

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-34475

OMEROS CORPORATION

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

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

201 Elliott Avenue West
Seattle, Washington
(Address of principal executive offices)

98119
(Zip Code)

(206) 676-5000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value per share
(Title of each class)

The NASDAQ Stock Market LLC
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$386,370,281.

As of March 7, 2017, the number of outstanding shares of the registrant's common stock, par value \$0.01 per share, was 43,822,133.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's proxy statement with respect to the 2017 Annual Meeting of Shareholders to be held June 16, 2017, which is to be filed pursuant to Regulation 14A within 120 days after the end of the registrant's fiscal year ended December 31, 2016, are incorporated by reference into Part III of this Form 10-K.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, which are subject to the “safe harbor” created by those sections for such statements. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. All statements other than statements of historical fact are “forward-looking statements.” Terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “goal,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” and similar expressions and variations thereof are intended to identify forward-looking statements, but these terms are not the exclusive means of identifying such statements. Examples of these statements include, but are not limited to, statements regarding:

- our plans for sales, marketing and distribution of OMIDRIA® (phenylephrine and ketorolac injection) 1%/0.3%;
 - our expectations regarding our product sales and our estimate regarding how long our existing cash, cash equivalents, short-term investments and revenues will be sufficient to fund our anticipated operating expenses, capital expenditures and interest and principal payments on our outstanding notes under our Term Loan Agreement, or the CRG Loan Agreement, with CRG Servicing LLC, or CRG, and the lenders identified therein;
 - our ability to raise additional capital through the capital markets, including under our at-the-market equity facility with JonesTrading Institutional Services LLC, or JonesTrading, or through one or more corporate partnerships, equity offerings, debt financings, collaborations, licensing arrangements or asset sales;
 - our ability to forecast accurately wholesaler demand as well as our estimates of chargebacks and rebates, distribution fees and estimated product returns;
 - our expectations regarding the clinical, therapeutic and competitive benefits of OMIDRIA and our product candidates;
 - our ability to design and successfully complete clinical trials and other studies for our products and product candidates and our plans and expectations regarding our clinical trials, including our clinical trials for OMS721 and for OMS824;
 - our anticipation that we will rely on contract manufacturers to manufacture OMIDRIA for commercial sale and to manufacture our product candidates and our expectations regarding product supply and manufacturing of OMIDRIA;
 - our ability to enter into acceptable arrangements with potential corporate partners, including with respect to OMIDRIA, and our ability to effect any such arrangement with respect to OMIDRIA in the European Union, or EU, prior to July 28, 2018;
 - our expectations about the commercial competition that OMIDRIA and our product candidates, if commercialized, face or may face;
 - our expectation that the OMIDRIAssure® Reimbursement Services Program will increase patient access to OMIDRIA;
 - our ability to obtain separate or similar reimbursement for OMIDRIA beyond January 1, 2018, our expectations that OMIDRIA would be part of the packaged payment in the event that we do not obtain separate or similar reimbursement for OMIDRIA, and our expectations regarding the per unit price we will receive for OMIDRIA in the future;
 - the extent of protection that our patents provide and that our pending patent applications will provide, if patents issue from such applications, for our technologies, programs, products and product candidates;
 - when or to what extent the dosing limitations in our OMS824 program may be removed, if at all;
 - in our OMS721 program, whether enrollment in a Phase 3 clinical trial in patients with atypical hemolytic uremic syndrome, or aHUS, will proceed as expected or whether accelerated approval, fast track designation, breakthrough therapy designation and/or orphan drug designation may be granted by the U.S. Food and Drug Administration, or FDA, for indications for which we are pursuing such approval or designation;
 - the expected course and costs of existing claims, legal proceedings and administrative actions, our involvement in potential claims, legal proceedings and administrative actions, and the potential outcomes and effects of both existing and potential claims, legal proceedings and administrative actions, as well as regulatory determinations, on our business, prospects, financial condition and results of operations, including but not limited to our patent infringement lawsuit against Par Pharmaceutical, Inc. and its subsidiary, Par Sterile Products, LLC;
 - our expectations regarding our OMS103 exclusive license agreement including, without limitation, manufacturing and commercialization of OMS103 and the commencement and subsequent continuation of product sales on which we could receive royalty revenue;
 - our expectations regarding the effect of changes in accounting guidance or standards on our operating results; and
 - our expected financial position, performance, revenues, growth, costs and expenses, magnitude of net losses and the availability of resources.
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Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including the risks, uncertainties and other factors described in Item IA of Part I of this Annual Report on Form 10-K under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in our other filings with the Securities and Exchange Commission, or SEC. Given these risks, uncertainties and other factors, actual results or anticipated developments may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on our company, business or operations. Accordingly, you should not place undue reliance on these forward-looking statements, which represent our estimates and assumptions only as of the date of the filing of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K completely and with the understanding that our actual results in subsequent periods may materially differ from current expectations. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we assume no obligation to update or revise any forward-looking statements contained herein, whether as a result of any new information, future events or otherwise.

OMEROS CORPORATION
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016

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PART I

This Annual Report on Form 10-K 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 Annual Report. Please refer to the special note regarding forward-looking statements at the beginning of this Annual Report on Form 10-K for further information.

ITEM 1. BUSINESS

Overview

We are a biopharmaceutical company committed to discovering, developing and commercializing both small-molecule and protein therapeutics for large-market as well as orphan indications targeting inflammation, coagulopathies and disorders of the central nervous system.

Our marketed drug product OMIDRIA® was launched in the U.S. in the second quarter of 2015 for use during cataract surgery or intraocular lens, or IOL, replacement. OMIDRIA is part of our proprietary PharmacoSurgery® platform, which is designed to improve clinical outcomes of patients undergoing ophthalmological, arthroscopic, urological and other surgical procedures. Our PharmacoSurgery platform is based on low-dose combinations of FDA-approved therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to inhibit preemptively inflammation and other problems caused by surgical trauma and to provide clinical benefits both during and after surgery.

In our pipeline we have clinical-stage development programs focused on: complement-associated thrombotic microangiopathies; complement-mediated glomerulonephropathies; Huntington's disease and cognitive impairment; and addictive and compulsive disorders. In addition, we have a diverse group of preclinical programs and two additional platforms: one capable of unlocking new G protein-coupled receptor, or GPCR, drug targets and the other used to generate antibodies. For OMIDRIA and each of our product candidates and our programs, other than OMS103, we have retained control of all commercial rights.

Commercial Product – OMIDRIA® (phenylephrine and ketorolac injection) 1%/0.3%

Overview. OMIDRIA is approved by the FDA for use during cataract surgery or IOL replacement to maintain pupil size by preventing intraoperative miosis (pupil constriction) and to reduce postoperative ocular pain, and is approved in all EU member states plus Iceland, Lichtenstein and Norway (together, the European Economic Area, or EEA) for use during cataract surgery and other IOL replacement procedures to maintain mydriasis (pupil dilation), to prevent miosis (pupil constriction), and to reduce postoperative eye pain. OMIDRIA is a proprietary drug product containing two active pharmaceutical ingredients, or APIs: ketorolac, an anti-inflammatory agent, and phenylephrine, a mydriatic, or pupil dilating, agent. Cataract and other lens replacement surgery involve 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. OMIDRIA is added to standard irrigation solution used during cataract and lens replacement surgery and is delivered intracamerally, or within the anterior chamber of the eye, to the site of the surgical trauma throughout the procedure. Preventing pupil constriction is essential for these procedures and, if miosis occurs, the risk of damaging structures within the eye and other complications increases as does the operating time required to perform the procedure.

United States. We launched OMIDRIA in the U.S. in the second quarter of 2015 primarily through wholesalers which, in turn, sell to ambulatory surgery centers, or ASCs, and hospitals. The Centers for Medicare and Medicaid Services, or CMS, has granted transitional pass-through reimbursement status for OMIDRIA, which we expect to run until January 1, 2018. Pass-through status allows for separate payment (*i.e.*, outside the bundled payment) under Medicare Part B for new drugs and other medical technologies that meet well-established criteria specified by federal regulations governing Medicare spending. We are working through legislative and/or administrative means to continue to obtain separate or similar reimbursement for OMIDRIA on and after January 1, 2018; however, in the event that does not occur, we expect that OMIDRIA will be included as part of the packaged procedural payment and, as a result, the per unit price we receive for OMIDRIA would likely be reduced.

We have implemented various purchase volume discount programs for OMIDRIA. In addition, we have entered into agreements to enable discounts for OMIDRIA on qualifying purchases of OMIDRIA by certain U.S. government purchasers and other eligible entities (*e.g.*, 340B-eligible hospitals and clinics). In addition, in 2015 we launched the OMIDRIAssure® Reimbursement Services Program, or OMIDRIAssure. The OMIDRIAssure program services include the:

- *OMIDRIAssure Information Hotline* for physicians and facilities seeking personalized help and information on OMIDRIA coverage and reimbursement for patients;
- *“Equal Access” Patient Assistance Program* providing assistance to financially eligible uninsured or government-insured patients; and
- *“We Pay the Difference” Commercially Insured Patient Reimbursement Program* providing assistance to patients with insufficient commercial insurance.

The OMIDRIAssure coverage and reimbursement support services for surgeons and facilities help remove uncertainties about coding, billing and coverage of OMIDRIA. The “Equal Access” Patient Assistance and the “We Pay the Difference” Commercially Insured Patient Reimbursement Programs help address financial barriers restricting patient access to the drug. Under the “Equal Access” program, financially eligible uninsured and government-insured patients receive OMIDRIA free of charge for use during surgery. For commercially insured patients, through our “We Pay the Difference” program we pay the facility, on behalf of the patient, the difference between the facility’s acquisition cost for OMIDRIA, after accounting for any applicable volume discounts, and the amount covered by the patient’s insurance.

European Union and other International Territories. In 2015, we received approval from the European Commission, or EC, to market OMIDRIA in the EEA for use during cataract surgery and other IOL replacement procedures to maintain mydriasis (pupil dilation), to prevent miosis (pupil constriction), and to reduce postoperative eye pain. For the EU OMIDRIA marketing authorization to remain valid, product must be placed on the market (*i.e.*, released into the distribution chain) in at least one EEA country by July 28, 2018. Decisions about price and reimbursement for OMIDRIA are made on a country-by-country basis and may be required before marketing may occur in a particular country. We do not expect to see sales of OMIDRIA in the EU and other international territories if we do not obtain such pricing and/or reimbursement decisions or if we are unable to enter into partnerships for the marketing and distribution of OMIDRIA. Timing of any such partnerships depends on numerous factors, including completion of mutual diligence exercises and domestic sales of OMIDRIA.

We have an exclusive supply and distribution agreement, or the ITROM Agreement, with ITROM Trading Drug Store, or ITROM, for the sale of OMIDRIA in the Kingdom of Saudi Arabia, the United Arab Emirates and certain other countries in the Middle East. Within the licensed territory, ITROM is responsible for obtaining marketing authorizations for OMIDRIA on our behalf and for promoting, marketing, selling and distributing product supplied by us. ITROM began selling OMIDRIA in December 2016 on a limited basis in the Kingdom of Saudi Arabia. We expect that our revenue from ITROM’s sales will increase in 2017, pending approval of local regulatory applications.

Pediatric Studies. We have completed an FDA-required post-marketing OMIDRIA pediatric clinical trial. The clinical trial was conducted to fulfill both the post-marketing requirement as well as a Written Request from the FDA to conduct a pediatric study. Patients in this trial received either OMIDRIA or phenylephrine added to the irrigation solution used during the surgical procedure. In the trial, OMIDRIA was well tolerated with adverse event rates consistent with those seen in pediatric cataract surgery and similar in the OMIDRIA and phenylephrine groups. Successful completion of the trial, including submission of a supplemental New Drug Application, or sNDA, that includes the full clinical study report and proposed labeling, plus confirmation by the FDA that the submission fulfills the FDA’s Written Request, results in eligibility for an additional six months of regulatory exclusivity for OMIDRIA and label expansion to include information on dosing for pediatric patients. We expect to submit an sNDA this year, with results of the pediatric study included in proposed label language. Although conducted in patients newborn to three years old, the FDA agreed that results from this trial can be extrapolated to patients through 18 years of age, and a label expansion, if any, would be expected to be applicable to that full age range.

Abbreviated New Drug Application. In July 2015, we received a Notice Letter from Par Pharmaceutical, Inc. and its subsidiary, Par Sterile Products, LLC, or collectively, Par, that Par had filed with the FDA an Abbreviated New Drug Application, or ANDA, containing a Paragraph IV Certification under the Hatch-Waxman Act seeking approval to market a generic version of OMIDRIA prior to the expiration of three patents listed in the Orange Book for OMIDRIA, or the Orange Book Patents. These patents were granted following review by the U.S. Patent and Trademark Office, or USPTO, are presumed to be valid under governing law, and can only be invalidated in federal court with clear and convincing evidence. We have reviewed the assertions in Par’s Paragraph IV Notice Letter and believe that they do not have merit. We intend to enforce vigorously our intellectual property rights relating to OMIDRIA, including the three patents referenced in Par’s Paragraph IV Notice Letter, as well as three additional patents that issued after Par’s Notice Letter. Following receipt of the Paragraph IV Notice Letter, in September 2015 we filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Par. For more information regarding this ANDA, see “Governmental Regulation-Abbreviated New Drug Application,” and for more information regarding our patent infringement lawsuit against Par, see Part I, Item 3, “Legal Proceedings.”

Our Product Candidates and Development Programs

Our product candidates consist of the following:

Product Candidate/ Program ⁽¹⁾	Targeted Procedure/Disease	Development Status	Next Expected Milestone	Worldwide Rights
Clinical Programs				
MASP-2 (OMS721) - Lectin Pathway Disorders	Atypical Hemolytic Uremic Syndrome (aHUS)	Phase 3	Continue Phase 3 Enrollment	Omeros (In-licensed)
MASP-2 (OMS721) - Lectin Pathway Disorders	Hematopoietic Stem-Cell Transplant- Associated Thrombotic Microangiopathies (HSC-TMA)	Phase 2	Initiate Registration Program	Omeros (In-licensed)
MASP-2 (OMS721) - Lectin Pathway Disorders	IgA Nephropathy (IgAN) and Other Renal Diseases	Phase 2	Initiate Registration Program for IgAN	Omeros (In-licensed)
PDE10 (OMS824) - CNS Disorders	Huntington's Disease	Phase 2 ⁽²⁾	Meet with FDA to Discuss Plans for Continued Development	Omeros
PDE10 (OMS824) - CNS Disorders	Schizophrenia	Phase 2 ⁽²⁾	Meet with FDA to Discuss Plans for Continued Development	Omeros
PPAR γ (OMS405) - Addiction	Opioid and Nicotine Addiction	Phase 2	Determine Commercialization Path	Omeros
OMS201 - Urology	Ureteroscopy	Phase 1/2	Determine Commercialization Path	Omeros

(1) OMS103, part of our PharmacoSurgery platform, was developed for use during all arthroscopic procedures, including knee and shoulder arthroscopy. See "PharmacoSurgery Platform-OMS103-Arthroscopy."

(2) Clinical trials evaluating OMS824 in schizophrenia were previously suspended at the request of the FDA and, given that we have not yet submitted a Phase 2 clinical trial protocol to FDA for review, remain suspended. For additional information, see "Other Clinical Programs-PDE10 Programs-OMS824 for Huntington's Disease and Schizophrenia."

Our pipeline of preclinical programs, as well as our platforms, consist of the following:

Product Candidate/Program	Targeted Procedure/Disease	Development Status	Next Expected Milestone	Worldwide Rights
Preclinical Programs				
PDE7 (OMS527)	Addictions and Compulsive Disorders; Movement Disorders	Preclinical	Submit IND or CTA	Omeros (Compounds In-licensed)
MASP-3 (OMS906) - Alternative Pathway Disorders	Paroxysmal nocturnal hemoglobinuria (PNH) and Other Alternative Pathway Disorders	Preclinical	Complete Manufacturing Scale-up of a Clinical Candidate for IND-Enabling Toxicology Studies	Omeros
MASP-2 (OMS721) - Small Molecule Inhibitors	aHUS, IgAN, HSCT-TMA and Age-Related Macular Degeneration (AMD)	Preclinical	Conduct Medicinal Chemistry	Omeros (In-licensed)
GPCR Platform, including GPR174 and other Class A Orphan GPCRS	CNS, Metabolic, CV, Oncologic, Musculoskeletal & Other Disorders	Preclinical	Continue Drug Discovery and Selected Medicinal Chemistry for Class A Orphan and Class B GPCRS	Omeros
Plasmin (OMS616)	Surgical and Traumatic Bleeding	Preclinical	Complete Process-Development and IND-Enabling Toxicology Studies and GMP Manufacturing	Omeros (In-licensed)
Antibody Platform	Metabolic, CV, Oncologic, Musculoskeletal & Other Disorders	Preclinical	Continue Developing Antibodies Targeting Lectin, Alternative and Classical Pathways of Complement System and Expanding Antibody Library	Omeros (In-licensed)

MASP Clinical and Preclinical Programs

MASP-2 Program - OMS721 - Lectin Pathway Disorders

Overview. Mannan-binding lectin-associated serine protease-2, or MASP-2, is a novel pro-inflammatory protein target 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. Inappropriate or uncontrolled activation of the complement system can cause diseases characterized by serious tissue injury. MASP-2 is recognized as the effector enzyme, and is required for the function, of the lectin pathway, one of the principal complement activation pathways. 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. We are developing MASP-2 antibodies and small molecules and we expect that the intended therapeutic effect can be achieved through multiple routes of administration, including subcutaneous and intravenous administration of our antibodies and oral and intravenous administration of our small molecules. OMS721 is our lead human monoclonal antibody targeting MASP-2.

OMS721 is being developed for diseases in which the lectin pathway is believed to contribute to significant tissue injury and pathology. One group of such diseases is thrombotic microangiopathies, or TMAs, including aHUS and HSCT-TMA. These diseases are typically characterized by significant kidney or central nervous system injury when not treated. We have a Phase 3 clinical program in patients with aHUS and enrollment has opened in the Phase 3 clinical trial. The Phase 3 clinical program in patients with aHUS consists of one clinical trial - a single-arm (*i.e.*, no control arm), open-label trial in patients with newly diagnosed or ongoing aHUS. We expect that the clinical package for the Biologics License Application, or BLA, will be similar to that which formed the basis of approval for Soliris® (eculizumab). We also received agreement from the FDA on our ongoing and planned manufacturing for both the Phase 3 program and commercialization of OMS721 as well as on our nonclinical safety and toxicology plan, most of which has already been successfully completed with no significant adverse findings. We also have an ongoing Phase 2 clinical trial in patients with TMAs, including aHUS, HSCT-TMA and thrombotic thrombocytopenia, or TTP. Given the Phase 3 clinical trial in aHUS and

positive data in the HSCT-TMA population, the Phase 2 clinical trial protocol in TMAs is being amended to evaluate the effect of OMS721 for the treatment only of HSCT-TMA. We plan to meet with the FDA and other global regulatory agencies in 2017 to advance the HSCT-TMA program into Phase 3.

In addition to our Phase 2 clinical program in patients with TMAs, we are conducting a Phase 2 clinical trial in patients with IgAN and other complement-associated renal diseases, specifically membranous nephropathy, lupus nephritis, and complement component (C3) glomerulopathy. The ongoing Phase 2 clinical trial is evaluating OMS721 in an open-label cohort covering these four different types of complement-associated kidney diseases as well as in a blinded, placebo-controlled cohort covering patients with IgAN. All patients in the open-label cohort of the trial must have high levels of urinary protein (a marker used by nephrologists to assess disease activity) despite ongoing treatment with a stable corticosteroid dose. These inclusion criteria are intended to ensure that study patients are unlikely to improve spontaneously. In the blinded, controlled cohort evaluating patients with IgAN, patients must have high levels of urinary protein but are not treated with corticosteroids. Patients in the open-label cohort are treated with OMS721 for a total of 12 weeks: four weeks maintaining their entry corticosteroid dose; four weeks of corticosteroid tapering, if tolerated; and four weeks of resultant corticosteroid dose maintenance. Patients are then followed post-treatment for six weeks. Patients in the blinded, controlled cohort are treated with OMS721 or placebo for a total of 12 weeks, then followed post-treatment for six weeks. Based on data to date and discussions with the FDA, we are preparing to initiate a registration program in IgAN.

In addition to TMAs and renal disease, many other disorders have evidence of lectin pathway injury, and we plan to evaluate OMS721 in one or more of them. See “Other Studies” below.

In our OMS721 program, the FDA has granted our drug candidate orphan drug designation for the prevention (inhibition) of complement-mediated TMAs and fast track designation for the treatment of patients with aHUS. We have requested that the FDA grant orphan drug designation for OMS721 in IgAN and have been pursuing fast track designation for OMS721 in this indication. Following discussion with the FDA, we plan to pursue breakthrough therapy designation for OMS721 in IgAN and in HSCT-TMA. We also intend to pursue accelerated approval for OMS721 in both of these indications as well as in aHUS. In addition, we plan to submit for the EMA’s Priority Medicines, or PRIME, program in IgAN and in HSCT-TMA.

Clinical Trial Results Announced in 2016. In October 2016, we announced positive data from the Phase 2 clinical trial of OMS721 for the treatment of complement-associated renal disorders. At the time these data were announced, two patients with IgAN, two patients with membranous nephropathy and two patients with lupus nephritis had completed the trial; no patients with C3 glomerulopathy, an extremely rare disorder, had yet been enrolled. The key efficacy measures in this trial are urine albumin-to-creatinine ratios, or uACRs, throughout the trial and change in 24-hour urine protein levels from baseline to the end of treatment. Data reported from the two IgAN patients then enrolled in the trial demonstrated a clinically meaningful and statistically significant decrease in uACRs and in 24-hour urine protein from baseline to endpoint. Subsequent data in IgAN patients have been shared with the FDA and, following discussions with the FDA, we plan to pursue breakthrough designation and accelerated approval for this indication. Consistent with earlier clinical trials with OMS721, no significant drug-related safety concerns were observed.

