE ARE NO OTHER WARRANTIES, REPRESENTATIONS OR GUARANTEES OF ANY KIND WHATSOEVER, EITHER EXPRESS OR IMPLIED, REGARDING THE SUBJECT PRODUCTS OR OTHER PRODUCTS, INCLUDING WITHOUT LIMITATION ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

11 **Confidentiality.**

- 11.1 Dr. Ciccocioppo and Omeros hereby affirm and incorporate by reference the terms of the Mutual Nondisclosure Agreement between the parties dated March 5, 2008 concerning the subject matter of this Agreement, except that all Confidential Information (as that term is defined in the Mutual Nondisclosure Agreement) disclosed by Dr. Ciccocioppo related to the rights assigned to Omeros under this Agreement shall be treated as Omeros' Confidential Information under the Mutual Nondisclosure Agreement, and Omeros shall be free to disclose and use such Confidential Information, and to the extent that the terms of the Mutual Nondisclosure Agreement may conflict with the terms of this Agreement, the terms of this Agreement shall prevail. The parties further agree that the obligations of nondisclosure and non-use set forth in such Mutual Nondisclosure Agreement shall subsist for a period of [†] after the termination of this Agreement.

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11.2 The terms of this Agreement shall be maintained in strict confidence by both Dr. Ciccocioppo and Omeros, and may not be disclosed by either party without the consent of the other party, except Omeros may disclose the terms of this Agreement to Omeros' current and potential employees, officers, directors, consultants, shareholders, investors and corporate partners and either party may disclose the terms of this Agreement as may be required under a court order or decree or as required to comply with any governmental law, rule or regulation.

12 **Limitation of Liability**

12.1 Neither party shall be liable to the other party for any incidental, indirect, consequential or special damages arising under this Agreement, under any theory including torts, even if such damages may have been foreseeable.

13 **Term and Termination**

13.1 Unless terminated earlier as set forth in Section 13.2 below, this Agreement shall subsist so long as there is any valid, subsisting and enforceable claim of any issued patent included within the Assigned IP or any patentable claim in any pending patent application included within the Assigned IP.

13.2 Either party may terminate this Agreement at any time in the event that the other party breaches any material obligation of this Agreement after the party seeking to terminate this Agreement first submits a written notice of breach to the breaching party, which breach is not substantially cured within [†] of the receipt of such notice, followed by written notice of termination then being sent to the breaching party.

13.3 Termination of this Agreement shall not act to nullify or affect Dr. Ciccocioppo's assignment of the Assigned IP to Omeros or the obligation of Omeros to pay to Dr. Ciccocioppo any Royalty payments, Transfer Fee Share payments and Milestone Payments that have accrued prior to the time of termination.

13.4 The provisions of Sections 1 (Definitions) 2 (Assignment of Rights), 7 (Patent Prosecution, Maintenance and Enforcement), 8 (Publication), 9 (Representations, Warranties and Other Obligations of Omeros), 10 (Representations, Warranties and Other Obligations of Dr. Ciccocioppo), 11 (Confidentiality), 12 (Limitation of Liability), 14 (Use of Names) and 15 (Miscellaneous) of this Agreement shall survive expiration or termination of this Agreement for the period set forth therein or, if no period is set forth therein, then indefinitely. Any payment obligations that accrued prior to the date of termination under Sections 3 (Royalty and Transfer Fee Share Payments), 4 (Milestone Payments) and 5 (University Payment Share), but not any payment obligations that would otherwise accrue after the date of termination, shall remain payable upon termination.

14 **Use of Names**

14.1 Nothing contained in this Agreement confers any right to either party to use in advertising, publicity, or other promotional activities any name, trade name, trademark,

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or other designation of the other party hereto, and neither party shall make such use without the prior written consent of the other party; provided however Omeros may through written, oral or electronic communication disclose the existence of this Agreement and the name of Dr. Ciccocioppo to Omeros' current and potential employees, directors, consultants, shareholders, investors and corporate partners, and as required to comply with any governmental law, rule or regulation.