In October 2016, we announced positive results in patients with HSCT-TMA from our Phase 2 open-label clinical trial of OMS721 in TMAs. The HSCT-TMA patients for whom data were reported are adults who had received stem-cell transplantation for hematological malignancies. At the time these data were announced, three HSCT-TMA patients, all of whom had failed immunosuppressive modification, had completed a full course of treatment with OMS721 for up to eight weeks, and two other patients had discontinued OMS721 early in their treatment courses, one of whom later relapsed and treatment for the other was changed to palliative care only. Across all three patients who had completed treatment, mean TMA markers improved over time. Creatinine remained normal or improved, nearly normalizing, in two patients; one did not show improvement in creatinine but was receiving concomitant nephrotoxic drugs. On extended follow up, as reported in October 2016, two patients remained stable and one had experienced graft failure, which the investigator considered unrelated to OMS721 treatment. No significant drug-related safety concerns were observed. Updated data from this patient population, showing consistent benefits to those previously reported, was reported at the combined annual meetings of the Center for International Blood & Marrow Transplant Research and the American Society for Blood and Marrow Transplantation in February 2017.

We have received requests from investigators and other physicians for expanded access to OMS721. Expanded access, sometimes called “compassionate use,” is the use outside of a clinical trial of an investigational medical product and is permitted by the FDA and other regulatory agencies under certain circumstances. OMS721 has been provided to several patients through this program.

Other Studies. We have generated positive preclinical data in *in vivo* models of AMD, myocardial infarction, diabetic neuropathy, stroke, ischemia-reperfusion injury, and other diseases and disorders.

Licensing Arrangements. 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, from its collaborator, Medical Research Council at Oxford University, or MRC, and from Helion Biotech ApS, or Helion. For a more detailed description of these licenses, see “License and Development Agreements.”

MASP-3 Program - OMS906 - Alternative Pathway Disorders

Overview. As part of our MASP program, we have identified mannan-binding lectin-associated serine protease-3, or MASP-3, which has been shown to be the key activator of the complement system’s alternative pathway, or APC, and we believe that we are the first to make this and related discoveries associated with the APC. The complement system is part of the immune system’s innate response, and the APC is considered the amplification loop within the complement system. MASP-3 is responsible for the conversion of pro-factor D to factor D, and converted factor D is necessary for the activation of the APC. Based on our alternative pathway-related discoveries, we have expanded our intellectual property position to protect our inventions stemming from these discoveries beyond MASP-2-associated inhibition of the lectin pathway to include inhibition of the alternative pathway. In addition to our MASP-2 inhibitors of the lectin pathway, we are developing inhibitors of the alternative pathway as well as bispecific inhibitors of both the alternative and lectin pathways. For each of these targets, our efforts are directed to both antibody and small-molecule development.

We are currently developing MASP-3 inhibitors for the treatment of disorders related to the APC. We believe that MASP-3 inhibitors may have the potential to treat patients suffering from a wide range of diseases and conditions, including paroxysmal nocturnal hemoglobinuria, or PNH, asthma, traumatic brain injury, AMD, disseminated intravascular coagulation, arthritis, dense deposit disease, aspiration pneumonia, neuromyelitis optica, pauci-immune necrotizing crescentic glomerulonephritis, endophthalmitis and Behcet’s disease. Currently, we are finalizing selection of our lead and back-up molecules and preparing to initiate scale-up for clinical trials, and are evaluating PNH as the first clinical indication for OMS906.

Preclinical results. In August 2016, we reported positive data from OMS906 in a well-established animal model associated with PNH in which OMS906 significantly improved the survival of red blood cells when compared to control-treated animals and to animals treated with a complement component 5 (C5) inhibitor. Also in August 2016 we reported positive data from OMS906 in a well-established animal model associated with arthritis mediated by the APC.

In November 2016, we announced pharmacokinetic and pharmacodynamic data from the evaluation of OMS906 in non-human primates. Single-dose administration of OMS906 to cynomolgus monkeys resulted in sustained ablation of systemic APC activity for approximately 16 days. The extent of APC ablation was comparable to that achieved by complete inhibition of factor D *in vitro*, indicating that OMS906 fully blocked the conversion of pro-factor D to factor D. No safety concerns were identified.

Licensing Arrangements. We jointly own and hold worldwide exclusive license rights related to therapeutic applications for inhibiting MASP-3 from the University of Leicester. For a more detailed description of these licenses, see “License and Development Agreements.”

Other Clinical Programs

PDE10 Programs - OMS824 for Huntington’s Disease and Schizophrenia

Overview. Phosphodiesterase 10, or PDE10, is an enzyme that is expressed in areas of the brain strongly linked to diseases that affect cognition, including Huntington’s disease and schizophrenia. Cognitive dysfunction occurs early in these diseases and is responsible for substantial disability. PDE10 inhibitors have been shown to be effective in multiple animal models of behavior and cognition, and there remain substantial unmet clinical needs with current treatments. Our proprietary compound OMS824 inhibits PDE10 and is being developed in clinical programs for the treatment of cognitive disorders, including Huntington’s disease and schizophrenia. OMS824 has received orphan drug designation for the treatment of Huntington’s disease and fast track designation for the treatment of cognitive impairment in patients with Huntington’s disease.

Clinical Trials. OMS824 is in a Phase 2 clinical program for the treatment of Huntington’s disease and a Phase 2 clinical program evaluating OMS824 for the treatment of schizophrenia. We are also evaluating other neurological indications for OMS824. Clinical trials in our Huntington’s program are currently subject to dosing limitations. Plans for

continuation of the OMS824 program will be based on internal work ongoing and on discussions with FDA. Clinical trials evaluating OMS824 in schizophrenia are suspended currently at the request of the FDA. Given that there was no active schizophrenia trial at the time of program suspension, the FDA will address the OMS824 schizophrenia program when we have a related trial protocol ready for initiation.

Funding Agreement with The Stanley Medical Research Institute. Our preclinical development of OMS824 was 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. For a more detailed description of our agreement with SMRI, see “License and Development Agreements.”

PPAR γ Program - OMS405

Overview. In our peroxisome proliferator-activated receptor gamma, or PPAR γ , program, we are developing proprietary compositions that include PPAR γ agonists for the treatment and prevention of addiction to substances of abuse, which may include opioids, nicotine and alcohol. We believe that Omeros is the first to demonstrate a link between PPAR γ and addiction disorders. Data from clinical studies and from animal models of addiction suggest that PPAR γ agonists could be efficacious in the treatment of a wide range of addictions.

Clinical trials. Our collaborators at The New York State Psychiatric Institute have completed two Phase 2 clinical trials related to our PPAR γ program. These studies evaluated a PPAR γ agonist, alone or in combination with other agents, for treatment of addiction to opioids and to nicotine. The National Institute on Drug Abuse provided substantially all of the funding for these clinical trials and solely oversaw the conduct of these trials. We have the right or expect to be able to reference the data obtained from these studies for subsequent submissions to the FDA and continue to retain all other rights in connection with the PPAR γ program. In November 2016, we announced positive data from one of these trials evaluating a PPAR γ agonist in heroin users. In October 2016, we also reported positive results (*i.e.*, decreased craving and protection of brain white matter) from a Phase 2 clinical trial conducted by an independent investigator evaluating the effects of a PPAR γ agonist in patients with cocaine use disorder.

Patent Assignment Agreement with Roberto Ciccocioppo, Ph.D. We acquired the patent applications and related intellectual property rights for our PPAR γ program in February 2009 from Roberto Ciccocioppo, Ph.D., of the Università di Camerino, Italy, pursuant to a patent assignment agreement. For a more detailed description of our agreement with Dr. Ciccocioppo, see “License and Development Agreements.”

Preclinical Programs

PDE7 Program - OMS527

Overview. Our phosphodiesterase 7, or PDE7, program is based on our discoveries of previously unknown links between PDE7 and any addiction or compulsive disorder and between PDE7 and any movement disorders, such as Parkinson’s disease. PDE7 appears to modulate the dopaminergic system, which plays a significant role in regulating both addiction and movement. We believe that PDE7 inhibitors could be effective therapeutics for the treatment of addiction and compulsive disorders as well as for movement disorders. Data generated in preclinical studies support the use of PDE7 inhibitors in both of these therapeutic areas. We have selected a clinical candidate and are preparing to initiate toxicology studies under good laboratory practices, or GLP, intended to support the submission of an Investigational New Drug application, or IND, or Clinical Trial Application, or CTA, and subsequent clinical trials.

Exclusive License Agreement with Daiichi Sankyo Co., Ltd. We hold an exclusive license to certain PDE7 inhibitors claimed in patents and pending patent applications owned by Daiichi Sankyo Co., Ltd. (successor-in-interest to Asubio Pharma Co., Ltd.), or Daiichi Sankyo, for use in the treatment of movement, addiction and compulsive disorders as well as other specified indications. For a more detailed description of our agreement with Daiichi Sankyo, see “License and Development Agreements.”

GPCR Platform

Overview. GPCRs comprise one of the largest families of proteins in the genomes of multicellular organisms. It is estimated that 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 nonsensory 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 functionally active molecules, or ligands, that bind to a given

receptor. 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.

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. It is estimated that nearly 40% of all drugs sold worldwide target GPCRs, yet only 46 GPCRs are responsible for this wealth of drugs. Based on available data, we believe that there are 363 human non-sensory GPCRs, of which approximately 120 have no known ligands, and we refer to those receptors as 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 are very difficult to develop against orphan GPCRs. "Unlocking" these orphan GPCRs by identifying one or more of their respective ligands could lead to the development of drugs that act at these new targets. To our knowledge, despite efforts by others in the biopharmaceutical industry and academic community, Omeros' technology is the first commercially viable technology capable of identifying ligands of orphan GPCRs in high throughput.

We have developed a proprietary cellular redistribution assay, or CRA, which we use in a high-throughput manner to identify synthetic ligands, including antagonists, agonists and inverse agonists, that bind to and affect the function of orphan GPCRs. We believe that we are the first to possess the capability to conduct high-throughput drug discovery for orphan GPCRs and that there is no other existing high-throughput technology able to "unlock" orphan GPCRs. We have screened Class A orphan GPCRs against our small-molecule chemical libraries using the CRA. As of February 28, 2017, we had identified and confirmed compounds that interact with 54 of the 81 Class A orphan GPCRs linked to a wide range of indications including cancer as well as metabolic, cardiovascular, immunologic, inflammatory and central nervous system disorders. We are conducting *in vivo* preclinical efficacy studies and optimizing compounds for a number of targets including: GPR17, linked to myelin formation; GPR101, linked to appetite and eating disorders; GPR151, linked to schizophrenia and cognition; GPR161, which is associated with triple negative breast cancer; GPR183, linked to osteoporosis and to Epstein-Barr virus infections and related diseases; and GPR174, which appears to be involved in the modulation of the immune system and, in particular, of cytokine production and regulatory T cells, or "T-regs," which are known to be important in autoimmune disease, such as multiple sclerosis, in cancer and in organ transplantation.

In December 2016, we announced that our small-molecule inhibitors against GPR174 substantially and statistically significantly boost levels of cytokines and reduce the population of T-regs. In assays with human peripheral blood mononuclear cells, or PBMCs, evaluating T-cell proliferation and survival following T-cell stimulation, we have discovered that small-molecule GPR174 inhibitors increase, with statistical significance, levels of the cytokines interleukin 2 and interferon gamma multiple-fold and nearly doubled interleukin 10. Moreover, GPR174 inhibition statistically significantly reduced by approximately 40 percent the population of T-regs, a subset of T cells elevated in a large number of cancers. Importantly, the compound effects were not observed in PBMCs derived from mice genetically lacking GPR174, suggesting that the robust compound effects are the result of "on-target" interaction with the orphan receptor. We believe these results demonstrate that GPR174 inhibition potentiates the activity of effector T cells, which produce cytokines and are known to be integral to combatting cancer. Also, reducing the level of T-regs is a key objective in cancer immunotherapy, and high levels of T-regs in solid tumors frequently correlate with poor patient outcomes. In addition, signaling and mechanistic studies support that GPR174 suppresses anti-tumor activity, and inhibitors of GPR174 are expected to counteract that detrimental suppression.

In addition to Class A orphan GPCRs, we have also begun screening orphan and non-orphan Class B receptors. Class B GPCRs have large extracellular domains and their natural ligands are generally large peptides, making the development of orally active, small-molecule drugs against these receptors, such as glucagon and parathyroid hormone, a persistent challenge. Despite the fact that oral agents are not available, the current sales for the commercialized Class B GPCR-targeting peptide drugs are large. Our CRA technology finds functionally active small molecules for GPCRs, which we believe could lead to the development of oral medications for many of the Class B GPCRs. While our focus to date has remained on Class A orphan GPCRs, as of February 28, 2017, we had identified and confirmed sets of compounds that interact selectively with, and modulate signaling of, a small subset of Class B GPCRs, namely glucagon-like peptide-1 receptor, or GLP-1R, and parathyroid hormone 1 receptor, or PTH-1R.

GPCR Platform Funding Agreements with Vulcan Inc. and the Life Sciences Discovery Fund. In October 2010, we entered into funding agreements for our GPCR program with Vulcan Inc. and its affiliate, which we refer to collectively as Vulcan, and with the Life Sciences Discovery Fund Authority, a granting agency of the State of Washington, or LSDF. For a more detailed description of these agreements, see "License and Development Agreements."

Plasmin Program - OMS616

Overview. Our plasmin program is focused on novel antifibrinolytic agents for the control of blood loss during surgery or resulting from trauma as well as for other hyperfibrinolytic states (e.g., liver disease). Excessive bleeding during cardiac or trauma surgery is known to increase overall morbidity and mortality. In an attempt to control this bleeding, patients undergoing cardiac and other extensive surgery often receive antifibrinolytic compounds. These drugs inhibit plasmin, an enzyme present in blood that degrades fibrin clots. Because plasmin degrades fibrin clots, an agent that inhibits plasmin may have potential utility for reducing blood loss due to trauma or surgery. We are currently in the process of evaluating potential indications.

Exclusive License Agreement with The Regents of the University of California. We hold a worldwide exclusive license to patent rights related to certain antifibrinolytics from The Regents of the University of California. For a more detailed description of this agreement, see “License and Development Agreements.”

Antibody Platform

Overview. Our proprietary *ex vivo* platform for the discovery of novel, high-affinity monoclonal antibodies, which was in-licensed from the University of Washington and then further developed by our scientists, utilizes a chicken B-cell lymphoma cell line. It has successfully generated diverse antibodies that can be readily engineered. This platform offers several advantages over other antibody platforms. The *ex vivo* immunizations of our proprietary cell line are significantly more rapid than whole animal immunizations and conventional hybridoma technology. By avoiding immunization of mice or other animals, we believe the antibodies we generate from this platform are not limited by immunological tolerance. In addition, our platform is capable of producing novel antibodies against difficult targets, such as highly homologous proteins, enzymes, and receptors with short extracellular domains. Chicken antibodies also have unique features that enable binding capabilities distinct from mammalian antibodies.

We have generated antibodies to several clinically significant targets, including highly potent antibodies against MASP-3 and MASP-1, and our platform continues to add to our pipeline antibodies against additional important targets.

Asset Purchase Agreement with Xori Corporation. In February 2012 we entered into an Asset Purchase Agreement, or the Xori APA, with Xori Corporation, or Xori, pursuant to which we acquired all of Xori’s rights and obligations in certain license and material transfer agreements, intellectual property, antibodies and other assets related to our antibody platform. We are obligated to make development and research-related milestone payments to Xori.

Exclusive License Agreement with the University of Washington. We hold a worldwide exclusive license to patent rights related to our antibody platform from the University of Washington. For a more detailed description of this agreement, see “License and Development Agreements.”

PharmacoSurgery® Platform

We believe that 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, pupil constriction, muscle 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. We generate from our PharmacoSurgery platform proprietary products, such as OMS103 and product candidates discussed below, that are combinations of therapeutic agents designed to act simultaneously at multiple discrete targets to block preemptively the molecular-signaling and biochemical cascade caused by surgical trauma and to provide clinical benefits both during and after surgery. These products and product candidates are supplied in pre-dosed, pre-formulated, single-use containers and added to standard surgical irrigation solutions, delivered intraoperatively to the site of tissue trauma throughout the surgical procedure. This is expected to result 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 routine.

OMS103-Arthroscopy. OMS103, part of our PharmacoSurgery platform, was developed for use during all arthroscopic procedures, including knee and shoulder arthroscopy, and completed Phase 3 trials in patients undergoing arthroscopic anterior cruciate ligament reconstruction and arthroscopic partial meniscectomy. OMS103 is a proprietary combination of anti-inflammatory/analgesic APIs, specifically amitriptyline, ketoprofen and oxymetazoline, each with well-known safety and pharmacologic profiles, and was designed to provide a multimodal approach to block preemptively the inflammatory cascade induced by arthroscopy. All of the APIs are components of generic, FDA-approved drugs that have been marketed in the U.S. as over-the-counter or prescription drug products for over 20 years and have established and well-characterized safety profiles. In June 2015, we entered into an exclusive licensing agreement, or the OMS103 Agreement, with Fagron Compounding Services, LLC, d/b/a Fagron Sterile Services, and JCB Laboratories, LLC, or

collectively Fagron, an FDA-registered human drug outsourcing facility, under which Fagron is obligated to produce under Good Manufacturing Practice, or GMP, and to commercialize OMS103 in the U.S. Fagron has not met its performance diligence obligations under the OMS103 Agreement, including initiating sales, and we do not expect them to do so in the near term. We are currently evaluating our options regarding the OMS103 Agreement and our OMS103 program. For a more detailed description of this agreement, see “License and Development Agreements.”

OMS201-Urology. OMS201 is our PhamacoSurgery product candidate designed for use during urological procedures, including ureteroscopy for removal of ureteral or renal stones. OMS201 is a proprietary combination of ketoprofen, an anti-inflammatory API, and nifedipine, a smooth muscle relaxant API. Each API is contained in generic, FDA-approved drugs that have been marketed in the U.S. for more than 20 years and have well-known safety and pharmacologic profiles. Both of these APIs have been individually prescribed to manage the symptoms of ureteral and renal stones. In 2010, we completed a Phase 1/Phase 2 clinical trial in 24 patients designed to evaluate the safety and systemic absorption of two sequentially higher concentrations of OMS201 added to standard irrigation solution and delivered to patients undergoing ureteroscopy for removal of ureteral or renal stones. OMS201 was well tolerated in this study. The next step in our OMS201 program is to design a Phase 2 clinical program; however, the program is suspended given current availability of clinical development resources. We are evaluating alternative approaches to make OMS201 commercially available, such as through a registered outsourcing facility without the need to conduct any additional clinical trials.

Sales and Marketing

Overview. We have retained all worldwide marketing and distribution rights to OMIDRIA, our product candidates and our development programs, other than OMS103. This allows us the opportunity to market and sell independently OMIDRIA or, if approved, any of our product candidates, to make arrangements with third parties to perform these services for us, or both.

OMIDRIA. With respect to OMIDRIA, we have developed our own internal marketing and sales capabilities and, as of February 28, 2017, employ 45 sales and reimbursement team members who are focused on the U.S. market. We also use the services of Precision Lens under a commission-only arrangement to cover territories in the Midwest that are not covered by our in-house sales force. Because surgeons specializing in cataract surgery are a sub-specialty within ophthalmology, we believe that we can effectively access high-volume surgeons with our existing sales organization and the services of third-party sales agents such as Precision Lens in certain territories in the U.S.

In the EU, we plan to out-license OMIDRIA marketing and distribution rights to one or more third parties that have capabilities to promote to ophthalmologic surgeons, to facilitate distribution and reimbursement, and to manage pharmacovigilance and clinical support. For the EU OMIDRIA marketing authorization to remain valid, product must be placed on the market (*i.e.*, released into the distribution chain) in at least one EEA country by July 28, 2018. Outside of the U.S. and EU, we have the ITROM Agreement for certain countries in the Middle East and we are exploring additional potential regional partnerships to make OMIDRIA available to ophthalmologists. Other than the ITROM Agreement, we have not yet entered into any agreements with third parties to market OMIDRIA outside of the U.S. If we are unable to enter into one or more such agreements on terms acceptable to us, we would not expect to see sales of OMIDRIA in those territories.

OMS103. Our OMS103 Agreement with Fagron requires Fagron to meet performance diligence requirements including to bear all sales and marketing costs for U.S. sales. We have retained marketing and distribution rights for OMS103 outside of the U.S. Fagron has not performed its performance diligence obligations under the OMS103 Agreement, including initiating sales, and we do not expect it to do so in the near term. For a more detailed description of our agreement with Fagron and Fagron’s non-performance, see “License and Development Agreements.”

Manufacturing, Supply and Commercial Operations

OMIDRIA. We use third parties to produce, store and distribute OMIDRIA and currently do not own or operate manufacturing facilities. Our agreements with these third parties include confidentiality and intellectual property provisions to protect our proprietary rights related to OMIDRIA. We require manufacturers that produce APIs and finished drug products to operate in accordance with current Good Manufacturing Practices, or cGMPs, and all other applicable laws and regulations.

We have agreements with Hospira Worldwide, Inc., a wholly owned subsidiary of Pfizer, Inc., or Hospira, and with Patheon Manufacturing Services, LLC (successor-in-interest to DSM Pharmaceuticals, Inc.), or Patheon, to provide commercial supply of OMIDRIA. We are currently completing the process to have Hospira approved by the FDA as a

manufacturing site for Omidria. Until this process is complete, Hospira may not manufacture and supply Omidria. We expect that Omidria manufacturing will be approved for production at Hospira in mid-2017. Commercial manufacturing of Omidria under our agreement with Patheon, or the Patheon Agreement, ceased on December 31, 2015 in accordance with the terms of the Patheon Agreement with the exception of the final delivery of product as further described in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Contractual Obligations and Commitments." We anticipated this interruption in manufacturing and increased production of Omidria prior to the break in manufacturing. We believe that we will have sufficient supply to meet product needs until Omidria product production is recommenced.