15 **Miscellaneous**

- 15.1 This Agreement including all appendices and exhibits attached hereto or incorporated by reference herein constitutes the entire understanding of the parties hereto regarding the subject matter of this Agreement, and no other representation, agreement, promise or undertaking altering, modifying, taking from or adding to the terms of this Agreement shall have any effect unless the same is reduced to writing and duly executed by the parties hereto. In the event of any conflict between the main body of this Agreement and any attachments thereto or documents incorporated by reference therein, the provisions of the main body of this Agreement shall control.
- 15.2 Either party's failure to enforce any provision of this Agreement will not be considered a waiver of future enforcement of that or any other provision.
- 15.3 The laws of the state of Washington, United States, without regard to its conflict-of-laws provisions, shall govern this Agreement, its interpretation and its enforcement, and any disputes arising out of or related to this Agreement.
- 15.4 Any civil action prosecuted or instituted by either party as permitted herein above with respect to any matters arising out of or related to this Agreement shall be brought in the United States District Court located in Western District of Washington, United States (if federal subject matter jurisdiction therein lies) or the King County Superior Court, State of Washington, United States (if there is no subject matter jurisdiction in federal court), and each party hereby consents to the exclusive jurisdiction and venue of such courts for such purposes.
- 15.5 In the event that it is necessary for either party of this Agreement to take legal action to enforce any of the terms, conditions or rights contained herein, or to defend any such action, then the prevailing party in such action shall be entitled to recover from the other party all reasonable attorneys fees, costs and expenses related to such legal action.
- 15.6 In the event that any portion of this Agreement is held invalid or unenforceable by a court of law, that provision will be construed and reformed to permit enforcement of the provision to the maximum extent permissible consistent with the parties' original intent, and if such construction is not possible, such provision shall be struck from this Agreement, and the remainder of the Agreement shall remain in full force and effect as if such provision had never been part of this Agreement.
- 15.7 For the purposes of this Agreement, the parties hereto are independent contractors, and nothing in this Agreement shall be construed to place them in the relationship of partners,

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principal and agent, employer/employee or joint venturers. Except as provided expressly herein, each party agrees that it shall have no authority to bind or obligate the other party, nor shall any party hold itself out as having such authority.

- 15.8 Neither party will be liable for failure or delay in performing any obligation under this Agreement, or will be considered in breach of this Agreement, if such failure or delay is due to a natural disaster or any cause reasonably beyond such party's control, provided that such party resumes performance as soon as possible following the end of the event that caused such delay or failure of performance.
- 15.9 Dr. Ciccocioppo may not assign this Agreement or any obligation or right under this Agreement, in whole or in part, without Omeros' prior written consent, which consent will not be unreasonably withheld. Dr. Ciccocioppo consents to Omeros' assignment of this Agreement in whole or in part in connection with the merger, consolidation or transfer of all or substantially all of that portion of Omeros' assets to which this Agreement relates. Subject to these restrictions, this Agreement will be binding upon and will inure to the benefit of the parties' permitted successors and assignees.
- 15.10 Any notice required or permitted to be given hereunder by either party shall be in writing and shall be (a) delivered personally, (b) sent by registered mail, return receipt requested, postage prepaid, (c) sent by an internationally recognized courier service guaranteeing next-day delivery, charges prepaid, or (d) delivered by facsimile (with the original promptly sent by any of the foregoing manners) to the addresses or facsimile numbers of the other party set forth below, or at such other addresses as may from time to time be furnished by similar notice by either party. The effective date of any notice hereunder shall be the date of receipt by the receiving party.

If to Omeros:

Attn: Chief Executive Officer
Omeros Corporation
1420 Fifth Avenue, Suite 2600
Seattle, WA 98101
U.S.A.

And a copy to: General Counsel
at the same address as above

Fax: (206) 676.5005
Phone: (206) 676.5000

If to Dr. Ciccocioppo:

Roberto Ciccocioppo, Ph.D.
Vicolo San Silvestro n. 25
Camerino, 62032
Italy

E-mail: [†]

- 15.11 This Agreement may be executed in one or more counterparts, each of which will be considered an original, and all of which will constitute the same instrument.

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IN WITNESS WHEREOF, Omeros and Dr. Ciccocioppo have each acknowledged and accepted this Agreement by signing or causing it to have been signed by a duly authorized official.

OMEROS CORPORATION

ROBERTO CICCOCIOPPO, PH.D.

By: /s/ Gregory A. Demopulos

Signed: /s/ Roberto Ciccocioppo

Name: Gregory A. Demopulos, M.D.

Date: February 24, 2009

Title: Chairman & CEO

Fax: 0737 403325

Date: February 20, 2009

Fax: 206.676.5005

The Università di Camerino, employer of Roberto Ciccocioppo, through the undersigned official thereof, confirms the accuracy of the representations in Section 10 above in as much as such representations concern Università di Camerino, and hereby consents to all of the transactions provided for in the above Agreement.

UNIVERSITA DI CAMERINO

By: /s/ Mario Cocchioni

Name: Prof. Mario Cocchioni

Title: Head of Department Medicina
Sperimentale e Sanità Pubblica

Date: February 25, 2009

Fax: 0737 403325

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**AMENDMENT TO EXERCISE NOTICE AND RESTRICTED STOCK PURCHASE
AGREEMENTS**

This Amendment to Exercise Notice and Restricted Stock Purchase Agreements (this "Agreement") is made as of April 29, 2009 by and between Omeros Corporation, a Washington corporation (the "Company"), and Richard J. Klein (the "Purchaser").