Under the agreement with Hospira, or the Hospira Omidria Agreement, Hospira has agreed to manufacture and supply, and we have agreed to purchase, a minimum percentage of our requirements of Omidria for commercial sales and clinical supplies for the development of additional therapeutic indications in the U.S. In addition, Hospira has agreed to manufacture and supply a portion of our requirements of Omidria in the EU in an amount to be mutually agreed by the parties (not to exceed a maximum percentage of our EU requirements), with there being no minimum purchase and supply requirement in the EU if the parties do not reach agreement during such time period and the agreement is not amended thereafter. The Hospira Omidria Agreement has an initial term of five years from the date of first commercial sale of Omidria in the U.S. or in any country in the EU, and thereafter is renewed automatically for up to two additional one-year periods. The Hospira Omidria Agreement may be terminated prior to the end of its term upon the occurrence of certain specified events, including without limitation an uncured breach of the agreement or bankruptcy or dissolution of a party. Upon termination of the Hospira Omidria Agreement, except in the case of termination for an uncured breach by Hospira, we will be required to purchase all of Hospira's inventory of Omidria and, if applicable, all work-in-progress inventory and to reimburse Hospira for all supplies purchased or ordered based on firm purchase orders or our estimates of its requirements of Omidria.

We have used multiple suppliers for the APIs for Omidria in the past and we intend to leverage Hospira's sourcing of APIs in the future under the Hospira Omidria Agreement. Given the large amount of these APIs manufactured annually by these and other suppliers, and the quantities of these APIs we have on hand, we anticipate that we will be capable of addressing our commercial API supply needs for Omidria. We have not yet signed commercial agreements with suppliers for the supply of all of our anticipated commercial quantities of these APIs for Omidria, although we may elect to do so in the future.

In the U.S., we sell Omidria through a limited number of wholesalers that distribute the product to ASCs and hospitals. Title transfers upon delivery of Omidria to the wholesaler. We use a single third-party logistics provider to handle warehousing of our commercial supply of Omidria in the U.S. and to ship Omidria to our wholesalers. Our third-party logistics provider also performs certain support services on our behalf. Nearly all of our revenues for the fiscal year ended December 31, 2016 were generated from Omidria product sales in the U.S. Three of our major distributors - AmerisourceBergen Corporation, Cardinal Health, Inc., and McKesson Corporation - together with entities under their common control each accounted for 10% or more of our total revenue in 2016.

Product Candidates and OMS103. We have laboratories in-house for analytical method development, bioanalytical testing, formulation, stability testing and small-scale compounding of laboratory supplies of product candidates. We utilize contract manufacturers to produce sufficient quantities of product candidates for use in preclinical and clinical studies and to store and distribute our product candidates, and we currently do not own or operate manufacturing facilities for our product candidates. We require manufacturers that produce APIs and finished drug products for clinical use to operate 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 product candidates 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 have not yet entered into a commercial supply agreement for any of our product candidates, although we intend to do so prior to the applicable product candidate's commercial launch. Given the nature of the manufacturing processes of our product candidates, we anticipate that we will be capable of identifying contract manufacturers to produce these product candidates and of entering into agreements for the commercial supply of these drugs.

In connection with the OMS103 Agreement, we terminated our agreement with Hospira pursuant to which Hospira had agreed to manufacture and supply our commercial requirements of liquid OMS103. The OMS103 Agreement obligates Fagron to meet performance diligence requirements, including to bear all sales and marketing costs for U.S. sales of OMS103; however, Fagron has not performed its performance diligence obligations under the OMS103 Agreement. For a description of the OMS103 Agreement and Fagron's non-performance, see "License and Development Agreements."

License and Development Agreements

OMS103. In June 2015, we entered into the OMS103 Agreement under which Fagron is obligated to manufacture and commercialize OMS103. Pursuant to the OMS103 Agreement, we granted Fagron an exclusive, royalty-free license to the OMS103 intellectual property, manufacturing information and clinical data to produce, on a large-scale registered basis, and commercialize OMS103 in the United States. If OMS103 is commercialized under the terms of the OMS103 Agreement, we would be eligible to receive payments representing a substantial majority share of gross revenue from future OMS103 product sales within the United States, which revenue share will not be less than a minimum per unit amount. Additionally, we would be eligible to receive up to an aggregate total of \$10 million in potential payments upon the achievement of specific commercial milestones and as revenue-share enhancement on early sales. The OMS103 Agreement obligates Fagron to produce under GMP and to commercialize OMS103 in the U.S. Unless terminated earlier, the OMS103 Agreement will continue in effect until expiration of the last-to-expire of the patents in the licensed intellectual property or as otherwise provided under the terms of the OMS103 Agreement. Either party may terminate the OMS103 Agreement earlier if the other party materially breaches the OMS103 Agreement and does not cure the breach within a specified notice period or upon the other party's insolvency. Additionally, we may terminate the OMS103 Agreement earlier if Fagron does not meet its performance diligence requirements, in response to a negative action by a regulatory authority, or if Fagron opposes or challenges any of the licensed patents for OMS103.

Fagron has not met its performance diligence obligations under the OMS103 Agreement, including initiating sales, and we do not expect them to do so in the near term. We are evaluating our options regarding the OMS103 Agreement and our OMS103 program.

MASP Program. Under our exclusive license agreements with the University of Leicester and MRC, we have agreed to pay royalties to each of the University of Leicester and MRC that are a percentage of any proceeds we receive from the licensed MASP-2 technology during the terms of the agreements. Our exclusive license agreement with the University of Leicester, but not our agreement with the MRC, also applies to other MASPs. The continued maintenance of these agreements requires us to undertake development activities. We must pay low single-digit percentage 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, in the range of a low single-digit percentage to a low double-digit percentage, 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. We have agreed to expand the scope of research at the University of Leicester to MASP-3 and have continued the sponsorship of research at the University of Leicester on a year-by-year basis. If mutually agreed, we may sponsor additional research related to MASP-2 at MRC, and to MASP-2 and MASP-3 at the University of Leicester. 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.

In April 2010, we entered into an exclusive license agreement with Helion Biotech ApS, or Helion, pursuant to which we received a royalty-bearing, worldwide exclusive license to all of Helion's intellectual property rights related to MASP-2 antibodies, polypeptides and methods in the field of inhibition of mannan-binding lectin-mediated activation of the complement system for the prevention, treatment or diagnosis of any disease or condition. We are obligated to make remaining development and sales milestone payments to Helion of up to \$6.1 million upon the achievement of certain events, such as the filing of an IND with the FDA, initiation of Phase 2 and 3 clinical trials, receipt of marketing approval, and reaching specified sales milestones. We are obligated to pay Helion a low single-digit percentage royalty on net sales of a MASP-2 inhibitor product covered by the patents licensed under the agreement. The term of the agreement continues so long as there is a valid, subsisting and enforceable claim in any patents or patent applications covered by the agreement. The agreement may be terminated sooner by either party following a material breach of the agreement by the other party that has not been cured within 90 days.

OMS824. 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. Based on the amount of grant funding that

we received from SMRI, the maximum amount of royalties payable to SMRI is \$12.8 million and payment is required only from any net income, after all related expenses, that we receive from sales of a PDE10 product. The funding agreement and our obligation to pay a royalty to SMRI terminate when we have repaid such amount in the form of royalties.

PPAR γ . We acquired the patent applications and related intellectual property rights for our PPAR γ program in February 2009 from Roberto Ciccocioppo, Ph.D. of the Università di Camerino, Italy, pursuant to a patent assignment agreement. In February 2011, we amended the agreement to include all intellectual property rights, including patent applications, related to nutraceuticals that increase PPAR γ activity. Under the amended agreement, we have agreed to pay Dr. Ciccocioppo a low-single digit percentage royalty 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 the stage of development at which such rights are granted. We have also agreed to make total milestone payments of up to \$3.8 million 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 candidate 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.

PDE7. Under an agreement with Daiichi Sankyo, we hold an exclusive worldwide license to PDE7 inhibitors claimed in certain patents and pending patent applications owned by Daiichi Sankyo for use in the treatment of (1) movement disorders and other specified indications, (2) addiction and compulsive disorders and (3) all other diseases except those related to dermatologic conditions. Under the agreement, we agreed to make milestone payments to Daiichi Sankyo of up to an aggregate total of \$33.5 million upon the achievement of certain events in each of these three fields; however, if only one of the three indications is advanced through the milestones, the total milestone payments would be \$23.5 million. The milestone payment events include successful completion of preclinical toxicology studies; dosing of human subjects in Phase 1, 2 and 3 clinical trials; receipt of marketing approval of a PDE7 inhibitor product candidate; and reaching specified sales milestones. In addition, Daiichi Sankyo is entitled to receive from us a low single-digit percentage royalty of any net sales of a PDE7 inhibitor licensed under the agreement by us and/or our sublicensee(s) provided that, if the sales are made by a sublicensee, then the amount payable by us to Daiichi Sankyo is capped at an amount equal to a low double-digit percentage of all royalty and specified milestone payments received by us from the sublicensee.

The term of the agreement with Daiichi Sankyo continues so long as there is a valid, subsisting and enforceable claim in any patents covered by the agreement. The agreement may be terminated sooner by us, with or without cause, upon 90 days advance written notice or by either party following a material breach of the agreement by the other party that has not been cured within 90 days or immediately if the other party is insolvent or bankrupt. Daiichi Sankyo also has the right to terminate the agreement if we and our sublicensee(s) cease to conduct all research, development and/or commercialization activities for a PDE7 inhibitor covered by the agreement for a period of six consecutive months, in which case all rights held by us under Daiichi Sankyo's patents will revert to Daiichi Sankyo.

GPCR Platform Funding Agreements with Vulcan Inc. and the Life Sciences Discovery Fund. In October 2010, we entered into funding agreements for our GPCR program with Vulcan and LSDF. We received \$20.0 million and \$5.0 million, respectively, under the agreements with Vulcan and LSDF. Under these agreements, we have agreed to pay Vulcan and LSDF tiered percentages of the net proceeds, if any, that we derive from the GPCR program. The percentage rates of net proceeds payable to Vulcan and LSDF decrease as the cumulative net proceeds reach specified thresholds, and the blended percentage rate payable to Vulcan and LSDF in the aggregate is in the mid-teens with respect to the first approximately \$1.5 billion of cumulative net proceeds that we receive from our GPCR program. If we receive cumulative net proceeds in excess of approximately \$1.5 billion, the percentage rate payable to Vulcan and LSDF in the aggregate decreases to one percent. An acquirer of the assets in our GPCR program may be required, and an acquirer of our company would be required, to assume all of our payment and other obligations under our agreements with Vulcan and LSDF.

Under our agreement with Vulcan, we granted Vulcan a security interest in our personal property related to the GPCR program, other than intellectual property, which security interest is junior to any existing or future security interests granted

in connection with a financing transaction and which will be released automatically after Vulcan receives \$25.0 million under the agreement. We also agreed not to grant any liens on intellectual property related to the GPCR program without Vulcan's consent, subject to specified exceptions. These restrictions could limit our ability to pursue business opportunities involving the GPCR program or reduce the price for which a potential buyer would pay for the GPCR assets. If we default under our agreement with Vulcan, in certain circumstances Vulcan may, subject to the rights of any holders of senior security interests, take control of such pledged assets. If we are liquidated, Vulcan's right to receive any payments then due under our agreement would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation of our GPCR program assets.

The term of our agreement with Vulcan is 35 years, provided that the term will automatically extend until the cumulative net proceeds that we receive from the GPCR program are approximately \$1.5 billion. The term of our agreement with LSDF expires on the six-month anniversary following the last date that we deliver a report related to our incurrence of grant-funded expenses described in the agreement, provided that certain obligations will survive the expiration of the term. The term of our payment obligations to LSDF is the same as that under our agreement with Vulcan.

OMS616. On December 14, 2010, we entered into a license agreement with The Regents of the University of California, pursuant to which we received an exclusive license to a series of antifibrinolytic agents claimed in certain patents owned by The Regents of the University of California in exchange for our agreement to make royalty and development milestone payments.

Antibody Platform. We hold a worldwide exclusive license to patent rights related to our antibody platform from the University of Washington, or UW. Pursuant to the Xori APA, we acquired all of Xori's exclusive rights under a license agreement with the UW to certain patents and patent applications related to our antibody platform owned by the UW in exchange for our agreement to make royalty and development milestone payments to UW.

Competition

Overview. The pharmaceutical industry is highly competitive and characterized by a number of established, large pharmaceutical companies as well as smaller companies like ours. 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 our products;
- 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. Further, our competitors may render our technologies obsolete by advancing their existing technological approaches or developing new or different approaches. If we fail to stay at the forefront of technological change, we may be unable to compete effectively.

OMIDRIA. We are not aware of any FDA-approved products comprised of two or more APIs that directly compete with OMIDRIA that are approved for intraoperative delivery in irrigation solutions during surgical procedures; however, OMIDRIA could compete with single API products that are delivered intraoperatively as well as preoperative and postoperative treatments for mydriasis, pain or inflammation. Our primary competition for OMIDRIA comes from surgeons' current practices, which may include use of products obtained from distributors or compounding pharmacies at a relatively low cost. In addition, we anticipate that there are some surgeons who do not use intraoperative mydriatics and may not agree with the value proposition of maintaining pupil dilation and inhibiting miosis during the procedure or with the use of a nonsteroidal anti-inflammatory drug intraoperatively to reduce inflammation and postoperative pain. Although

we are not aware of any companies developing similar combination approaches for maintenance of intraoperative pupil size and postoperative pain reduction, such strategies may develop.

As described above, Par filed an ANDA containing a Paragraph IV Certification seeking approval to market a generic version of OMIDRIA prior to the expiration of the Orange Book Patents. An adverse outcome in our patent infringement lawsuit filed against Par following receipt of Par's Notice Letter regarding the Paragraph IV Certification could, among other things, result in a generic version of OMIDRIA being launched after the expiration of the mandatory three-year clinical data exclusivity for OMIDRIA, which could have a material negative impact on our financial condition and results of operations. In the future, other manufacturers may potentially file ANDAs seeking approval for the sale of generic versions of OMIDRIA before our relevant patents expire, or generic manufacturers may challenge one or more of the patents using U.S. Patent and Trademark Office procedures. For more information regarding the ANDA filed by Par and our patent infringement lawsuit against Par, see Part I, Item 3, "Legal Proceedings."

Product Candidates. Our clinical and preclinical product candidates may face competing products. With respect to our complement program, Soliris® is a monoclonal complement inhibitor administered intravenously and approved for commercial use that will compete with our lead MASP-2 inhibitor OMS721, and/or our MASP-3 inhibitor OMS906, if either is approved for any indication(s) for which Soliris® is also approved. We are also aware of two Soliris® biosimilar antibodies that are in development. Alexion, the manufacturer of Soliris®, has announced follow-on antibodies that are directed to the Soliris® target, but which will require less frequent dosing than Soliris® or that can be administered subcutaneously. With respect to our PDE10 inhibitor program, we are developing PDE10 inhibitors for use in the treatment of Huntington's disease, schizophrenia and other diseases that affect cognition. Other pharmaceutical companies, many with significantly greater resources than we have, are also developing, or may develop, PDE10 inhibitors for the treatment of Huntington's disease, schizophrenia and other diseases that affect cognition, and these companies may be further along in development. Recently, Pfizer announced negative results in a clinical trial of a PDE10 inhibitor for the treatment of Huntington's disease. Also, Pfizer has announced negative results from schizophrenia trials with a PDE10 inhibitor and Takeda Pharmaceuticals has announced that the primary endpoint was not met in a clinical trial of a different PDE10 inhibitor in a schizophrenia trial. In addition, we are aware of other companies attempting to de-orphanize orphan GPCRs. If any of these companies is able to de-orphanize an orphan GPCR before we do, we may be unable to establish an exclusive or commercially valuable intellectual property position around that orphan GPCR. We are not aware of any FDA-approved products comprised of two or more APIs that directly compete with any of our PharmacoSurgery product candidates that are approved for intraoperative delivery in irrigation solutions during surgical procedures; however, a product candidate could compete with single API products that are delivered intraoperatively as well as preoperative and postoperative treatments for inflammation and/or other conditions.

Intellectual Property

As of February 28, 2017, we owned or held worldwide exclusive licenses to a total of 63 issued patents and 73 pending patent applications in the U.S. and 492 issued patents and 313 pending patent applications in foreign markets directed to therapeutic compositions and methods related to our development programs. 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.

- *OMIDRIA-Ophthalmology.* OMIDRIA is encompassed by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio are directed to combinations of agents, generic and/or proprietary to us or to others, drawn from therapeutic classes such as pain and inflammation inhibitory agents, mydriatic agents and agents that reduce intraocular pressure, delivered locally and intraoperatively to the site of ophthalmological procedures, including cataract and lens replacement surgery. As of February 28, 2017, we owned six issued U.S. patents and four pending U.S. patent applications and 36 issued patents and 46 pending patent applications in foreign markets that are directed to OMIDRIA. Our OMIDRIA patents have terms that will expire as late as October 23, 2033 and, if currently pending patent applications are issued, as late as November 30, 2035.
- *MASP-2 Program - OMS721.* 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, MRC and Helion. As of February 28, 2017, we exclusively controlled 15 issued patents and 23 pending patent applications in the U.S., and 163 issued patents and 86 pending patent applications in foreign markets, related to our MASP-2 program.
- *MASP-3 Program - OMS906.* We own and exclusively control under a license from the University of Leicester all rights to methods of treating various disorders and diseases by inhibiting MASP-3. As of February 28, 2017,

we exclusively controlled four pending patent applications in the U.S. and 37 pending patent applications in foreign markets that are directed to these therapeutic methods.

- *PDE10 Program - OMS824*. As of February 28, 2017, we owned eight issued patents and six pending patent applications in the U.S., and 22 issued patents and 41 pending patent applications in foreign markets, that are directed to proprietary PDE10 inhibitors.
- *PPAR γ Program - OMS405*. As of February 28, 2017, we owned one issued patent and three pending patent applications in the U.S., and 25 issued patents and 19 pending patent applications in foreign markets, directed to our discoveries linking PPAR γ and addictive disorders.
- *PDE7 Program - OMS527*. As of February 28, 2017, we owned two issued patents and one pending patent application in the U.S., and 21 issued patents and 12 pending patent applications in foreign markets directed to our discoveries linking PDE7 to movement disorders, as well as one issued patent and two pending patent applications in the U.S., and seven issued patents and 23 pending patent applications in foreign markets directed to the link between PDE7 and addiction and compulsive disorders. Additionally, under a license from Daiichi Sankyo, we exclusively control rights to three issued U.S. patents and 57 issued and five pending patent applications in foreign markets that are directed to proprietary PDE7 inhibitors. For a more detailed description of our agreement with Daiichi Sankyo, see “License and Development Agreements.”
- *GPCR Platform*. As of February 28, 2017, we owned seven issued patents and 13 pending patent applications in the U.S., and 52 issued patents and four pending patent applications in foreign markets, which are directed to previously unknown links between specific molecular targets in the brain and a series of CNS disorders, to our cellular redistribution assay and to other research tools that are used in our GPCR program, and to orphan GPCRs and other GPCRs for which we have identified functionally interacting compounds using our cellular redistribution assay.
- *Plasmin Program - OMS616*. We hold worldwide exclusive licenses to a series of antifibrinolytic agents from The Regents of the University of California. As of February 28, 2017, we exclusively controlled three issued patents and two pending patent applications in the U.S. and 29 issued and 11 pending patent applications in foreign markets that are directed to these proprietary agents.
- *Antibody Platform*. As of February 28, 2017, we owned and/or held worldwide exclusive license rights from the UW to five issued patents and four pending patent applications in the U.S., and seven issued patents and 10 pending patent applications in foreign markets, directed to our antibody platform and antibodies generated using our platform.
- *OMS103-Arthroscopy*. OMS103 is encompassed by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio are directed to combinations of agents, generic and/or proprietary to us or to others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and vasoconstrictive agents, delivered locally and intraoperatively to the site of medical or surgical procedures, including arthroscopy. As of February 28, 2017, we owned three issued U.S. patents and four pending U.S. patent applications, together with 32 issued patents and 13 pending patent applications in foreign markets, that are directed to OMS103. Our OMS103 patents have terms that will expire as late as September 24, 2022 and, if currently pending patent applications are issued, as late as August 3, 2032.
- *OMS201-Urology*. OMS201 is encompassed by our PharmacoSurgery patent portfolio. The relevant patents and patent applications in this portfolio are directed to combinations of agents, generic and/or proprietary to us or to others, drawn from therapeutic classes such as pain and inflammation inhibitory agents and spasm inhibitory agents, delivered locally and intraoperatively to the site of medical or surgical procedures, including uroendoscopy. As of February 28, 2017, we owned one issued U.S. patent, two pending U.S. patent applications, and an additional 12 issued patents and one pending patent application in foreign markets, that are directed to OMS201. Our OMS201 patents have terms that will expire as late as July 16, 2029 and, if currently pending patent applications are issued, as late as March 17, 2026.

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 that 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 products and product candidates and the methods used to manufacture them, as well as on our ability to defend successfully these patents against third-party challenges. Our ability to protect our products and 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. In addition, we have granted a lien on substantially all of our assets, including intellectual property, to the administrative agent under the CRG Loan Agreement.

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 U.S., 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 U.S. is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the U.S. 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 control of all worldwide manufacturing, marketing and distribution rights for Omidria and each of our product candidates and programs (other than OMS103). Some of our products and product candidates and programs are based on inventions and other intellectual property rights that we acquired through assignments, exclusive licenses or acquisitions.

- *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 scientific 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 scientific co-founders have the right to repurchase the initial PharmacoSurgery intellectual property at its 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 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, MRC and Helion. We jointly own and hold worldwide exclusive license rights related to therapeutic applications for inhibiting MASP-3 from the University of Leicester. For more detailed descriptions of these licenses, see "License and Development Agreements."
- *PDE10 and PDE7 Programs.* We acquired our PDE10 and PDE7 programs and some of our related patents and other intellectual property rights as a result of our acquisition of nura, inc. We hold an exclusive license to certain PDE7 inhibitors claimed in patents and pending patent applications owned by Daiichi Sankyo for use in the treatment of movement, addiction and compulsive disorders as well as other specified indications. For a more detailed description of our agreement with Daiichi Sankyo, see "License and Development Agreements."
- *PPAR γ Program.* We acquired the patent applications and related intellectual property rights for our PPAR γ program in 2009 from Roberto Ciccocioppo, Ph.D., of the Università di Camerino, Italy, pursuant to a patent assignment agreement. For a more detailed description of this agreement, see "License and Development Agreements."
- *GPCR Platform.* We acquired our GPCR program and some of our related patents and other intellectual property rights as a result of our acquisition of nura, inc. In November of 2010 we acquired intellectual property rights related to an assay technology for our GPCR program from Patobios Limited for approximately \$10.8 million.
- *Plasmin Program.* We hold a worldwide exclusive license to patent rights related to certain antifibrinolytics from The Regents of the University of California. For a more detailed description of this agreement, see "License and Development Agreements."
- *Antibody Platform.* We hold a worldwide exclusive license to patent rights related to our antibody platform from the UW. For a more detailed description of this agreement, see "License and Development Agreements."

Government Regulation

Government authorities in the U.S., the EU and other countries extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution, marketing, and export and import of drug and biologic 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 warning letters, product recalls, product seizures, a delay in approving or refusal to approve

pending applications, civil and other monetary penalties, total or partial suspension of production or distribution, injunctions, and/or criminal prosecutions.

In the U.S., our products and product candidates are regulated by the FDA as drugs or biologics under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations and, in the case of biologics, also under the Public Health Service Act. In Europe, our products and product candidates are regulated by the EMA and national medicines regulators under the rules governing medicinal products in the EU as well as national regulations in individual countries. OMIDRIA has received marketing approval from the FDA and from the applicable regulatory authorities in the EU. Our product candidates are in various stages of testing and none of our product candidates, nor OMS103, has received marketing approval from the FDA or the applicable regulatory authorities in the EU.

The steps required before a product may be approved for marketing by the FDA or the applicable regulatory authorities typically include the following:

- formulation development and manufacturing process development;
- preclinical laboratory and animal testing;
- submission to the FDA of an IND for human clinical testing, which must become effective before human clinical trials may begin; and in Europe, a CTA is filed according to the country's local regulations;
- adequate and well-controlled human clinical trials to establish the efficacy and safety of the product for each indication for which approval is sought;
- adequate assessment of drug product stability to determine shelf life/expiry dating;
- in Europe, submission to the EMA or national regulatory authority of a marketing authorization application, or MAA, and in the U.S., submission to the FDA of a New Drug Application, or NDA, in the case of a drug product, or a BLA in the case of a biologic product;
- satisfactory completion of inspections of clinical sites at which clinical trials with the product were carried out and of the manufacturing facility or facilities at which the product is produced to assess compliance with current Good Clinical Practices, or cGCP, and cGMP; and
- FDA review and approval of an NDA or BLA, or review and approval of an MAA by the applicable regulatory authorities in the EU.

Manufacturing. Manufacturing of drug products for use in clinical trials must be conducted according to relevant national guidelines, for example, cGMP. Process and formulation development are undertaken to design suitable routes to manufacture the drug substance and the drug product for administration to animals or humans. Analytical development is undertaken to obtain methods to quantify the potency, purity and stability of the drug substance and drug product as well as to measure the amount of the drug substance and its metabolites in biological fluids, such as the blood.

Preclinical Tests. Preclinical tests include laboratory evaluations and animal studies to assess efficacy, toxicity and pharmacokinetics. The results of the preclinical tests, together with manufacturing information, analytical data, clinical development plan, and other available information are submitted as part of an IND or CTA.

The IND/CTA Process. An IND or CTA 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 that event, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before the clinical hold is lifted and clinical trials can proceed. Similarly, a CTA must be cleared by the local independent ethics committee and competent authority prior to conducting a clinical trial in the European country in which it was submitted. This process can take from two weeks to several months. There can be no assurance that submission of an IND or CTA will result in authorization to commence clinical trials. Once an IND or CTA is in effect, there are certain reporting requirements.

Clinical Trials. Clinical trials involve the administration of the investigational product to human subjects under the supervision of qualified personnel and must be conducted in accordance with local regulations and cGCP. Clinical trials are conducted under protocols detailing, for example, the parameters to be used in monitoring patient safety and the efficacy criteria, or endpoints, to be evaluated. Each trial must be reviewed and approved by an independent institutional review board or ethics committee for each clinical site at which the trial will be conducted 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 product to human subjects, who may or may not have the disease or condition for which the product is being developed, to evaluate the safety, dosage tolerance, pharmacodynamics and, if possible, to gain an early indication of the effectiveness of the product.

- Phase 2 usually involves trials in a limited patient population with the disease or condition for which the product is being developed to evaluate appropriate dosage, to identify possible adverse side effects and safety risks, and to evaluate preliminarily the effectiveness of the product for specific indications.
- Phase 3 clinical trials usually further evaluate and confirm effectiveness and test further for safety by administering the product in its final form in an expanded patient population.

We, our product development partners, institutional review boards or ethics committees, the FDA or other regulatory authorities 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 Application 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 or a BLA, as applicable, and to the EMA or national regulators in the form of an MAA, requesting approval to market the product for a specified indication. In the EU, an MAA may be submitted to the EMA for review and, if the EMA gives a positive opinion, the EC may grant a marketing authorization that is valid across the EU (centralized procedure). Alternatively, an MAA may be submitted to one or more national regulators in the EU according to one of several national or decentralized procedures. The type of submission in Europe depends on various factors and must be cleared by the appropriate authority prior to submission. For most of our product candidates, the centralized procedure will be either mandatory or available as an option.

If the regulatory authority determines that the application is not acceptable, it may refuse to accept the application for filing and review, outlining the deficiencies in the application and specifying additional information needed to file the application. Notwithstanding the submission of any requested additional testing or information, the regulatory authority ultimately may decide that the application does not satisfy the criteria for approval. Before approving an NDA or BLA, or an MAA, the FDA or the EMA, respectively, may inspect the clinical sites at which the Phase 3 study(ies) were conducted to assure that GCPs were followed and may inspect facility(ies) at which the product is manufactured to assure satisfactory compliance with cGMP. After approval, changes to the approved product such as adding new indications, manufacturing changes, or additional labeling claims will require submission of a supplemental application or, in some instances, a new application, for further review and approval. The testing and approval process requires substantial time, effort, and financial resources, and we cannot be sure that any future approval will be granted on a timely basis, if at all.

Some of our drug products may be eligible for submission to the FDA of NDAs 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 in addition to 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 products and product candidates, such as OMIDRIA and OMS103, as fixed-dose combination drugs under its Combination Drug Policy (21 CFR Section 300.50) because they are comprised of two or more active ingredients. In addition to demonstrating that the drug product is safe and effective, the FDA's Combination Drug Policy requires that we demonstrate that each active ingredient in a drug product contributes to the product's effectiveness. The EMA has a similar Guideline for fixed-dose combination products. Satisfaction of the U.S. or EU requirements for fixed-dose combination products may involve substantial time, effort, and financial resources, and we cannot be sure that work conducted to satisfy these requirements will be deemed acceptable by the applicable regulatory authority.

Some of our product candidates, such as those from our MASP-2, MASP-3 and Plasmin programs, are considered biologics because they are derived from natural sources as opposed to being chemically synthesized. The added complexity associated with manufacturing biologics may result in additional monitoring of the manufacturing process and product changes.

In addition, we, our suppliers, and our contract manufacturers are required to comply with extensive FDA and EMA requirements both before and after approval. For example, we must establish a pharmacovigilance system and are required to report adverse reactions and production problems, if any, to the regulatory authorities. We must also comply with certain requirements concerning advertising and promotion for our products. The regulatory authorities may impose specific obligations as a condition of the marketing authorization, such as additional safety monitoring, or the conduct of additional clinical trials or post-marketing safety studies. Also, quality control and manufacturing procedures must continue to conform to cGMPs after approval. Accordingly, manufacturers must continue to expend time, money, and effort in all areas of regulatory compliance, including production and quality control to comply with cGMPs. In addition, discovery of

problems such as safety issues may result in changes in labeling or restrictions on a product manufacturer or marketing authorization holder, including removal of the product from the market.

Fast Track and Priority Review Designations. Section 506(b) of the FDCA provides for the designation of a drug as a fast track product if it is intended, whether alone or in combination with one or more other drugs, for the treatment of a serious or life-threatening disease or condition, and it demonstrates the potential to address unmet medical needs for such a disease or condition. A program with fast track status is afforded greater access to the FDA for the purpose of expediting the product's development, review and potential approval. Many products that receive fast track designation are also considered appropriate to receive priority review, and their respective applications may be accepted by the FDA as a rolling submission in which portions of an NDA are reviewed before the complete application is submitted. Together, these may reduce time of development and FDA review time. In Europe, products that are considered to be of major public health interest are eligible for accelerated assessment, which shortens the review period substantially. The grant of fast track status, priority review or accelerated assessment does not alter the standard regulatory requirements for obtaining marketing approval, however.

Breakthrough Therapy Designation. In 2012, Congress enacted the Food and Drug Administration Safety and Innovation Act. This law established a new regulatory scheme allowing for expedited review of products designated as "breakthrough therapies." A product may be designated as a breakthrough therapy if it is intended, either alone or in combination with one or more other products, to treat a serious or life-threatening disease or condition and preliminary clinical evidence indicates that the product may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. The FDA may take certain actions with respect to breakthrough therapies, including holding meetings with the sponsor throughout the development process; providing timely advice to the product sponsor regarding development and approval; involving more senior staff in the review process; assigning a cross-disciplinary project lead for the review team; and taking other steps to design the clinical trials in an efficient manner. The EU has a similar program, referred to as PRIME, to that of the U.S., and it is administered through the EMA. This offers early and proactive support to medicine developers to optimize the generation of robust data on a medicine's benefits and risks and enable accelerated assessment of medicines applications.

Accelerated Approval. The FDA may grant accelerated approval to a product for a serious or life-threatening condition that provides meaningful therapeutic advantage to patients over existing treatments based upon a determination that the product has an effect on a surrogate endpoint that is reasonably likely to predict clinical benefit. The FDA may also grant accelerated approval for such a condition when the product has an effect on an intermediate clinical endpoint that can be measured earlier than an effect on irreversible morbidity or mortality and that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity, or prevalence of the condition and the availability or lack of alternative treatments. Products granted accelerated approval must meet the same statutory standards for safety and effectiveness as those granted traditional approval.

As a condition of accelerated approval, the FDA may require certain adequate and well-controlled post-marketing clinical studies to verify and describe clinical benefit of the product, and may impose restrictions on distribution to assure safe use. Post-marketing studies would usually be required to be studies already underway at the time of the accelerated approval. If the required post-marketing studies fail to verify the clinical benefit of the drug, or if the applicant fails to perform the required post-marketing studies with due diligence, the FDA may withdraw approval of the drug under streamlined procedures in accordance with the agency's regulations. The agency may also withdraw approval of a drug if, among other things, other evidence demonstrates that the drug product is not shown to be safe or effective under its conditions of use.

The EU also has accelerated approval programs. In the EU, a marketing authorization may be granted on the basis of less complete data than are normally required in certain "exceptional circumstances," such as when the product's indication is encountered so rarely that the applicant cannot reasonably be expected to provide comprehensive data. Alternatively, a conditional marketing authorization may be granted prior to obtaining the comprehensive clinical data required for a full MAA if a product fulfills an unmet medical need and the benefit to public health of the product's immediate availability outweighs the risk inherent in the incomplete data.

Orphan Drug Designation. Under the Orphan Drug Act, or ODA, the FDA may grant orphan drug designation to drugs or biologics intended to treat a rare disease or condition that affects fewer than 200,000 individuals in the U.S. or more than 200,000 individuals in the U.S. for which the cost of developing and making the product available in the U.S. for this type of disease or condition is not likely to be recovered from U.S. sales for that product. The granting of orphan designation does not alter the standard regulatory requirements and process for obtaining marketing approval. If a product that has an orphan drug designation subsequently receives the first FDA approval for the indication for which it has such

designation, the sponsor of the product qualifies for various development incentives specified in the ODA, including tax credits for qualified clinical testing. Furthermore, the product is entitled to an orphan drug exclusivity period, which means the FDA may not grant approval to any other application to market the same drug for the same indication for a period of seven years except in limited circumstances. The EU has a similar Orphan Drug program to that of the U.S., and it is administered through the EMA's Committee for Orphan Medicinal Products, or COMP.

Pediatric Testing and Exclusivity. In the United States, NDAs and BLAs are subject to both mandatory pediatric testing requirements and voluntary pediatric testing incentives in the form of exclusivity. An additional six months of exclusivity in the U.S. may be granted to a sponsor of an NDA or BLA if the sponsor conducts certain pediatric studies. This process is initiated by the FDA as a written request for pediatric studies to determine if the drug or biologic could have meaningful pediatric health benefits. If the FDA determines that the sponsor has conducted the requested pediatric studies in accordance with the written request, then an additional six months of exclusivity may attach in the case of a drug to any other regulatory exclusivity or patent protection applicable to the drug, and in the case of a biologic to any other regulatory exclusivity applicable to the biologic. The EU has a similar requirement and incentive for the conduct of pediatric studies according to the pediatric investigation plan, which must be adopted by the EMA before an MAA may be submitted.

Labeling, Marketing, and Promotion. The FDA closely regulates the labeling, marketing and promotion of drugs. Failure to comply with these requirements can result in adverse publicity, warning letters, corrective advertising, injunctions and potential civil and criminal penalties.

In addition, in the U.S. the research, manufacturing, distribution, sale and promotion of drug products are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including CMS, other divisions of the U.S. Department of Health and Human Services (*e.g.*, the Office of Inspector General), the U.S. Department of Justice, state Attorneys General, and other state and local government agencies. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws. Violations of these laws are punishable by prison sentences, criminal fines, administrative civil money penalties, and exclusion from participation in federal healthcare programs.

There are also an increasing number of state laws that require manufacturers to make reports to states on pricing and marketing information or impose other special requirements for the sale and marketing of drug products. Many of these laws contain ambiguities as to what is required to comply with the laws. In addition, federal and state "transparency laws" require manufacturers to track and report certain payments made to healthcare providers and, under some state laws, other information concerning our products. These laws may affect our sales, marketing and other promotional activities by imposing administrative and compliance burdens on us. In addition, our reporting actions could be subject to the penalty provisions of the pertinent state and federal authorities.

Compounding Pharmacies and Registered Outsourcing Facilities. Title I (the Compounding Quality Act) of the Drug Quality Security Act, or DQSA, which was enacted in November 2013, amends the FDCA to establish a distinct category of drug compounders known as "outsourcing facilities." A compounding pharmacy that elects to register with the FDA as an outsourcing facility is exempt from certain FDCA requirements, including the obligation to obtain FDA approval of an NDA, if the facility satisfies conditions set out in the statute. The DQSA also imposes restrictions on the materials that may be compounded at registered outsourcing facilities. Like "traditional" pharmacy compounders, such as those found in hospitals, outsourcing facilities may not compound drugs that are "essentially a copy of one or more approved drugs" or that present "demonstrable difficulties for compounding." The statute also imposes conditions on the compounding of bulk substances. The FDA has identified compounding as an enforcement priority in 2017, but it remains to be seen how the agency will interpret key provisions of the DQSA, such as the prohibition on compounding drugs that are "essentially a copy of one or more approved drugs," and to what extent the DQSA gives the agency sufficient authority to regulate compounding activities in violation of the FDCA.

Drug Supply Chain Security Act. Title II (the Drug Supply Chain Security Act, or DSCSA), of the DQSA imposes on manufacturers of certain pharmaceutical products new obligations related to product tracking and tracing, among others, which began a several-year phase-in process in 2015. Among the requirements of this legislation, manufacturers subject to the DSCSA will be required to provide certain information regarding the drug product to individuals and entities to which product ownership is transferred, label drug product with a product identifier and keep certain records regarding the drug product. The transfer of information to subsequent product owners by manufacturers will eventually be required to be done electronically. Covered manufacturers will also be required to verify that purchasers of the manufacturers' products are appropriately licensed. Further, under the DSCSA, covered manufacturers will have drug product investigation, quarantine, disposition, and notification responsibilities related to counterfeit, diverted, stolen, and intentionally adulterated products, as well as products that are the subject of fraudulent transactions or which are otherwise unfit for distribution such that they would be reasonably likely to result in serious health consequences or death.

Foreign Regulatory Requirements. Outside of the U.S., our ability to conduct clinical trials or market our products will also depend on receiving the requisite authorizations from the appropriate regulatory authorities. The foreign regulatory approval processes include similar requirements and many of the risks associated with the FDA and/or the EMA approval process described above, although the precise requirements may vary from country to country. In the EU, once an MAA is granted, the product must be “on the market” within three years of the date of authorization. “On the market” is defined as when the medicinal product is “released into the distribution chain,” *i.e.*, out of the direct control of the marketing-authorization holder, or MAH. Distribution is required in at least one of the EEA member countries within those three years. With respect to OMIDRIA, this requires releasing the product into the distribution chain in at least one EEA country by July 28, 2018. In addition, a marketing authorization will cease to be valid if a product previously placed on the market is no longer actually present on the market for three consecutive years.

Hatch-Waxman Act. In seeking approval for a drug through an NDA, applicants are required to list with the FDA each patent with claims that cover the applicant’s drug or an approved method of use of the drug. Upon approval of a drug, each of the patents listed in the application for the drug is then published in the FDA’s Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book. Drugs listed in the Orange Book can, in turn, be cited by potential competitors in support of approval of an ANDA or a 505(b)(2) application. An ANDA provides for marketing of a drug that has the same active ingredients and, in some cases (*e.g.*, ophthalmology), also the same inactive ingredients, in the same strengths and dosage form as the listed drug and has been shown through testing to be bioequivalent to the listed drug or receives a waiver from bioequivalence testing. ANDA applicants are generally not required to conduct or submit results of pre-clinical or clinical tests to prove the safety or effectiveness of their drug, other than the requirement for bioequivalence testing. Drugs approved in this way based on a showing of sameness and bioequivalence to the listed drug are considered therapeutically equivalent, and are commonly referred to as “generic equivalents” to the listed drug. These drugs then generally can be substituted by pharmacists under prescriptions written for the original listed drug.

The ANDA or 505(b)(2) applicant is required to certify to the FDA concerning any patents listed for the referenced approved drug in the FDA’s Orange Book. Specifically, the applicant must certify that: (i) the required patent information has not been filed; (ii) the listed patent has expired; (iii) the listed patent has not expired, but will expire on a particular date and approval is sought after patent expiration; or (iv) the listed patent is invalid or unenforceable, or will not be infringed by the new drug. A certification that the new drug will not infringe the already approved drug’s listed patents or that such patents are invalid or unenforceable is called a Paragraph IV certification. If the ANDA or 505(b)(2) applicant does not challenge the listed patents, the ANDA or 505(b)(2) application will not be approved until all of the listed patents claiming the referenced drug have expired, except for any listed patents that only apply to uses of the drug not being sought by the ANDA or 505(b)(2) applicant.

If the ANDA or 505(b)(2) applicant has made a Paragraph IV certification, the applicant must also send notice of a Paragraph IV Notice Letter to the NDA and patent holders once the ANDA or 505(b)(2) application has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement lawsuit in response to the notice of the Paragraph IV Notice Letter. The filing of a patent infringement lawsuit within 45 days of the receipt of notice of a Paragraph IV Notice Letter automatically prevents the FDA from approving the ANDA until the earlier of 30 months, expiration of the patent, settlement of the lawsuit, modification by a court or a decision in the infringement case that is favorable to the ANDA or 505(b)(2) applicant.

The ANDA or 505(b)(2) application also will not be approved until any applicable non-patent exclusivity, such as exclusivity for obtaining approval of a new chemical entity, listed in the Orange Book for the referenced drug has expired. The U.S. Drug Price Competition and Patent Term Restoration Act of 1984, more commonly known as the “Hatch-Waxman Act,” provides a period of five years following approval of a drug containing no previously approved active moiety, during which ANDAs for generic versions of those drugs and 505(b)(2) applications referencing those drugs cannot be submitted unless the submission contains a Paragraph IV challenge to a listed patent, in which case the submission may be made four years following the original drug approval. Federal law provides for a period of three years of exclusivity following approval of a listed drug that contains previously approved active ingredients but is approved in a new dosage form, route of administration or combination, or for a new use, the approval of which was required to be supported by new clinical trials, other than bioavailability studies, conducted by or for the sponsor, during which FDA cannot grant effective approval of an ANDA or 505(b)(2) application based on that listed drug.

As described above, Par has sent a Paragraph IV Notice Letter stating that it has filed an ANDA containing a Paragraph IV Certification under the Hatch-Waxman Act seeking approval from the FDA to market a generic version of OMIDRIA prior to the expiration of the Orange Book Patents. Following receipt of Par’s Notice Letter regarding the Paragraph IV Certification, in September 2015, we filed a patent infringement lawsuit against Par. For more information regarding the ANDA filed by Par and our patent infringement lawsuit against Par, see Part I, Item 3, “Legal Proceedings.”