RECITALS

- A. The Company and the Purchaser are parties to the Exercise Notice and Restricted Stock Purchase Agreements dated as of June 5, 2007 and June 29, 2007 (each, a "Purchase Agreement" and together, the "Purchase Agreements") pursuant to which Purchaser early exercised a stock option for the purchase of a total of 150,000 shares of the Company's Common Stock.
- B. Pursuant to Sections 3(a)(i) and (ii) of each Purchase Agreement the Company has the right, but not the obligation, within 90 days of the end of Purchaser's employment with the Company, to repurchase any shares of Common Stock that the Purchaser purchased pursuant to each Purchase Agreement that he was not vested in as of the date his employment ended (the "Repurchase Right").
- C. Purchaser's employment with the Company ended on January 29, 2009 and, pursuant to the terms of the Purchase Agreements, the Company will be deemed to have automatically exercised the Repurchase Right with respect to any unvested shares on the 90th day following his termination unless the Company gives Purchaser prior notice that it does not intend to repurchase the unvested shares.
- D. As of the end of Purchaser's employment with the Company, Purchaser had not vested in 45,834 of the 150,000 shares that he had purchased.
- D. The Company and Purchaser desire to extend the Repurchase Right an additional 90 days to allow the Company and the Purchaser to continue discussions related to Purchaser's employment at the Company.

AGREEMENT

In consideration of the foregoing, the Company and the Purchaser agree to amend each Purchase Agreement as follows:

1. Sections 3(a)(i) and (ii) of each Purchase Agreement shall be amended and restated in its entirety as follows (with changes highlighted in bold and italics)

“(a) Repurchase Option.

(i) In the event of the voluntary or involuntary termination of Purchaser's employment or consulting relationship with the Company for any reason (including death or disability), with or without cause, the Company shall upon the date of such termination

(the "Termination Date") have an irrevocable, exclusive option (the "Repurchase Option") for a period of **180** days from such date to repurchase all or any portion of the Shares held by Purchaser as of the Termination Date which have not yet been released from the Company's Repurchase Option at the original purchase price per Share specified in Section 1 (adjusted for any stock splits, stock dividends and the like). The Company has the right, but not the obligation, to exercise the Repurchase Option.

(ii) Unless the Company notifies Purchaser in writing within **180** days from the date of termination of Purchaser's employment or consulting relationship that it does not intend to exercise its Repurchase Option with respect to some or all of the Shares, the Repurchase Option shall be deemed automatically exercised by the Company as of the **180th** day following such termination, provided that the Company may notify Purchaser that it is exercising its Repurchase Option as of a date prior to such **180th** day. Unless Purchaser is otherwise notified by the Company pursuant to the preceding sentence that the Company does not intend to exercise its Repurchase Option as to some or all of the Shares to which it applies at the time of termination, execution of this Agreement by Purchaser constitutes written notice to Purchaser of the Company's intention to exercise its Repurchase Option with respect to all Shares to which such Repurchase Option applies. The Company, at its choice, may satisfy its payment obligation to Purchaser with respect to exercise of the Repurchase Option by either (A) delivering a check to Purchaser in the amount of the purchase price for the Shares being repurchased, or (B) in the event Purchaser is indebted to the Company, canceling an amount of such indebtedness equal to the purchase price for the Shares being repurchased, or (C) by a combination of (A) and (B) so that the combined payment and cancellation of indebtedness equals such purchase price. In the event of any deemed automatic exercise of the Repurchase Option pursuant to this Section 3(a)(ii) in which Purchaser is indebted to the Company, such indebtedness equal to the purchase price of the Shares being repurchased shall be deemed automatically canceled as of the **180th** day following termination of Purchaser's employment or consulting relationship unless the Company otherwise satisfies its payment obligations. As a result of any repurchase of Shares pursuant to this Section 3(a), the Company shall become the legal and beneficial owner of the Shares being repurchased and shall have all rights and interest therein or related thereto, and the Company shall have the right to transfer to its own name the number of Shares being repurchased by the Company, without further action by Purchaser."

2. All other terms of the Purchase Agreements remain unchanged and in force.

3. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Washington, without giving effect to principles of conflicts of law.

[Signature Page Follows]

The parties have executed this Amendment to Exercise Notice and Restricted Stock Purchase Agreements as of the date first set forth above.

OMEROS CORPORATION

By: /s/ Gregory A. Demopoulos
Gregory A. Demopoulos, M.D.
Chairman & CEO

PURCHASER:

/s/ Richard J. Klein
Richard J. Klein

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated May 8, 2009, with respect to the consolidated financial statements of Omeros Corporation included in Amendment No. 3 to the Registration Statement (Form S-1 No. 333-148572) and related Prospectus of Omeros Corporation for the registration of shares of its common stock.