Healthcare compliance laws. In the U.S., commercialization of OMIDRIA and our product candidates, if approved, is subject to regulation and enforcement under a number of federal and state healthcare compliance laws administered and enforced by agencies other than the FDA. These include the following:

- the federal Anti-Kickback Law, which prohibits offering or paying anything of value to a person or entity to induce the use of a good or service covered by a federal health care program such as Medicare or Medicaid;
- the federal False Claims Act, which prohibits presenting or causing to be presented a false claim for payment by a federal health care program, and which has been interpreted to include claims caused by improper drug-manufacturer product promotion or the payment of kickbacks;
- a variety of governmental pricing, price reporting, and rebate requirements, including those under Medicaid and the Veterans Health Care Act; and
- the so-called Sunshine Act and related provisions of the Affordable Care Act, which require that we report to the federal government information on financial payments that we make to physicians and certain healthcare institutions and also on drug samples that we distribute.

In addition to these federal law requirements, there are related state law requirements. Also, if we receive protected patient health information, we may be subject to federal or state privacy laws.

Similar requirements apply to our ex-U.S. operations. U.S. laws such as the Foreign Corrupt Practices Act prohibit the offering or payment of bribes or inducements to foreign public officials, including potentially physicians or other medical professionals who are employees of public health care entities. In addition, many countries have their own laws similar to the healthcare compliance laws that exist in the U.S.

Pharmaceutical Pricing and Reimbursement

Overview. In both U.S. and foreign markets, our ability to commercialize our products and product candidates successfully, and to attract commercialization partners for our products and product candidates, depends in significant part on the availability of adequate financial coverage and reimbursement from third-party or private payers including, in the U.S., managed care organizations and private health insurers as well as governmental payers such as the Medicare and Medicaid programs. Reimbursement by a third-party payer may depend on a number of factors, including the payer'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.

Reimbursement by government payers may depend on the same or similar factors as reimbursement by private third-party payers and also depends on complex regulations that may change with annual or more frequent rulemaking and other legislative activities.

Third-party private and governmental payers are increasingly challenging the prices charged for medicines and examining their cost effectiveness in addition to their safety and efficacy. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost effectiveness of our products or product candidates. Even with the availability of such studies, third-party private and/or governmental payers may not provide coverage and reimbursement for our products or product candidates, in whole or in part.

United States. Political, economic and regulatory influences are subjecting the healthcare industry in the U.S. to fundamental changes. There have been, and we expect there will continue to be, legislative and regulatory proposals to change the healthcare system in ways that could significantly affect our business. For example, in March 2010 President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act, or collectively the ACA, which is intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add transparency requirements for the healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. Other changes included aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, effective April 1, 2013, which, due to subsequent legislative amendments, will stay in effect through 2025 unless additional Congressional action is taken. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several providers, and increased the period

for the government to recover overpayments to providers from three to five years. More recently, President Trump and various members of Congress have expressed a desire repeal of all or portions of the ACA. In addition, other legislative changes have been proposed and adopted since the ACA was enacted. We anticipate that the U.S. Congress, state legislatures and the private sector will continue to consider and may adopt healthcare policies intended to curb rising healthcare costs. We are unable to predict what additional legislation, regulations or policies, if any, relating to the healthcare industry or coverage and reimbursement may be enacted in the future or what effect such legislation, regulations or policies would have on our business. Any cost-containment measures, including those listed above, or other healthcare system reforms that are adopted could have a material adverse effect on our business prospects and financial operations.

In October 2014 we were granted transitional pass-through reimbursement status by CMS for OMIDRIA, which became effective January 1, 2015. Pass-through status allows for separate payment for OMIDRIA under Medicare Part B as opposed to having OMIDRIA be included as part of the existing packaged payment for cataract surgery when performed in hospital outpatient departments and ASCs. We expect pass-through status to remain in effect until January 1, 2018. When the pass-through status was granted, CMS set the Medicare reimbursement rate for OMIDRIA under Medicare Part B at the product's wholesale acquisition cost, or WAC, of \$465 plus six percent (6%) per single-use vial for the second and third quarters of 2015 after which the rate is based on ASP plus six percent (6%). We are working through legislative and/or administrative means to continue to obtain separate or similar reimbursement for OMIDRIA on and after January 1, 2018; however, if, following the termination of pass-through status for OMIDRIA on December 31, 2017, the drug is packaged into the surgical facility payment, we may need to adjust our pricing accordingly and our revenue could be lower than if separate payment had continued. In addition, reimbursement from private payers may, or may not, reference our CMS reimbursement status in their coverage and payment decisions. Other payers often follow, but are not required to follow, the reimbursement methodology adopted by CMS.

Europe. Governments in the various member states of the EU influence or control the price of medicinal products in their countries through their pricing and reimbursement rules and control of national healthcare systems that fund a large part of the cost of those products to consumers. To obtain reimbursement or pricing approval, some of these countries may require the completion of clinical trials or pharmacoeconomic studies that assess the cost-effectiveness of a product candidate relative to currently available therapies or relative to a specified standard. The downward pressure on healthcare costs in general, particularly prescription medicines, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products.

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 programmatic 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 on 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 \$50.7 million, \$48.4 million and \$47.9 million in 2016, 2015 and 2014, respectively.

Employees

As of February 28, 2017, we had 154 full-time employees, 73 of whom are in research and development, 53 of whom are in sales and marketing and 28 of whom are in finance, legal, business development and administration. Our full-time employees include three with M.D.s and 22 with Ph.D.s., of whom two and 22, respectively, are in research and development. None of our employees is represented by a labor union, and we consider our employee relations to be good.

Executive Officers and Significant Employees

The following table provides information regarding our executive officers and significant employees as of March 16, 2017:

Name	Age	Position(s)
<i>Executive Officers:</i>		
Gregory A. Demopoulos, M.D.	58	President, Chief Executive Officer and Chairman of the Board of Directors
Michael A. Jacobsen	58	Vice President, Finance, Chief Accounting Officer and Treasurer
Marcia S. Kelbon, J.D., M.S.	57	Vice President, Patent, General Counsel and Secretary
<i>Significant Employees:</i>		
Leonard Blum	56	Chief Business and Commercial Officer
Christopher S. Bral, Ph.D.	51	Vice President, Nonclinical Development
Timothy M. Duffy	56	Vice President, Business Development
Kenneth M. Ferguson, Ph.D.	61	Vice President, Development and Chief Development Officer
George A. Gaitanaris, M.D., Ph.D.	60	Vice President, Science and Chief Scientific Officer
William J. Lambert, Ph.D.	58	Vice President, Chemistry, Manufacturing and Controls
Catherine A. Melfi, Ph.D.	58	Vice President, Regulatory Affairs and Quality Systems and Chief Regulatory Officer
Patricia Sandler	48	Vice President, Sales and Marketing
J. Steven Whitaker, M.D., J.D.	61	Vice President, Clinical Development and Chief Medical Officer

Gregory A. Demopoulos, M.D. founded our company and has served as our president, chief executive officer and chairman of the board of directors since June 1994. He also served as our chief financial officer and treasurer from January 2009 to October 2013 in an interim capacity, and served as our chief medical officer from June 1994 to March 2010. Prior to founding Omeros, Dr. Demopoulos completed his residency in orthopedic surgery at Stanford University and his fellowship training in hand and microvascular surgery at Duke University. Dr. Demopoulos currently serves on the board of trustees of the Smead Funds Trust, an open-end mutual fund company registered under the Investment Company Act of 1940. His non-profit service includes the Seattle Community Development Round Table and the Northwest NeuroNeighborhood board of directors. Dr. Demopoulos received his M.D. from the Stanford University School of Medicine and his B.S. from Stanford University. Dr. Demopoulos is the brother of Peter A. Demopoulos, M.D., a member of our board of directors.

Michael A. Jacobsen joined Omeros in September 2013 and has served as our vice president, finance, chief accounting officer and treasurer since October 2013. Prior to joining Omeros, Mr. Jacobsen served as vice president of finance of Sarepta Therapeutics, Inc. from September 2011 to May 2013 and as its chief accounting officer from September 2011 to December 2012. From April 2007 to August 2011, Mr. Jacobsen was vice president and chief accounting officer at ZymoGenetics, Inc. Prior to his service with ZymoGenetics, Mr. Jacobsen held various roles at ICOS Corporation, including senior director of finance and corporate controller. From April 1995 to October 2001, Mr. Jacobsen held vice president of finance or chief financial officer roles at three companies in the software, computer hardware and internet retailing industries, two of which were publicly traded. Mr. Jacobsen is a certified public accountant and received his bachelor's degree in accounting from Idaho State University.

Marcia S. Kelbon, J.D., M.S. has served as our vice president, patent and general counsel since October 2001 and as our secretary since September 2007. Prior to joining Omeros, 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.

Leonard M. Blum joined Omeros as our chief business and commercial officer in April 2016. Mr. Blum previously served as senior vice president, chief commercial officer from 2007 until March 2016 at Theravance, Inc., a publicly traded biopharmaceutical company, and its spin-off Theravance BioPharma. Prior to that, Mr. Blum founded and led the commercial functions at ICOS Corporation, a biotechnology company, ultimately as senior vice president, sales and marketing, from 2000 until the company's acquisition by Eli Lilly and Company in 2007. Mr. Blum began his career in the pharma industry at Merck & Co. Inc. where he spent 13 years in positions of increasing responsibility in marketing and

business unit leadership in the U.S. and Europe. Mr. Blum earned his A.B. in Economics at Princeton University and his M.B.A. at Stanford University's Graduate School of Business. Before beginning his career in the pharmaceutical industry, he served as an officer in the U.S. Army Special Forces.

Christopher S. Bral, Ph.D. joined Omeros as our vice president, nonclinical development in October 2015. From April 2014 to October 2015, Dr. Bral was the executive director, toxicology at Arrowhead Research Corporation. From June 2008 to April 2014, Dr. Bral served as director, drug safety evaluation at Vertex Pharmaceuticals. Prior to Vertex, Dr. Bral held various pre-clinical drug safety positions of increasing responsibility at Schering-Plough Research Institute including associate director, drug safety evaluation. Dr. Bral received his Ph.D. in biochemistry and biophysics from Texas A&M University and his B.S. in chemistry from John Carroll University, and has been board-certified in toxicology through the American Board of Toxicology since 2000.

Timothy M. Duffy has served as our vice president, business development since March 2010. From November 2008 to March 2010, Mr. Duffy served as the managing director of Pacific Crest Ventures, a life science consulting firm that he founded. From June 2004 through September 2008, Mr. Duffy served at MDRNA, Inc. (formerly Nastech Pharmaceutical Company, Inc.), a biotechnology company. At MDRNA, he held roles of increasing responsibility in marketing and business development, most recently as the chief business officer. Prior to MDRNA, Mr. Duffy served as vice president, business development at Prometheus Laboratories, Inc., a specialty pharmaceutical company, and as a customer marketing manager at The Procter & Gamble Company. Mr. Duffy received his B.S. from Loras College.

Kenneth M. Ferguson, Ph.D. has served as our vice president, development since November 2010 and as our chief development officer since October 2012. From August 2008 to November 2010, Dr. Ferguson served in various positions, including president, chief executive officer and executive director as well as a consultant, for VacTX International Inc., a biotechnology company. From 1990 to 2007, Dr. Ferguson served at ICOS Corporation. Prior to its acquisition in 2007 by Eli Lilly and Company, Dr. Ferguson served at ICOS as vice president, therapeutic development. He also served as chief operating officer, chief scientific officer and a member of the board of managers of Lilly ICOS LLC, the joint venture of Eli Lilly and ICOS that developed and marketed Cialis®. Following the acquisition of ICOS by Eli Lilly, he served as president of ICOS from January 2007 to December 2007, managing its integration into Eli Lilly. Before joining ICOS, Dr. Ferguson worked for Cold Spring Harbor Laboratory. He holds a Ph.D. in pharmacology from the University of Texas Health Science Center and a B.S. in biological sciences from Cornell University.

George A. Gaitanaris, M.D., Ph.D. has served as our vice president, science since August 2006 and as our chief scientific officer since January 2012. 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 and his M.D. from the Aristotelian University of Greece.

William J. Lambert, Ph.D. joined Omeros as our vice president, chemistry, manufacturing and controls in January 2015. From October 2011 to January 2015, Dr. Lambert headed the Innovative Drug Delivery Group of MedImmune, the global biologics research and development arm of AstraZeneca. From January 2006 to September 2011, Dr. Lambert served as senior vice president of pharmaceutical development at Pacira Pharmaceuticals. Prior to Pacira, Dr. Lambert directed drug delivery, product development and cGMP clinical supply groups at Eisai Inc. He has also held various pharmaceutical research positions at Pfizer Inc. and the Upjohn Company. Dr. Lambert received his Ph.D. in Pharmaceutics from the University of Utah and his B.S. in Pharmacy from the University of Rhode Island.

Catherine A. Melfi, Ph.D. has served as our vice president, regulatory affairs and quality systems since October 2012 and has served as our chief regulatory officer since April 2016. Dr. Melfi previously served from January 1996 to October 2012 at Eli Lilly and Company, where she held technical and leadership roles of increasing scope and responsibility, including as senior director and scientific director in Global Health Outcomes and Regulatory Affairs, respectively. Prior to joining Eli Lilly, Dr. Melfi held various faculty and research positions at Indiana University, including appointments in its Economics Department, in the School of Public and Environmental Affairs, and in the Indiana University School of Medicine. Dr. Melfi received her Ph.D. in Economics from the University of North Carolina - Chapel Hill and B.S. in Economics from John Carroll University.

Patricia Sandler joined Omeros in May 2014 as our national sales director and has served as our vice president, sales and marketing since November 2014. From October 2007 through September 2013, Ms. Sandler served in sales and marketing roles at Sunovion Pharmaceuticals, Inc., including leading a national allergy/asthma sales team from December 2010 to September 2013, managing the Lunesta brand as executive director for central nervous system product marketing

from June 2009 to December 2010 and serving as director of respiratory marketing from October 2007 to June 2009. From July 1998 to October 2007, Ms. Sandler served in marketing and sales roles at Johnson & Johnson including as product director of gastroenterology marketing. Prior to Johnson & Johnson, she held various sales positions at large pharmaceutical companies including SmithKline Beecham Pharmaceuticals and Pfizer Inc. Ms. Sandler received her B.S. in business administration from Bloomsburg University of Pennsylvania.

J. Steven Whitaker, M.D., J.D. has served as our vice president, clinical development and chief medical officer since March 2010. From May 2008 to March 2010, Dr. Whitaker served as the chief medical officer, vice president of clinical development at Allon Therapeutics, Inc., a biotechnology company focused on developing drugs for neurodegenerative diseases. From August 2007 to May 2008, he served as a medical consultant to Accelerator Corporation, a biotechnology-company investor and incubator. From May 1994 to May 2007, Dr. Whitaker served at ICOS Corporation, which was acquired by Eli Lilly and Company in 2007. At ICOS, he held roles of increasing responsibility in clinical research and medical affairs, most recently as divisional vice president, clinical research as well as medical director of the Cialis® global product team. Dr. Whitaker received his M.D. from the Indiana University School of Medicine, his J.D. from the University of Washington and his B.S. from Butler University.

Corporate Information

We were incorporated in 1994 as a Washington corporation. Our principal executive offices are located at 201 Elliott Avenue West, Seattle, Washington, 98119, and our telephone number is (206) 676-5000. Our website address is www.omeross.com. We make available, free of charge through our investor relations website at investor.omeross.com, our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, including exhibits to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our websites and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K. In addition, the public may read and copy any materials we file or furnish with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Moreover, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding reports that we file or furnish electronically with them at www.sec.gov.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below may have a material adverse effect on our business, prospects, financial condition or operating results. In addition, we may be adversely affected by risks that we currently deem immaterial or by other risks that are not currently known to us. You should carefully consider these risks before making an investment decision. 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 Annual Report on Form 10-K.

Risks Related to Our Products, Programs and Operations

Our ability to achieve profitability is dependent on the commercial success of OMIDRIA. To the extent OMIDRIA is not successful, our business, financial condition and results of operations may be materially adversely affected and the price of our common stock may decline.

OMIDRIA is our only product that has been approved by the FDA for commercial sale in the U.S. For the three and 12 months ended December 31, 2016, we recorded net sales of OMIDRIA of \$12.9 million and \$41.4 million, respectively. We have not generated revenue from sales of OMIDRIA to date that are sufficient to fund fully our operations and cannot provide assurance that we will generate sufficient revenue from OMIDRIA in the future to fund fully our operations. We will need to generate substantially more product revenue from OMIDRIA to achieve and sustain profitability. Our ability to generate significant revenue from OMIDRIA product sales depends on our ability to achieve increased market acceptance of, and to otherwise market and sell effectively, OMIDRIA, which may not occur for a number of reasons, including:

- a lack of acceptance by physicians, patients, government and private payers and other members of the healthcare community;
- our limited experience in marketing, selling and distributing OMIDRIA or any other product;
- our limited experience managing third-party commercial manufacturing of OMIDRIA or any other product as well as our limited experience managing and maintaining a commercial sales organization;

- pricing, reimbursement and coverage policies of government and private payers such as Medicare, Medicaid, the Department of Veterans Affairs, or VA, group purchasing organizations, insurance companies, health maintenance organizations and other plan administrators;
- the availability, relative price and efficacy of the product as compared to alternative treatment options or branded, compounded or generic competing products;
- an unknown safety risk;
- the failure to enter into and maintain acceptable partnering arrangements for marketing and distribution of OMIDRIA outside of the U.S.;
- changed or increased regulatory restrictions in the U.S., EU and other foreign territories; and
- a lack of adequate financial or other resources.

Our operating results are unpredictable and may fluctuate.

Our operating results are difficult to predict and will likely fluctuate from quarter to quarter and year to year. We believe that our quarterly and annual results of operations may be affected by a variety of factors, including:

- the level and timing of commercial sales of OMIDRIA as well as our product candidates, if and when approved or commercialized;
- the extent of coverage and reimbursement for OMIDRIA, including following the expiration of pass-through reimbursement effective January 1, 2018, and the amount of OMIDRIA chargebacks, rebates and product returns;
- the extent of any payments received from collaboration arrangements and development funding as well as the achievement of development and clinical milestones under collaboration and license agreements that we may enter into from time to time and that may vary significantly from quarter to quarter; and
- the timing, cost and level of investment in our research and development activities as well as expenditures we will or may incur to acquire or develop additional technologies, products and product candidates.

In addition, the number of procedures in which OMIDRIA or any of our product candidates, if commercialized, would be used may be significantly less than the total number of such procedures performed or total possible market size. These and other factors, including our limited history of product sales, may make it difficult for us to forecast and provide accurate guidance (including updates to prior guidance) related to our expected financial performance. If our operating results are below the expectations of securities analysts or investors, the trading price of our stock could decline.

We have incurred cumulative operating losses since inception. If we are unable to raise additional capital when needed, our commercial operations may be limited and we may be unable to complete the development and commercialization of our product candidates or to continue our other preclinical development programs.

Our operations have consumed substantial amounts of cash since our incorporation and, as of December 31, 2016, we had an accumulated deficit of approximately \$470 million. We expect to continue to spend substantial amounts to:

- continue OMIDRIA sales and marketing;
- continue research and development in our programs;
- make principal and interest payments under the CRG Loan Agreement;
- initiate and conduct clinical trials for our programs and product candidates; and
- commercialize and launch product candidates for which we may receive regulatory approval.

We expect to continue to incur additional losses until such time as we generate significant revenue from the sale of OMIDRIA, other commercial products and/or significant partnering revenues. We are unable to predict the extent of any future losses and cannot provide assurance that we will generate sufficient revenue from OMIDRIA in the future to fund fully our operations. To date we have not generated revenue from sales of OMIDRIA that is sufficient to fund fully our operations. If we are unable to generate sufficient revenue from the sale of OMIDRIA, other commercialized products and/or partnering arrangements, we may never become and remain profitable and will be required to raise additional capital to continue to fund our operations. We cannot be certain that additional capital will be available to us on acceptable terms, if at all, when required. Adverse developments to our financial condition or business, as well as disruptions in the global equity and credit markets, may limit our ability to access capital. If we do not raise additional capital when needed through one or more funding avenues, such as corporate partnering or debt or equity financings, 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 preclinical programs or other research and development initiatives. In addition, we may be required to seek collaborators for one or more of our current or future products at an earlier stage than otherwise would be desirable or on terms that are less favorable than otherwise might

be available or to relinquish or license on unfavorable terms our rights to technologies or products that we otherwise would seek to develop or commercialize ourselves. We also may have insufficient funds or otherwise be unable to advance our preclinical programs, such as potential new drug targets developed from our GPCR program, to a point where they can generate revenue through partnerships, collaborations or other arrangements. Any of these actions could limit the amount of revenue we are able to generate and harm our business and prospects.

Using a newly adopted accounting standard, our management has concluded that a substantial doubt is deemed to exist concerning our ability to continue as a going concern.

As of December 31, 2016, we adopted the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification Topic 205-40, Presentation of Financial Statements - Going Concern, or ASC 205-40, which requires management to assess our ability to continue as a going concern for one year after the date the financial statements are issued. Under ASC 205-40, management has the responsibility to evaluate whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations as they become due within one year after the date that the financial statements are issued. This standard requires that management's evaluation initially shall not take into consideration the potential mitigating effects of management's plans that have not been fully implemented as of the date the financial statements are issued. As further discussed in "Note 1-Organization and Basis of Presentation-Going Concern" to our Consolidated Financial Statements in this Annual Report on Form 10-K, substantial doubt is deemed to exist about the company's ability to continue as a going concern through March 16, 2018. Our financial statements do not include any adjustment relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our ability to continue as a going concern will require us to generate positive cash flow from operations, obtain additional financing, enter into strategic alliances and/or sell assets. The reaction of investors to the inclusion of a going concern statement in this Annual Report on Form 10-K, our current lack of cash resources and our potential inability to continue as a going concern may materially adversely affect our share price and our ability to raise new capital, enter into strategic alliances and/or make our scheduled debt payments on a timely basis or at all. If we become unable to continue as a going concern, we may have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements.

If OMIDRIA or any other product that we develop and commercialize does not receive adequate reimbursement from governments or private payers, or if we do not establish and maintain market-acceptable pricing for OMIDRIA or those potential other commercialized products, our prospects for revenue and profitability could suffer.

Our revenues and profitability will depend heavily on the pricing, availability and duration of adequate reimbursement for the use of products that we or our third-party business partners commercialize, including OMIDRIA, from government, private and other third-party payers, both in the U.S. and in other countries. OMIDRIA or any other product that we bring to market may not be considered cost-effective and/or the amount reimbursed for any product may be insufficient to allow us to sell the product profitably. Obtaining reimbursement for any product from each government or third-party payer can be a time-consuming and costly process that may require the build-out of a sufficient staff or the engagement of third parties and could require us to provide additional supporting scientific, clinical and cost-effectiveness data for the use of our approved products to each payer. We can provide no assurances at this time regarding the cost-effectiveness of OMIDRIA, OMS103 or any of our product candidates. Further, we can provide no assurance that the amounts, if any, reimbursed to surgical facilities for utilization of any of our surgery-related products, including OMIDRIA, our OMS103 product candidate or any of our other product candidates, or to surgeons for the administration and delivery of these products or product candidates will be considered adequate to justify the use of these products or product candidates. In addition, obtaining acceptable coverage and reimbursement from one payer does not guarantee that we will obtain similar acceptable coverage or reimbursement from another payer.

There may be significant delays in obtaining reimbursement for newly approved products, and we may not be able to provide data sufficient to be granted reimbursement. Even when a payer determines that a product is eligible for reimbursement, coverage may be limited to the uses of a product that are either approved by the FDA (or, in other countries, the relevant country's regulatory agency) and/or appear in a recognized drug compendium, and other conditions may apply. Moreover, eligibility for coverage does not mean that any product 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, sales and distribution. Increasingly, government and private third-party payers that reimburse for healthcare services and products are requiring that companies provide them with predetermined discounts from list prices and challenging the prices charged for medical products, which could adversely impact the pricing of our products. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payers. Pricing may also be adversely affected by changes in the terms, scope and/or complexity of government pricing requirements. Even if we achieve reimbursement for a product, the initial rate or method at which the product will be reimbursed could become unfavorable to us at the time reimbursement is initiated or in the future or may be of a limited duration. After the expiration of pass-through reimbursement status for

OMIDRIA effective January 1, 2018, we may not be able to maintain or obtain adequate reimbursement for OMIDRIA. In the event that separate or similar reimbursement is not obtained for OMIDRIA after that date, we expect that OMIDRIA will be included as part of the packaged payment. If that occurs, we expect that the per unit price we receive for OMIDRIA would be reduced, possibly substantially, and our OMIDRIA revenue may be reduced. Further, OMIDRIA end user customers may defer purchases of OMIDRIA during a period of reimbursement price uncertainty, which could adversely affect our revenues during that period. An extension or separate reimbursement for OMIDRIA requires action from legislative and/or administrative authorities and, as a consequence, we cannot guarantee that any such action will be taken before or after January 1, 2018.

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 EU, our products may be subject to government price controls. Pricing negotiations with governmental authorities can take a considerable amount of time and expenditure of resources after the receipt of marketing approval for a product. We provide no assurances that the price of any product in one or more of these countries or regions will allow us to make a profit or cover our costs, including research, development, manufacturing, sales and distribution, and as a result we may decide to delay, potentially indefinitely, initiating sales in the particular country or region.

If the reimbursement or pricing that we are able to obtain and maintain for any product that we develop and commercialize, including OMIDRIA, is inadequate, is significantly delayed or is subject to overly restrictive conditions, our ability to generate revenue, attain profitability and/or commercialize our product candidates may be impaired and there could be a material adverse effect on our business, financial condition, results of operations and growth prospects.

We are subject to extensive government regulation and the failure to comply with these regulations may have a material adverse effect on our operations and business.

Both before and after approval of any product, we and our suppliers, contract manufacturers and clinical investigators are subject to extensive regulation by governmental authorities in the U.S. and other countries, covering, among other things, testing, manufacturing, quality control, clinical trials, post-marketing studies, labeling, advertising, promotion, distribution, import and export, governmental pricing, price reporting and rebate requirements. Failure to comply with applicable requirements could result in one or more of the following actions: warning letters; unanticipated expenditures; delays in approval or refusal to approve a product candidate; product recall or seizure; interruption of manufacturing or clinical trials; operating or marketing restrictions; injunctions; criminal prosecution and civil or criminal penalties including fines and other monetary penalties; adverse publicity; and disruptions to our business. Further, government investigations into potential violations of these laws would require us to expend considerable resources and face adverse publicity and the potential disruption of our business even if we are ultimately found not to have committed a violation.

Obtaining FDA approval of our product candidates 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 any of our product candidates on a timely basis, if at all. Even if we discuss with, and obtain feedback from, the FDA regarding our proposed clinical trials and nonclinical studies before initiating those trials or studies, the FDA may decide that the design of our clinical trials as actually run or our resulting data are insufficient for approval of our product candidates and require additional preclinical, clinical or other studies or additional work related to chemistry, manufacturing and controls. In addition, we, the FDA or an independent institutional review board or ethics committee may suspend or terminate human clinical trials at any time on various grounds, including a finding that the patients are or would be exposed to an unacceptable health risk or because of the way in which the investigators on which we rely carry out the trials. If we are required to conduct additional trials or to conduct other testing of our product candidates beyond that which we currently contemplate for regulatory approval, if we are unable to complete successfully 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 face substantial additional expenses, be delayed in obtaining marketing approval for our product candidates or may never obtain marketing approval.

We are also required to comply with extensive governmental regulatory requirements after a product has received marketing authorization. Governing regulatory authorities may require post-marketing studies that may negatively impact the commercial viability of a product. Once on the market, a product may become associated with previously undetected adverse effects and/or may develop manufacturing difficulties. We are required to comply with other post-marketing requirements including GMPs, advertising and promotion restrictions, reporting and recordkeeping obligations and other requirements. As a result of any of these or other problems, a product's regulatory approval could be withdrawn, which could harm our business and operating results. In addition, we must establish and maintain an effective healthcare compliance program in order to comply with U.S. and other laws applicable to marketed drug products and, in particular, laws (such as the Anti-Kickback Statute, the False Claims Act and the Sunshine Act) applicable when drug products are purchased or reimbursed by a federal healthcare program. U.S. laws such as the Foreign Corrupt Practices Act prohibit the offering or payment of bribes or inducements to foreign public officials, including potentially physicians or other medical professionals who are employees of

public health care entities. In addition, many countries have their own laws similar to the healthcare compliance laws that exist in the U.S. Implementing and maintaining an effective compliance program requires the expenditure of significant time and resources. If we are found to be in violation of any of these laws, we may be subject to significant penalties, including but not limited to civil or criminal penalties, damages and fines as well as exclusion from government healthcare programs.

We may face difficulties from changes to current regulations as well as future legislation.

Existing regulatory policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability.

There is uncertainty with respect to the impact that health care reform legislation may have on coverage and reimbursement for healthcare items and services covered by plans that are authorized by the ACA. In this regard, President Trump and various members of Congress have expressed a desire to repeal all or portions of the ACA, and President Trump has also made statements about controlling drug prices. We cannot predict the ultimate content, timing or effect of any healthcare reform legislation or the impact that such legislation may have on us.

We expect that the ACA, if it remains in effect, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved product. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payers. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate sufficient revenue, attain and/or maintain profitability or commercialize our product candidates. We cannot be sure whether additional legislative changes will be enacted, or whether FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on OMIDRIA or the marketing approvals of our product candidates, if any, may be.

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

We intend to have OMIDRIA and our product candidates, if approved, marketed outside the U.S. In order to market our products in non-U.S. jurisdictions, we or our partners must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. The regulatory approval procedure varies among countries and can involve additional testing and data review. The requirements governing marketing authorization, the conduct of clinical trials, pricing and reimbursement vary from country to country. Approval by the FDA or the EMA does not ensure approval by regulatory agencies in other jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory agencies in other foreign countries or by the FDA. The time required to obtain regulatory approval outside the U.S. and EU may differ from that required to obtain FDA or EMA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval discussed in these “Risk Factors” and we may not obtain foreign regulatory approvals on a timely basis, or at all. In addition, even if we were able to obtain regulatory approval for a product in one or more foreign jurisdictions, we may need to complete additional requirements to maintain that approval and our ability to market the product in the applicable jurisdiction. For example, OMIDRIA must be placed on the market (*i.e.*, released into the distribution chain) in at least one EEA country by July 28, 2018 in order for our EU marketing authorization for OMIDRIA to remain valid.

If OMIDRIA and/or our product candidates, if approved, are marketed outside of the United States, a variety of risks associated with international operations could materially adversely affect our business.

We may be subject to additional risks if OMIDRIA and/or our product candidates, if approved, are marketed outside the U.S., including:

- reduced protection for intellectual property rights;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country; and
- business interruptions resulting from geopolitical actions, including war and terrorism or natural disasters including earthquakes, typhoons, floods and fires.

We have no internal capacity to manufacture clinical or commercial supplies of OMIDRIA or our product candidates and intend to rely solely on third-party manufacturers. If the contract manufacturers that we rely on experience difficulties manufacturing OMIDRIA or our product candidates or fail FDA or other regulatory inspections, our clinical trials, regulatory submissions and ability to sell OMIDRIA or any other commercialized product and generate revenue may be significantly limited or delayed.

We rely and intend to continue to rely on third party manufacturers to produce commercial quantities of OMIDRIA and clinical drug supplies of our product candidates that are needed for clinical trials. We cannot provide any assurance that we will be able to enter into or maintain these types of arrangements on commercially reasonable terms, or at all. If we or the manufacturer were to terminate one of these arrangements early, or the manufacturer was unable to supply product quantities sufficient to meet our requirements, we would be required to transfer the manufacturing to an approved alternative facility and/or establish additional manufacturing and supply arrangements. We may also need to establish additional or replacement manufacturers, potentially with little or no notice, in the event that one of our manufacturers fails to comply with FDA and/or other pharmaceutical manufacturing regulatory requirements. 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 may create a shortage of the product. Such alternate supply arrangements may not be available on commercially reasonable terms, or at all. Additionally, if we are unable to engage multiple suppliers to manufacture our products, we may have inadequate supply to meet the demand of our product.

Our contract manufacturers may encounter difficulties with formulation and manufacturing processes that could result in delays in clinical trials and/or regulatory submissions or that could impact adversely the commercialization of our products or product candidates, as well as in the initiation of enforcement actions by the FDA and other regulatory authorities. These difficulties also could result in the recall or withdrawal of a product from the market or a failure to have adequate supplies to meet market demand. If the safety of OMIDRIA or any product candidate supplied by contract manufacturers is compromised due to one or more of those contract manufacturers' failure to adhere to applicable laws or for other reasons, we may not be able to maintain regulatory approval of OMIDRIA, to continue sales and marketing of OMIDRIA or to obtain and maintain regulatory approval for one or more of our product candidates, which would harm our business and prospects significantly.

In addition, any product candidate from our MASP-2, MASP-3 or Plasmin programs could be a biologic drug product, and we do not have the internal capability to produce biologics for use in clinical trials or on a commercial scale. There are only a limited number of manufacturers of biologic drug products and we cannot be certain that we can enter into supply agreements with a sufficient number of them on commercially reasonable terms, if at all. Any significant delays in the manufacture of clinical or commercial supplies could materially harm our business, financial condition, results of operations and prospects.

Manufacturing under our existing OMIDRIA manufacturing agreement with Patheon ceased at the end of 2015. Approval of Hospira as a manufacturing site has not been completed. We do not presently have an alternate manufacturing facility for OMIDRIA in operation and we do not expect that any OMIDRIA manufacturing facility will be approved for production before mid-2017 at the earliest. We anticipated this transition and increased production of OMIDRIA prior to the break in manufacturing, and believe that we will have sufficient supply to meet product needs until OMIDRIA production is recommenced. However, we can provide no assurances if or when the Hospira manufacturing facility or any alternate manufacturing facility for OMIDRIA will be in production or whether we can meet market demand for OMIDRIA if demand is greater than we anticipate. Additionally, damage to or destruction of OMIDRIA inventory, including inventory warehoused at our third-party logistics provider, could also adversely affect our ability to meet market demand. We have obtained insurance coverage for the replacement cost of damaged or destroyed OMIDRIA inventory but such coverage would not compensate us for any resulting loss of sales revenue or a reduction in gross margin.

Ingredients, excipients and other materials necessary to manufacture OMIDRIA or our product candidates may not be available on commercially reasonable terms, or at all, which may adversely affect the development and commercialization of OMIDRIA or those product candidates.

We and our third-party manufacturers must obtain from third-party suppliers the active pharmaceutical ingredients, excipients, and/or other raw materials plus primary and secondary packaging materials necessary for our contract manufacturers to produce OMIDRIA and our product candidates for our clinical trials and, to the extent approved or commercialized, for commercial distribution. Although we have entered or intend to enter into agreements with third-party suppliers that will guarantee the availability and timely delivery of active pharmaceutical ingredients, excipients and materials for OMIDRIA and our product candidates, we have not yet entered into agreements for the supply of all such ingredients, excipients or materials, and we may be unable to secure all such supply agreements or guarantees on commercially reasonable terms, if at all. Even if we were able to secure such agreements or guarantees, our suppliers may be unable or choose not to provide us the ingredients, excipients or materials in a timely manner or in the quantities required. If we or our third-party manufacturers are unable to obtain the quantities of these ingredients, excipients or materials that are necessary for the

manufacture of commercial supplies of Omidria, our ability to generate revenue from the sale of Omidria would be materially and adversely affected. Further, if we or our third-party manufacturers are unable to obtain active pharmaceutical ingredients, excipients and materials as necessary for our clinical trials or for the manufacture of commercial supplies of our product candidates, if approved, potential regulatory approval or commercialization would be delayed, which would materially and adversely affect our ability to generate revenue from the sale of our product candidates.

If our clinical trials are delayed, suspended or terminated, we may be unable to develop our product candidates on a timely basis, which would adversely affect our ability to obtain regulatory approvals, increase our development costs and delay or prevent commercialization of approved products.

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 ethics committees, 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, the EMA or other foreign authorities regarding the scope or design of our clinical trials;
- delays or the inability to obtain required approvals from institutional review boards, ethics committees or other responsible entities at clinical sites selected for participation in our clinical trials;
- delays in enrolling patients into clinical trials for any reason including disease severity, trial protocol design, study eligibility criteria, patient population size (*e.g.*, for orphan diseases or for some pediatric indications), proximity and/or availability of clinical trial sites for prospective patients, availability of competing therapies and clinical trials, regional differences in diagnosis and treatment, perceived risks and benefits of the product or product candidate, physician patient referral practices or the ability to monitor patients adequately before and after treatment;
- lower than anticipated retention rates of patients in clinical trials;
- the need to repeat or conduct additional clinical trials as a result of inconclusive or negative results, failure to replicate positive early clinical data in subsequent clinical trials, failure to deliver an efficacious dose of a product candidate, poorly executed testing, a failure of a clinical site to adhere to the clinical protocol, an unacceptable study design or other problems;
- adverse findings in clinical or nonclinical studies related to the safety of our product candidates in humans;
- 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 inspection or review by the FDA or other regulatory authority of a clinical trial site or records of any clinical investigation;
- the occurrence of unacceptable drug-related side effects or adverse events experienced by participants in our clinical trials;
- the suspension by a regulatory agency of a trial put on a clinical hold; and
- the amendment of clinical trial protocols to reflect changes in regulatory requirements and guidance or other reasons as well as subsequent re-examination of amendments of clinical trial protocols by institutional review boards or ethics committees.

In addition, a clinical trial or development program may be suspended or terminated by us, the FDA or other regulatory authorities, or institutional review boards or ethics committees 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;
- the failure to remove a clinical hold in a timely manner (which we cannot predict with certainty), if at all;
- unforeseen safety issues or any determination that a trial presents unacceptable health risks;
- inability to deliver an efficacious dose of a product candidate; or
- lack of adequate funding to continue the clinical trial or development program, 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.

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. 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. Any delays in completing our clinical trials could increase our development costs, could slow down our product development and regulatory submission process, could

delay our receipt of product revenue and could make it difficult to raise additional capital. 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, potentially harming our business.

Because we have a number of product candidates and development programs, we may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications for which there is a greater likelihood of obtaining regulatory approval and that may be more profitable, if approved.

We have limited resources and must focus on the product candidates and clinical and preclinical development programs that we believe are the most promising. As a result, we may forego or delay the pursuit of opportunities with other product candidates or other indications that later prove to have greater commercial potential and may not be able to progress development programs as rapidly as otherwise possible. 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 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.

Our preclinical programs may not produce product candidates that are suitable for clinical trials, our product candidates may not successfully complete clinical development and/or our product candidates may not be suitable for successful commercialization or generation of revenue through partnerships.

We must complete successfully preclinical testing, which may include demonstrating efficacy and the lack of toxicity in established animal models, before commencing clinical trials for any product candidate. Many pharmaceutical and biological product candidates do not successfully complete preclinical testing. There can be no assurance that positive results from preclinical studies will be predictive of results obtained from subsequent preclinical studies or clinical trials. Even if preclinical testing is successfully completed, we cannot be certain that any product candidates that do advance into clinical trials 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.

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 products and product candidates, the methods used to manufacture them, the related therapeutic targets and associated methods of treatment as well as on successfully defending these patents against potential third-party challenges. Our ability to protect our products and 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. Changes in either the patent laws or in interpretations of patent laws in the U.S. 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. The ultimate determination by the USPTO or by a court or other trier of fact in the U.S., 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 affect 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, in our licensed patents or patent applications or in third-party patents.

We cannot provide assurances that any of our patent applications will be found to be patentable, including over our own prior art patents, or will issue as patents. Neither can we make assurances as to the scope of any claims that may issue from our pending and future patent applications nor to 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 U.S. or foreign jurisdictions. Any such challenge, if successful, could limit patent protection for our products and product candidates and/or 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 may not be able to generate sufficient data to support full patent applications that protect the entire breadth of developments in one or more of our programs, including our GPCR program;

- it is possible that one or more of our pending patent applications will not become an issued patent or, if issued, that the patent(s) will be sufficient to protect our technology, provide us with a basis for commercially viable products or provide us with any competitive advantages;
- if our pending applications issue as patents, they may be challenged by third parties as not infringed, invalid or unenforceable under U.S. or foreign laws; or
- if issued, the patents under which we hold rights may not be valid or enforceable.

In addition, to the extent that we are unable to obtain and maintain patent protection for one of our products or product candidates or in the event that such patent protection expires, it may no longer be cost-effective to extend our portfolio by pursuing additional development of a product or 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 advisers 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 U.S. 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. In addition, our lawsuit against such an entity could result in a finding that some or all of the claims of one or more of our relevant patents are invalid, unenforceable and/or not infringed, and could also result in a generic version of OMIDRIA being launched after the expiration of the mandatory three-year clinical data exclusivity for OMIDRIA. 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 our patents. An adverse outcome in such legal action could have a material negative effect on our financial condition, results of operations and/or stock price. See "Legal Proceedings" under Item 3 of Part I of this Annual Report on Form 10-K for further discussion of our lawsuit against Par.

It may not be feasible to detect and undertake patent enforcement action to stop infringing activity by a number of individual entities, each on a small scale, such as compounding pharmacies. Further, our industry has produced a large number of patents and it is not always clear which patents cover various types of products or methods of use. 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 products and 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 contractors to stop the activities covered by the patents. In addition, if we or our contract manufacturers are found to have violated a third party's patent, we or our contract manufacturers could be ordered to pay damages to the other party. We have agreed to or may agree to indemnify our contract manufacturers against certain patent infringement claims and thus may be responsible for any of their costs associated with such claims and actions. If we were sued for patent infringement, we would need to demonstrate that our products and product candidates or methods of use either do not infringe the patent claims of the relevant patent or that the patent claims are invalid, and we might be unable 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 programs, we have not obtained written freedom to operate opinions for our programs and may not have identified all relevant third-party patents. Consequently, we cannot be certain that third-party patents containing claims covering our products, product candidates, programs, technologies or methods do not exist, have not been filed, or could not be filed or issued.

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.

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.

We have borrowed \$80.0 million under the CRG Loan Agreement and pledged substantially all of our assets, including intellectual property, as collateral. The CRG Loan Agreement restricts our ability to, among other things, incur indebtedness, grant liens, dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, pay cash dividends or make distributions, repurchase stock, license certain of our intellectual property on an exclusive basis and engage in significant business transactions such as a change of control. Any of these restrictions could significantly limit our operating and financial flexibility and ability to respond to changes in our business or competitive activities. The CRG Loan Agreement requires us to achieve either (a) certain minimum net revenue amounts from OMIDRIA through the end of 2021, which are \$55.0 million and \$65.0 million for the 2017 and 2018 calendar years, respectively, or (b) a minimum market capitalization threshold equal to the product of 6.4 multiplied by the aggregate principal amount of loans outstanding under the CRG Loan Agreement determined as of the fifth business day following announcement of earnings results for the applicable year. In the event we do not achieve either of the minimum revenue amount or the minimum market capitalization threshold for a year, we can satisfy the requirement by raising additional funds through an equity or subordinated debt issuance and using the proceeds to pay down the loan balance by an amount equal to the difference between the minimum revenue amount for such year and the actual revenue amount for such year. We recorded net sales of OMIDRIA of \$41.4 million for the year ended December 31, 2016, and we cannot provide assurance that we will generate sufficient revenue from OMIDRIA in the future to satisfy fully the net revenue covenants in 2017 and subsequent years during the term of the CRG Loan Agreement. We are also required to maintain \$5.0 million in cash and cash equivalents during the term of the CRG Loan Agreement.