/s/ ERNST & YOUNG LLP

Seattle, Washington
May 13, 2009

VIA EDGAR AND OVERNIGHT DELIVERY

Securities and Exchange Commission
Division of Corporate Finance
100 F Street, N.E.
Washington, D.C. 20549

Attention: Mr. Jeffrey P. Riedler
Ms. Rose Zukin
Mr. Michael Reedich
Ms. Tabatha Akins
Ms. Mary Mast

**Re: Omeros Corporation
Amendment No. 2 to Registration Statement on Form S-1/A
Filed May 8, 2008
File No. 333-148572**

Ladies and Gentlemen:

On behalf of Omeros Corporation (the "Company"), we respectfully submit this letter in response to comments from the Staff of the Securities and Exchange Commission received by letter dated May 21, 2008, relating to the Company's Amendment No. 2 to Registration Statement on Form S-1/A (File No. 333-148572) filed with the Commission on May 8, 2008.

The Company is concurrently filing via EDGAR Amendment No. 3 to the Registration Statement. For the convenience of the Staff, we are enclosing herewith marked copies, complete with exhibits, of Amendment No. 3.

In this letter, we have recited the comments from the Staff in italicized, bold type and have followed each comment with the Company's response thereto.

Amendment No. 2 to Form S-1/A

Management's Discussion and Analysis of Financial Condition and Results of Operations, page 39

Critical Accounting Policies and Significant Judgments and Estimates, page 43

Stock-Based Compensation, page 44

Common Stock Fair Value, page 45

1. *We acknowledge your response to our prior Comment 4, please note that we may have additional comments related to the valuations used and discussed in the response when the price range for the offering becomes known.*

The Company acknowledges the Staff's comment.

Business

Central Nervous System Programs, page 76

Our Other CNS Programs, page 79

2. *We note your response to Comment 12 and reissue the comment in part. Please identify on page 79 the foreign markets in which you have 10 pending foreign patent applications related to your other CNS programs.*

The Company supplementally advises the Staff that it has revised the disclosure throughout the Registration Statement to replace descriptions of the Company's Other CNS programs with descriptions of the Company's PDE7 program. The descriptions of the PDE7 program do not reference "foreign markets" similar to the prior descriptions of the Other CNS programs; however, the Company has disclosed on page 95 of the Registration Statement that it owns two pending U.S patent applications and a pending international PCT patent application related to its PDE7 program.

Manufacturing, page 80

3. *We note your response to Comment 13 and reissue the comment in part. Please expand your disclosure on page 81 to identify the specified events, the occurrence of which gives you the unilateral right to terminate your agreement with Hospira in whole or in part at any time prior to the end of its term. Provisions related to termination are material to an investor's understanding of your contract with Hospira.*

The Company has revised the disclosure on page 92 to describe the events that gives it the right to unilaterally terminate the agreement with Hospira; however, the Company has not disclosed those events for which it is seeking confidential treatment of in the related commercial supply agreement as the Company respectfully submits that such information is highly confidential, competitively sensitive and not necessary for the protection of investors.

Index to Financial Statements, page F-1

Notes to Consolidated Financial Statements, page F-12

Note 5 — Acquisition of nura, page F-23

4. *Please refer to your response to part (b) of our prior Comment 19. As the transaction was accounted for as an acquisition of assets, rather than as a business combination, it does not appear appropriate to base your analysis on the guidance provided in paragraphs 22 and 23 of SFAS 141. Please revise your analysis and your disclosure to discuss the consideration given to paragraphs 5 and 6 of SFAS 141 in assessing the initial measurement of the acquired assets.*

In accordance with the Staff's comment and a subsequent telephone call between the Staff and Company management, the Company has revised the disclosure on pages 56 and F-33 to discuss

paragraphs 5 and 6 of SFAS 141. As disclosed in the Registration Statement, the Company believes that in valuing the acquired assets it was more appropriate to use the fair value of the consideration given rather than the fair value of the assets acquired because the fair value of the consideration given was more clearly evident and measurable.

* * * * *

Please direct your questions or comments regarding this letter or Amendment No. 3 to the Registration Statement to the undersigned or Mark J. Handfelt of this office at (206) 883-2500. Thank you for your assistance.

Sincerely,

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

/s/ Craig E. Sherman
Craig E. Sherman, Esq.

Enclosures

cc (w/encl):

Gregory A. Demopoulos, M.D.
Omeros Corporation

Mark J. Handfelt, Esq.
Wilson Sonsini Goodrich & Rosati, Professional Corporation

James R. Tanenbaum, Esq.
Morrison & Foerster LLP