The failure to satisfy these or other obligations under the CRG Loan Agreement would constitute an event of default. An event of default under the CRG Loan Agreement also includes the occurrence of any material adverse effect upon our business, condition (financial or otherwise), operations, performance or property taken as a whole. If there is an event of default under the CRG Loan Agreement, the lenders may have the right to accelerate all of our repayment obligations under the CRG Loan Agreement and to take control of our pledged assets, which include substantially all of our assets including our intellectual property. Upon the acceleration of the loan, we will be required to repay the loan immediately or to attempt to reverse the declaration through negotiation or litigation. Further, if we are liquidated, the lenders' right to repayment would be senior to the rights of the holders of our common stock to receive any proceeds from the liquidation. Any declaration 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.

Under the CRG Loan Agreement, we may borrow up to an additional \$45.0 million in two tranches of \$25.0 million and \$20.0 million if we are able to satisfy certain milestones relating to OMIDRIA revenues (\$18.0 million and \$25.0 million, respectively, in any three-month period) or an average market capitalization (\$700.0 million or \$1.0 billion, respectively) on or before June 30, 2017 and December 31, 2017, respectively. If we are unable to satisfy these milestones, it may be necessary for us to seek alternative sources of capital.

We currently depend on a third party for the commercialization of OMS103 and we cannot guarantee that such commercialization will occur or be successful.

In June 2015 we entered into the OMS103 Agreement pursuant to which we granted Fagron an exclusive, royalty-free license to the OMS103 intellectual property, manufacturing information and clinical data to manufacture and commercialize OMS103 in the U.S. in exchange for potential future payments based on product revenue and achievement of commercial milestones. As a result of entering into the OMS103 Agreement, we discontinued our OMS103 clinical development program and are dependent on Fagron to commercialize OMS103 in the U.S. We cannot control whether Fagron will fulfill its obligations under the OMS103 Agreement or whether the commercialization of OMS103 will be successful. Fagron has not performed its diligence milestones in the OMS103 Agreement, including initiating sales of OMS103, and we believe that it is unlikely they will do so. We are evaluating our options with respect to the OMS103 Agreement and the OMS103 program. If we elect to pursue arbitration with Fagron, and/or the OMS103 Agreement is terminated, we can provide no assurances that we will be able to enter into another licensing agreement or have sufficient resources to restart clinical development and conduct any clinical trials if desired. Any of the above risks, if realized, could adversely affect our results of operations.

Under Section 503B of the Federal Food, Drug, and Cosmetic Act, registered outsourcing facilities are required to manufacture under GMP and are subject to FDA inspections and audits. They also are not allowed to manufacture a product that is essentially a copy of one or more FDA-approved drugs. If a licensed registered outsourcing facility such as Fagron is prohibited from commercializing or from continuing commercial sales of OMS103 following initial commercialization because of violations of any FDA regulations or any other reason, our ability to generate revenue from royalty payments from the licensed registered outsourcing facility and achieve profitability will be adversely affected and the market price of our common stock could decline.

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

We may not achieve commercial success if our competitors, many of whom have significantly more resources and experience than we, market products that are safer, more effective, less expensive or faster to reach the market than OMIDRIA or any future products that we may develop and commercialize. Our competitors also may market a product that proves to be unsafe or ineffective, which may affect the market for our competing product, or future product, regardless of the safety or efficacy of our product. The failure of OMIDRIA or any other future product that we may market to compete effectively with products marketed by our competitors would impair our ability to generate revenue, which would have a material adverse effect on our future business, our financial condition and our results of operations.

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 other than on the life of Gregory A. Demopoulos, M.D., our president, chief executive officer and chairman of the board of directors. Losing the services of any key member of our management team, whether from death or disability, retirement, competing offers or other causes, without having a readily available and appropriate replacement could delay the 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. 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.

We may encounter difficulties managing our growth, which could delay our business plans or adversely affect our results of operations.

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 manage effectively 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. Additionally, our inability to manage growth effectively could cause our operating costs to grow even faster than we currently are anticipating.

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's safety and efficacy and could limit our ability to sell one or more products by preventing or interfering with commercialization of our products and 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 or maintain such insurance on acceptable terms or that we will be able to secure and maintain increased coverage if the commercialization of OMIDRIA or our product candidates progresses, or that future claims against us will be covered by our product liability insurance. Further, our product liability 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.

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, or if we fail to adequately supervise or monitor these parties, we may not be able to obtain regulatory approval for or commercialize our product candidates.

We rely on third parties, such as CROs, medical and research institutions and clinical investigators, to conduct a portion of our preclinical research and assist us in conducting our clinical trials. Nonetheless, we are responsible for confirming that our preclinical research and clinical trials are conducted in accordance with applicable regulations, the relevant trial protocol and within the context of approvals by an institutional review board or ethics committee, and we may not always be successful in ensuring such compliance. Our reliance on these third parties does not relieve us of responsibility for ensuring compliance with FDA and other 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 commercialize or obtain regulatory approval for our product candidates.

We may need to maintain licenses for active ingredients from third parties to develop and commercialize some of our product candidates, which could increase our development costs and delay our ability to commercialize those product candidates.

Should we decide to use active pharmaceutical ingredients in any of our product candidates that are proprietary to one or more third parties, such as our PDE7 program (OMS527) or our plasmin program (OMS616), we would need to maintain licenses to those active ingredients from those third parties. If we are unable to continue to access rights to these active ingredients prior to conducting 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 maintain continued 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.

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 facility 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.

Cyber-attacks or other failures in telecommunications or information technology systems could result in information theft, data corruption and significant disruption of our business operations.

We utilize information technology, or IT, systems and networks to process, transmit and store electronic information in connection with our business activities. As use of digital technologies has increased, cyber incidents, including deliberate attacks and attempts to gain unauthorized access to computer systems and networks, have increased in frequency and sophistication. These threats pose a risk to the security of our systems and networks, the confidentiality and the availability and integrity of our data. There can be no assurance that we will be successful in preventing cyber-attacks or successfully mitigating their effects. Similarly, there can be no assurance that our collaborators, CROs, third-party logistics providers, distributors and other contractors and consultants will be successful in protecting our clinical and other data that is stored on their systems. Any cyber-attack or destruction or loss of data could have a material adverse effect on our business and prospects. In addition, we may suffer reputational harm or face litigation or adverse regulatory action as a result of cyber-attacks or other data security breaches and may incur significant additional expense to implement further data protection measures.

Risks Related to Our Common Stock

Our stock price has been and may continue to be volatile, and the value of an investment in our common stock may decline.

During the 12-month period ended December 31, 2016, our stock traded as high as \$16.80 per share and as low as \$7.20 per share. The trading price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to numerous factors, many of which are beyond our control. 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. 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.

If we issue additional shares of our common stock or other securities that may be convertible into, or exercisable or exchangeable for, our common stock, our existing shareholders would experience further dilution.

To the extent that we raise additional funds in the future by issuing equity securities, including pursuant to our At Market Equity Issuance Sales Agreement, or the ATM Agreement, with JonesTrading, our shareholders would experience dilution, which may be significant and could cause the market price of our common stock to decline significantly. In addition, approximately 11.3 million shares of common stock as of February 28, 2017 subject to outstanding options and warrants may become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements. Further, as of February 28, 2017 we also had approximately 0.9 million shares of common stock reserved for future issuance under our employee benefit plans that are not subject to outstanding options. If the holders of these outstanding options or warrants elect to exercise some or all of them, or if the shares subject to our employee benefit plans are issued and become eligible for sale in the public market, our shareholders would experience dilution and the market 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, 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 10% 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 acquirers 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 difficult for shareholders to replace members of our board of directors, which is responsible for appointing the members of our management.

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. We currently plan to invest all available funds and future earnings, if any, in the development and growth of our business. Additionally, under the CRG Loan Agreement, we have agreed not to pay any cash dividends. 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 the sole source of potential gain for shareholders in the foreseeable future, and an investment in our common stock for dividend income should not be relied upon.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease approximately 82,000 square feet for our principal office and laboratory space in the building located at 201 Elliott Avenue West, Seattle, Washington, or The Omeros Building, which includes approximately 8,358 square feet of laboratory space that we are subleasing to a third party. The lease term for our space is through November 2027. We also have two options to extend the lease term, each by five years. The annual base rent due under the lease for our principal office and laboratory space is \$4.5 million for 2017, \$4.5 million for 2018 and \$4.6 million for 2019 and will increase by approximately 2.3% each year thereafter. In addition, we are responsible for paying our proportionate share of the building's utilities, taxes, insurance and maintenance as well as a property management fee.

We have a right of first refusal for the premises that we do not currently lease as well as a right of first offer for specified premises in The Omeros Building. If at any time during the term of the lease our space requirements exceed the available space in The Omeros Building, the landlord will relocate us to a new building under a build-to-suit lease with no termination penalty payable under our existing lease, subject to the negotiation of a mutually acceptable build-to-suit lease. In addition, beginning with the sixth year of the lease term, if we request from the landlord additional space in The Omeros Building with a minimum square footage specified in the lease and the landlord is unable to provide such additional space to us, we may terminate the lease without payment of any termination fees other than the unamortized portion of a \$3.0 million lease incentive paid to us by the landlord when we entered the lease. We have the right to terminate the lease beginning with year nine of the lease term, subject to the payment of a lease termination fee. If we terminate the lease during years nine or 10, the termination fee is equal to 30% of the unamortized tenant improvements and 100% of the unamortized lease incentive. If we terminate the lease any time after year 10 of the term, the termination fee is equal to 20% of the unamortized tenant improvements and 100% of the unamortized lease incentive. We believe that these facilities we lease currently are sufficient for our anticipated near-term needs.

ITEM 3. LEGAL PROCEEDINGS

In July 2015, we received a Notice Letter from Par that it had filed an ANDA containing a Paragraph IV Certification under the Hatch-Waxman Act and seeking approval from the FDA to market a generic version of OMIDRIA prior to the expiration of three Omeros patents, U.S. Patent Nos. 8,173,707, 8,586,633 and 9,066,856, which relate to OMIDRIA and that are listed in the FDA's Orange Book for OMIDRIA. These patents were granted following review by the U.S. Patent and Trademark Office, or USPTO, are presumed to be valid under governing law, and can only be invalidated in federal court with clear and convincing evidence. Following receipt of the Paragraph IV Notice Letter we filed a patent infringement lawsuit against Par in the U.S. District Court for the District of New Jersey on September 2, 2015 and a patent infringement lawsuit against Par in the U.S. District Court for the District of Delaware on September 3, 2015. The lawsuits were filed under the Hatch-Waxman Act alleging Par's infringement of U.S. Patent Nos. 8,173,707, 8,586,633 and 9,066,856. Based on our decision to pursue the action in federal court in Delaware, we voluntarily dismissed the complaint filed in the U.S. District Court for the District of New Jersey. The complaint that we filed in the U.S. District Court for the District of Delaware has been served on Par and Par has filed an answer asserting defenses and counterclaims for declaratory judgment of patent invalidity and non-infringement. In April 2016, August 2016 and November 2016, we amended the complaint to also assert infringement of U.S. Patent Nos. 9,278,101, 9,399,040 and 9,486,406, respectively, which correspondingly issued in March 2016, July 2016 and November 2016 and were listed in the Orange Book after Par's Paragraph IV Notice Letter. Par has filed answers to our amended complaints asserting defenses and counterclaims for declaratory judgment of patent invalidity and non-infringement. Par has stipulated to infringement of each of the currently asserted patents and the court entered a partial judgment that the filing of Par's ANDA constitutes an act of infringement of each of the currently asserted patents, subject to Par's continued invalidity defenses and any challenge to enforceability. We have reviewed the invalidity assertions in Par's Paragraph IV Notice Letter and defenses and counterclaims and believe they do not have merit, and we intend to defend our patents vigorously in the litigation against Par. Under the Hatch-Waxman Act, we were permitted to file suit within 45 days from receipt of Par's Notice Letter and thereby trigger a 30-month stay of the FDA's final approval of Par's ANDA while the lawsuit against Par is pending. Our lawsuit against Par triggered such a stay, which is expected to remain in effect until late January 2018.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on The Nasdaq Global Market under the symbol “OMER.”

The following table sets forth the range of high and low sales prices of our common stock as quoted on The Nasdaq Global Market for the periods indicated.

Year Ended December 31, 2016	High	Low
4th Quarter	\$14.15	\$7.20
3rd Quarter	\$13.71	\$10.36
2nd Quarter	\$16.38	\$9.46
1st Quarter	\$16.80	\$8.90

Year Ended December 31, 2015	High	Low
4th Quarter	\$16.52	\$10.69
3rd Quarter	\$30.23	\$10.48
2nd Quarter	\$26.64	\$17.62
1st Quarter	\$27.64	\$18.51

Holders

As of February 28, 2017, there were approximately 123 holders of record of our common stock.

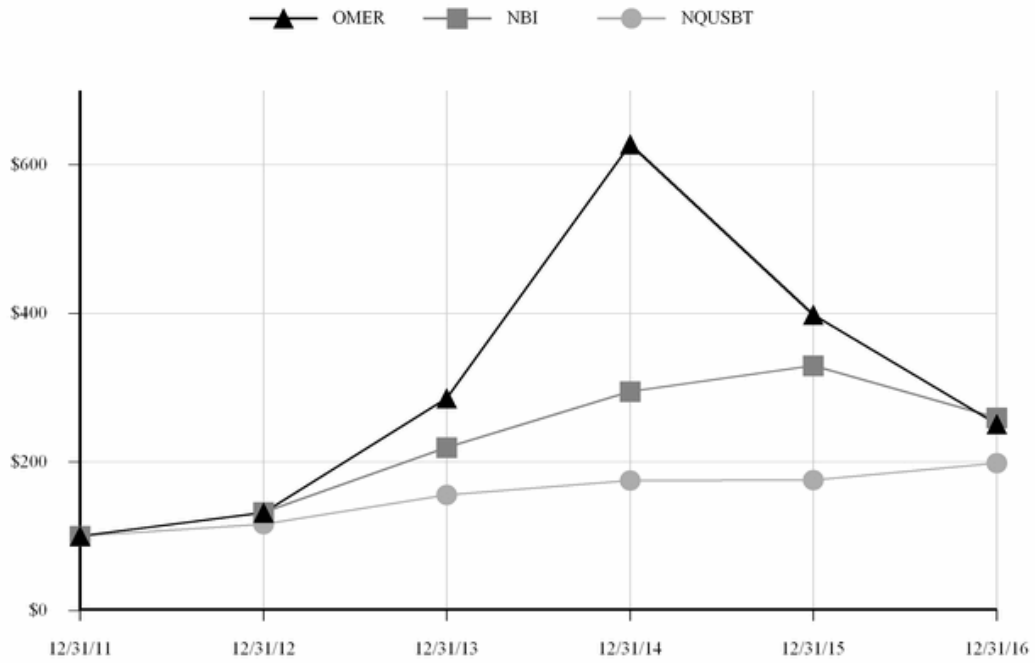
Dividends

We have never declared or paid any cash dividends on our capital stock, and under the CRG Loan Agreement we have agreed not to pay any cash dividends. We expect to retain all available funds and future earnings to fund the development and growth of our business and we do not anticipate paying any cash dividends in the foreseeable future.

Stock Performance Graph

The following graph compares the cumulative total shareholder return for our common stock (OMER), the Nasdaq Biotechnology Index (NBI) and the Nasdaq U.S. Benchmark TR Index (NQUSBT) for the period beginning December 31, 2011 and ending December 31, 2016. This graph assumes that \$100 was invested on December 31, 2011 in our common stock, the Nasdaq Biotechnology Index and the Nasdaq U.S. Benchmark TR Index. It also assumes that any dividends were reinvested. The data shown in the following graph are not necessarily indicative of future stock price performance.

**Comparison of 5 Year Cumulative Return
Assumes Initial Investment of \$100**



The foregoing information shall not be deemed to be “soliciting material” or to be “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section. In addition, the foregoing information shall not be deemed to be incorporated by reference into any of our filings under the Exchange Act or the Securities Act of 1933, except to the extent that we specifically incorporate this information by reference.

ITEM 6. 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 Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
(In thousands, except per share and share data)					
Consolidated Statements of Operations and Comprehensive Loss Data:					
Revenue					
Product Sales	\$ 41,444	\$ 13,264	\$ —	\$ —	\$ —
Grant revenue	173	245	539	1,600	6,022
Total revenue	41,617	13,509	539	1,600	6,022
Costs and expenses:					
Cost of product sales	1,412	1,041	—	—	—
Research and development	50,699	48,379	47,946	36,297	31,922
Selling, general and administrative	43,782	35,327	22,601	15,819	10,985
Total costs and expenses	95,893	84,747	70,547	52,116	42,907
Loss from operations	(54,276)	(71,238)	(70,008)	(50,516)	(36,885)
Litigation settlement	—	—	—	12,500	—
Interest expense	(7,819)	(3,573)	(3,470)	(2,366)	(1,729)
Loss on early extinguishment of debt	(5,595)	(1,315)	—	—	—
Other income (expense), net	945	1,030	(195)	586	170
Net Loss	\$ (66,745)	\$ (75,096)	\$ (73,673)	\$ (39,796)	\$ (38,444)
Basic and diluted net loss per share	\$ (1.65)	\$ (2.00)	\$ (2.22)	\$ (1.39)	\$ (1.59)
Denominator for basic and diluted net loss per share	40,446,410	37,560,257	33,234,294	28,560,360	24,155,690

	As of December 31,				
	2016	2015	2014	2013	2012
(In thousands)					
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 45,331	\$ 28,263	\$ 6,886	\$ 14,101	\$ 22,350
Working capital	44,191	20,893	(9,274)	2,944	16,341
Restricted cash and investments	5,835	10,679	679	679	679
Total assets	67,278	48,995	10,834	16,535	26,575
Notes payable and lease financing obligations, net	79,710	49,842	32,453	20,498	20,103
Accumulated deficit	(469,887)	(403,142)	(328,046)	(254,373)	(214,577)
Total shareholders’ deficit	(37,447)	(26,234)	(42,654)	(18,384)	(6,531)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the audited annual consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K. For further information regarding forward-looking statements, please refer to the special note regarding forward-looking statements at the beginning of this Annual Report on Form 10-K. Throughout this discussion, unless the context specifies or implies otherwise, the terms "Company," "we," "us" and "our" refer to Omeros Corporation and our wholly owned subsidiaries.

Overview

We are a biopharmaceutical company committed to discovering, developing and commercializing both small-molecule and protein therapeutics for large-market as well as orphan indications targeting inflammation, coagulopathies and disorders of the central nervous system.

Our marketed drug product OMIDRIA launched in the U.S. in the second quarter of 2015 and is used during cataract surgery or intraocular lens replacement. OMIDRIA is part of our proprietary PharmacoSurgery platform, which is designed to improve clinical outcomes of patients undergoing ophthalmological, arthroscopic, urological and other surgical procedures. Our PharmacoSurgery platform is based on low-dose combinations of FDA-approved therapeutic agents delivered directly to the surgical site throughout the duration of the procedure to inhibit preemptively inflammation and other problems caused by surgical trauma and to provide clinical benefits both during and after surgery.

Our pipeline includes clinical-stage development programs focused on: complement-associated thrombotic microangiopathies; complement-mediated glomerulonephropathies; Huntington's disease and cognitive impairment; and addictive and compulsive disorders. In addition, we have a diverse group of preclinical programs and two additional platforms: one capable of unlocking new GPCR drug targets and the other used to generate antibodies. For OMIDRIA and each of our product candidates and our programs, other than OMS103, we have retained control of all commercial rights.

Financial Summary

We recognized net losses of \$66.7 million, \$75.1 million, and \$73.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. Historically, these losses have been principally from expenses incurred in connection with research and development activities and beginning in 2014, selling activities associated with our commercial drug product, OMIDRIA. During the years ended December 31, 2016 and 2015, OMIDRIA revenues of \$41.4 million and \$13.3 million, respectively, helped offset a portion of our 2016 and 2015 operating expenses. Our net losses will continue until such time as we derive sufficient revenues from sales of OMIDRIA and/or other sources, such as licensing and other revenues from our product candidates, that are sufficient to cover our expenses.

As of December 31, 2016, our accumulated deficit was \$469.9 million and total shareholders' deficit was \$37.4 million. We also had \$45.3 million in cash and cash equivalents and short-term investments at December 31, 2016.

Results of Operations

Revenue

Our revenue primarily consists of U.S. product sales of OMIDRIA, as follows:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Product sales, net	\$ 41,444	\$ 13,264	\$ —

OMIDRIA was launched commercially in the U.S. in the second quarter of 2015. Product sales, net increased 212% in 2016 compared to 2015. The increase in product sales, net was primarily due to the continued acceptance of OMIDRIA in the ophthalmic surgery community, an increase in the number of customers and increased penetration into on-going customer accounts.

CMS has granted transitional pass-through reimbursement status for OMIDRIA, which we expect to run until January 1, 2018. Pass-through status allows for separate payment (*i.e.*, outside the bundled payment) under Medicare Part B for new drugs and other medical technologies. We are seeking to extend pass-through reimbursement status or obtain separate reimbursement for OMIDRIA through legislative and/or administrative means; however, in the event that we do not obtain an extension of pass-through reimbursement status or separate reimbursement for OMIDRIA on or before January 1, 2018, we expect that OMIDRIA will be included as part of the packaged payment and as a result the per unit price we receive for OMIDRIA would be reduced.

We record OMIDRIA product sales net of estimated chargebacks, rebates, distribution fees and product returns. These deductions are generally referred to as gross-to-net deductions. As we have launched various programs (see below), our gross-to-net deductions have increased as a percentage of gross product sales. We anticipate that our gross-to-net deductions will continue to increase as a percentage of gross product sales in 2017 compared to 2016.

A summary of our gross-to-net provision and payments for the years ended December 31, 2016 and 2015 are as follows:

	Chargebacks and Rebates	Distribution Fees and Product Return Allowances	Total
	(In thousands)		
Balance as of December 31, 2014	\$ —	\$ —	\$ —
Provision related to current period sales	320	555	875
Payments for current period sales	(140)	(278)	(418)
Balance as of December 31, 2015	180	277	457
Provision related to current period sales	4,203	1,434	5,637
Payments for current period sales	(2,754)	(1,230)	(3,984)
Balance as of December 31, 2016	<u>\$ 1,629</u>	<u>\$ 481</u>	<u>\$ 2,110</u>

Chargebacks and Rebates

We have a Pharmaceutical Pricing Agreement and a 340B prime vendor agreement that enables entities who qualify for government pricing to receive discounts on their qualified purchases of OMIDRIA. These discounts are commonly referred to as chargebacks and are a significant component of our gross to net deductions. The discount percentage these entities receive per unit sold have been consistent since our product launch in 2015, but these discounts have grown as a percentage of product sales because an increasing percentage of our sales are eligible for the discount. We expect future chargeback deductions as a percentage of product sales to increase based on increased volume of purchases eligible for government-mandated discounts.

In October 2015 we launched the OMIDRIAssure program, which expands patient access to OMIDRIA through, among other things, our “We Pay the Difference” service. The service discount as a percentage of product sales increased in 2016 as compared to 2015 due primarily to the October introduction of the OMIDRIAssure program. We expect future deductions resulting from the OMIDRIAssure program to increase slightly as a percentage of product sales from the 2015 post-introduction rate.

In November 2016, we launched a purchase volume discount program for which ASCs qualify by meeting or exceeding quarterly purchase volumes of OMIDRIA. We expect rebate payments provided to ASCs under the purchase volume discount program to continue to increase as a percentage of product sales as additional ASCs register for the program.

Distribution Fees and Product Return Allowances

We pay our wholesalers a distribution fee for services that they perform for us based on the dollar value of their purchases of OMIDRIA. We also allow for the return of product up to 12 months past its expiration date or for product that is damaged or not used by our customers. Distribution fees were virtually unchanged as a percentage of our gross sales in 2016 compared to 2015 while our product returns were reduced in 2016 as a percentage of our gross sales. We expect future distribution fees and product returns will fluctuate in parallel with product sales.

Grant Revenue

Revenues recognized from grants are as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Small Business Innovative Research Grants (SBIR)	\$ 173	\$ 245	\$ 539

As of December 31, 2016, we do not have any outstanding grants from which we derive revenue.

Research and Development Expenses

Our research and development expenses can be divided into three categories: direct external expenses, which include clinical research and development and preclinical research and development activities; internal, overhead and other expenses; and stock-based compensation expense.

Direct external expenses consist primarily of expenses incurred pursuant to agreements with third-party manufacturing organizations, CROs, clinical trial sites, collaborators, licensors and consultants and lab supplies. Costs are reported in preclinical research and development until the program enters the clinic. Internal, overhead and other expenses consist of personnel costs, overhead costs such as rent, utilities and depreciation and other miscellaneous costs. We do not generally allocate our internal resources, employees and infrastructure to any individual research project because we deploy them across multiple clinical and preclinical projects that we are advancing in parallel.

The following table illustrates our expenses associated with these activities:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Direct external expenses:			
Clinical research and development:			
MASP-2 Program - OMS721	\$ 17,241	\$ 15,852	\$ 8,064
OMIDRIA - Ophthalmology	3,864	4,396	5,294
PDE10 Program - OMS824	221	1,508	10,974
Other clinical programs	279	37	144
Total clinical research and development	21,605	21,793	24,476
Preclinical research and development	1,731	1,383	2,252
Total direct external expenses	23,336	23,176	26,728
Internal, overhead and other expenses	21,059	20,226	16,464
Stock-based compensation expense	6,304	4,977	4,754
Total research and development expenses	\$ 50,699	\$ 48,379	\$ 47,946

Direct external clinical research and development expense stayed consistent during the year ended December 31, 2016 compared to 2015. During the year ended December 31, 2016, we incurred increased clinical trial costs for our MASP-2 program as we advanced our Phase 2 trials and initiated technical transfer to a new manufacturing facility capable of providing commercial product. This increase was partially offset by reduced costs for our PDE10 program and lower OMIDRIA clinical trial costs due to completing in 2016 our FDA-required pediatric post-marketing trial and to reduced manufacturing costs.

The decrease in direct external clinical research and development expenses during the year ended December 31, 2015 compared to 2014 was due primarily to reduced costs for our PDE10 program in connection with its 2014 clinical suspension and lower OMIDRIA clinical trial costs after our U.S. approval in May 2014. This decrease was partially offset by increased clinical trial costs for our MASP-2 program as we advanced our Phase 2 trials in TMAs, including aHUS, and the cost of MASP-2 clinical trial material.

Internal, overhead and other expenses increased slightly during the year ended December 31, 2016 compared to 2015 primarily due to increased headcount related costs. Internal, overhead and other expenses also increased during year ended December 31, 2015 compared to 2014 due primarily to increased headcount related costs.

The increase in stock-based compensation during the year ended December 31, 2016 compared to 2015 was primarily due to stock option grants in February 2016 and in December 2016 relating to annual reviews of 2014 and 2015 employee

performance, respectively. Two cycles of awards were granted during 2016 because no 2014 annual option grants were made to employees in 2015.

At this time, we are unable to estimate with any certainty the costs we will incur in the continued development of our product candidates due to the inherently unpredictable nature of our preclinical and clinical development activities and to the early stage of many of our preclinical development programs. Clinical development timelines, the probability of success and development costs can differ materially as new data becomes available and as expectations change. While we are currently focused on advancing our product development programs, our future research and development expenses will depend on the preclinical or clinical success of each product candidate, the outcome of our ongoing assessments of each program's commercial potential, the commercial success of OMIDRIA, the results of future collaborations, if any, and our overall capital resources. We also cannot forecast with any degree of certainty which product candidates, if any, 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 are required to expend substantial resources in the development of our product candidates due to the lengthy process of completing clinical trials and seeking regulatory approval. Any failure or delay in completing clinical trials, or in obtaining regulatory approvals, could cause a delay in our generation of revenue from new products, could increase our research and development expenses and, in turn, could have a material adverse effect on our operations, financial condition and liquidity. Because of the factors above, we are not able to estimate with any certainty when or if we would recognize any net cash inflows from our research and development projects.

Selling, General and Administrative Expenses

Our selling, general and administrative, or SG&A, expenses are comprised primarily of salaries, benefits, stock-compensation costs for sales, marketing, and other personnel not directly engaged in research and development, marketing and selling expenses, professional and legal services, general corporate costs and an allocation of our occupancy costs. In 2015 SG&A also included service fees incurred for our dedicated contract sales force, the majority of which we brought in-house in January 2016.

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Selling, general and administrative expenses, excluding stock-based compensation expense	\$ 36,504	\$ 30,723	\$ 18,437
Stock-based compensation expense	7,278	4,604	4,164
Total selling, general and administrative expenses	<u>\$ 43,782</u>	<u>\$ 35,327</u>	<u>\$ 22,601</u>

The increase in selling, general and administrative expenses during the year ended December 31, 2016 compared to 2015 was primarily due to increased legal costs associated with pursuing our patent infringement claims related to Par's effort to obtain FDA approval for a generic version of OMIDRIA, and increased stock compensation expense.

The increase in stock-based compensation during the year ended December 31, 2016 compared to the same period of 2015 was primarily due to stock option grants in February 2016 and in December 2016 relating to annual reviews of employee performance in 2014 and 2015, respectively. Two cycles of awards were granted during 2016 because no 2014 performance-related annual stock options grants were made to employees in 2015.

The increase in selling, general and administrative expenses during the year ended December 31, 2015 compared to the same period of 2014 was primarily due to increased sales and marketing costs incurred in connection with our then third-party contracted OMIDRIA sales force; marketing materials, events and conferences; and administrative and legal costs to support the U.S. market launch of OMIDRIA in April 2015.

We expect our selling, general and administrative expenses for 2017 to increase slightly from 2016 primarily due to increased legal costs in connection with pursuing our patent infringement claims related to Par's efforts to obtain FDA approval for a generic version of OMIDRIA and administration service fees related to the OMIDRIAssure program.

Interest Expense

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Interest Expense	\$ 7,819	\$ 3,573	\$ 3,470

Interest expense was \$7.8 million and \$3.6 million for the years ended December 31, 2016 and 2015, respectively. The increase in interest expense was due to incremental borrowings of \$25.2 million in December 2015, \$20.0 million in May 2016 and \$10.0 million in November 2016. The effective interest rate on our notes payable remained relatively constant throughout the period.

Interest expense was \$3.6 million and \$3.5 million for the years ended December 31, 2015 and 2014, respectively. Interest expense remained steady in 2015 compared to 2014 due to similar average balances outstanding and the same effective interest rate on our notes payable during 2015 and 2014.

Loss on Early Extinguishment of Debt

In November 2016, we entered into the CRG Loan Agreement with CRG Servicing LLC and repaid our previously outstanding loan. We incurred a loss of \$5.6 million associated with the unamortized loan maturity fee and the prepayment fee related to our previously outstanding loan (see Note 7 to our Consolidated Financial Statements in this Annual Report on Form 10-K).

In December 2015, we entered into a Loan and Security Agreement with Oxford and East West Bank, or the Oxford/EWB Loan Agreement (see Note 7 to our Consolidated Financial Statements in this Annual Report on Form 10-K). We incurred a loss of \$1.3 million associated with the unamortized loan maturity fee and the prepayment related to our previously outstanding loan.

Other Income (Expense), Net

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Other Income (Expense), Net	\$ 945	\$ 1,030	\$ (195)

Other income (expense), net principally includes sublease rental income and has remained consistent during the year ended December 31, 2016 compared to 2015. The increase in other income (expense), net during the year ended December 31, 2015 compared to 2014 is due to incremental sublease income earned in 2015 and an \$863,000 warrant modification expense incurred in 2014 (see Note 9 to our Consolidated Financial Statements in this Annual Report on Form 10-K).

Financial Condition - Liquidity and Capital Resources

We have historically generated net losses and incurred negative cash flows. For the years ended December 31, 2016, 2015, and 2014 we incurred net losses of \$66.7 million, \$75.1 million and \$73.7 million, respectively, and also incurred negative cash flows from operations of \$51.5 million, \$65.2 million and \$58.0 million in 2016, 2015 and 2014, respectively.

Future Funding Requirements

We have a history of net losses and net cash outflows from operating activities. In addition, during 2017 we expect to incur, at a minimum, \$6.8 million in debt service costs related to our existing notes payable. As of December 31, 2016, we had \$45.3 million in cash, cash equivalents and short-term investments available to fund operations and debt service costs and our working capital totaled \$44.2 million. We expect to continue to incur negative cash flows until such time as OMIDRIA product sales or other sources of revenue generate sufficient cash inflows to finance our operations and debt service. We are focused on securing continued separate reimbursement (or equivalent reimbursement treatment) for OMIDRIA (beyond the January 1, 2018 pass-through expiration date), on establishing corporate partnerships and on establishing collaboration and licensing revenue agreements. Until we are cash-flow positive, if at all, we will need to continue to raise funds through the issuance of public or private equity securities, including selling common stock through our ATM Agreement with JonesTrading (see Note 9 to our Consolidated Financial Statements in this Annual Report on Form 10-K) or additional borrowings including the \$45.0 million contingently available under the CRG Loan Agreement (see Note 7 to our Consolidated Financial Statements in this Annual Report on Form 10-K). However, none of these sources of working capital are currently assured and, consequently, do

not mitigate sufficiently the risks and uncertainties disclosed above. We have therefore concluded there is substantial doubt about our ability to continue as a going concern through March 16, 2018 (see Note 1 to our Consolidated Financial Statements in this Annual Report on Form 10-K). If we are unable to raise additional capital when needed through one or more of the avenues previously listed, or upon acceptable terms, such failure would have a significant negative impact on our financial condition. Should it be necessary to manage our operating expenses, we would reduce our projected cash requirements through reduction of our expenses by delaying clinical trials, reducing selected research and development efforts, or implementing other restructuring activities.

Cash Flow Data

	Years ended December 31,		
	2016	2015	2014
	(In thousands)		
Cash provided by (used in):			
Operating activities	\$ (51,504)	\$ (65,209)	\$ (58,044)
Investing activities	(16,335)	(20,606)	6,157
Financing activities	68,698	86,826	50,857

Operating Activities. Net cash used in operating activities decreased for the year ended December 31, 2016 by \$13.7 million as compared to the same period in 2015. The reduction in cash used in operating activities in 2016 largely resulted from the \$8.4 million decline in our net loss from 2015, due primarily to an increase in OMIDRIA product sales, net of \$28.2 million, which was partially offset by a \$10.8 million increase in operating expenses. In addition, in 2016 we incurred \$16.1 million of non-cash charges as compared to \$11.0 million in 2015, which further reduced our cash used in operating activities. The improvement in our net cash used in operations was partially offset by a decrease in cash provided from accounts payable and accrued expenses of \$4.5 million.

Net cash used in operating activities increased for the year ended December 31, 2015 by \$7.2 million as compared to the same period in 2014. Our 2015 net loss increased by \$1.4 million from 2014 due primarily to the OMIDRIA product sales, net of \$13.3 million being offset by a \$12.7 million increase in selling, general and administrative expenses associated with the U.S. launch of OMIDRIA. In addition we incurred a \$6.1 million increase in receivables related to OMIDRIA sales, which generally have 30 to 90 day terms, increasing our cash used in operating activities.

Investing Activities. Cash flows from investing activities primarily reflect cash used to purchase short-term investments and proceeds from the sale and maturity of short-term investments, thus causing a shift between our cash and cash equivalents and short-term investment balances. Because we manage our cash usage with respect to our total cash, cash equivalents and short-term investments, we do not consider the fluctuations between cash, cash equivalents and our short-term investment balances to be important to the understanding of our liquidity and capital resources. The remaining component of cash flows from investing activities is the purchase of property and equipment.

Net cash used in investing activities in the year ended December 31, 2016 was \$16.3 million, a decrease of \$4.3 million from 2015, primarily due to the purchase of short-term investments for \$74.0 million with the \$38.0 million of net proceeds received from the sale of common stock in our public offering in August 2016 and the sale of common stock under our ATM Agreement, and \$3.0 million in net proceeds from the CRG Loan Agreement. These purchases were partially offset by the sale and maturity of \$57.8 million of short-term investments to provide cash for operating activities.

Net cash used in investing activities in the year ended December 31, 2015 was \$20.6 million, an increase of \$26.8 million from 2014, primarily due to the purchase of short-term investments with the \$79.1 million of net proceeds received from the sale of common stock and pre-funded warrants in our public offering in February 2015 and \$22.3 million in net proceeds from the Oxford/EWB loan. These purchases were partially offset by the sale of \$71.4 million of short-term investments.

Financing Activities. Net cash provided by financing activities in the year ended December 31, 2016 was \$68.7 million, a decrease of \$18.1 million over the same period in 2015 primarily due to our reduced use of equity financings. In 2016, we received \$38.0 million of net proceeds from the sale of 3.5 million shares of common stock in our public offering in August together with shares sold under our ATM agreement compared to \$79.1 million of net proceeds from an equity offering in 2015. In addition, we received \$22.8 million in net additional borrowings under the Oxford/EWB Loan Agreement and the CRG Loan Agreement. During the 2016 period, we also received \$3.2 million from the exercise of employee stock options and warrants.

Net cash provided by financing activities in the year ended December 31, 2015 was \$86.8 million, an increase of \$36.0 million over the same period in 2014 primarily due to the \$79.1 million of net proceeds received from the sale of 3.4 million shares of common stock and pre-funded warrants to purchase 749,250 shares of common stock in our public offering in February 2015 as compared to \$37.8 million in 2014. In addition we also received net additional borrowings of \$22.3 million under the Oxford/EWB Loan Agreement in 2015. During the 2015 period, we also received \$2.9 million upon the exercise of employee stock options and warrants. These additions were offset by \$7.4 million in principal payments under the Loan and Security Agreement, or the Oxford/MidCap Loan Agreement, with Oxford and MidCap Financial SBIC, LP, or MidCap, prior to entering into the Oxford/EWB Loan Agreement.

Loan and Security Agreement

In October, 2016, we entered into the CRG Loan Agreement, which is interest-only through December 31, 2020 and, subject to the achievement of certain milestones, potentially through the maturity date of September 30, 2022. We initially borrowed \$80.0 million and may borrow up to an additional \$45.0 million in two tranches of \$25.0 million and \$20.0 million, respectively, contingent upon achievement of certain conditions. To borrow the \$25.0 million under the first tranche, we must achieve OMIDRIA net product sales of at least \$18.0 million during any consecutive three month period or an average market capitalization of at least \$700.0 million for any consecutive three month period, in each case ending on or prior to June 30, 2017, and the borrowing must occur on or prior to September 19, 2017. To borrow the \$20.0 million under the second tranche, we must achieve OMIDRIA net product sales of at least \$25.0 million during any consecutive three month period or an average market capitalization of at least \$1.0 billion for any consecutive three month period, in each case ending on or prior to December 31, 2017, and the borrowing must occur on or prior to March 21, 2018.

The CRG Loan Agreement accrues interest at an annual rate of 12.25% (4.0% of which can be deferred at our option during the interest-only period by adding such amount to the aggregate principal amount) and is interest only for a minimum of four years and, subject to the achievement of certain milestones, potentially through the maturity date. If an OMIDRIA net revenue milestone is satisfied during the 12-month period ending on December 31, 2019, the interest rate may be reduced to 11.50%, 3.5% of which may be deferred at our option and added to the principal amount outstanding. In addition, if either the OMIDRIA net revenue milestone is satisfied during such period or a market capitalization milestone is achieved during the fourth quarter of 2020, the loan would convert to interest-only until the September 30, 2022 maturity. The CRG Loan Agreement requires us to maintain cash and cash equivalents of \$5.0 million during the term of the agreement, which is recorded as restricted cash and investments in our Consolidated Balance Sheet.

We are also required to pay the Lenders a facility fee equal to 5.0% of the aggregate principal amount borrowed (including principal additions related to deferred interest) on repayment of the CRG Loan Agreement.

We may prepay all or a portion of the outstanding principal under the CRG Loan Agreement at any time upon prior notice subject to a prepayment fee through September 30, 2019, with no prepayment fee thereafter. In certain circumstances, including a change of control and certain asset sales or licensing transactions, we are required to prepay all or a portion of the loan, including the applicable prepayment premium on the amount of the outstanding principal to be prepaid.

The CRG Loan Agreement also requires us to achieve either (a) certain minimum net revenue amounts through the end of 2021, which are \$35.0 million, \$55.0 million and \$65.0 million for the 2016, 2017 and 2018 calendar years, respectively, or (b) a minimum market capitalization threshold equal to the product of 6.4 multiplied by the aggregate principal amount of loans outstanding under the CRG Loan Agreement determined as of the fifth business day following announcement of earnings results for the applicable year. If we are unable to satisfy the minimum annual revenue requirement or the market capitalization threshold for any given year, we may avoid a related default by repaying the shortfall between actual revenues and the minimum revenue requirement for such year using proceeds generated by an equity or subordinated debt issuance. Our 2016 net revenues were \$41.4 million and as a result we exceeded the minimum revenue requirement for 2016.

As of December 31, 2016, we were not in default under the CRG Loan Agreement.

At Market Issuance Sales Agreement

In January 2016, we entered into the ATM Agreement with JonesTrading. Pursuant to the ATM Agreement, we may direct JonesTrading to sell shares of our common stock with an aggregate offering price of up to \$50 million directly on The Nasdaq Global Market, through or to a market maker other than on an exchange or in negotiated transactions. Any sales made under the ATM Agreement are based solely on our instructions and JonesTrading will receive a 1.7% commission from the gross proceeds. The ATM Agreement may be terminated by either party at any time upon 10 days' notice to the other party, or by JonesTrading at any time in certain circumstances including the occurrence of a material adverse effect to Omeros.

Contractual Obligations and Commitments

The following table presents a summary of our contractual obligations and commitments as of December 31, 2016.

	Payments Due Within				Total
	1 Year	2-3 Years	4-5 Years	More than 5 Years	
	(In thousands)				
Operating leases	\$ 4,474	\$ 9,176	\$ 9,241	\$ 28,714	\$ 51,605
Capital leases (principal and interest)	217	314	38	—	569
Notes payable (principal and interest) *	6,838	14,532	71,032	43,058	135,460
Goods & Services	2,195	—	—	—	2,195
Total	<u>\$ 13,724</u>	<u>\$ 24,022</u>	<u>\$ 80,311</u>	<u>\$ 71,772</u>	<u>\$ 189,829</u>

*Assumes full deferral of interest at our option (Refer to "Liquidity-Loan and Security Agreement" above)

Operating Leases

We lease our office and laboratory space in The Omeros Building under a lease agreement with BMR - 201 Elliott Avenue LLC. The initial term of the lease ends in November 2027 and we have two options to extend the lease term, each by five years. As of December 31, 2016, the remaining aggregate non-cancelable rent payable under the initial term of the lease, excluding common area maintenance and related operating expenses, is \$50.5 million.

We rent office and laboratory equipment and vehicles used by our sales force under various operating lease agreements with initial terms of five years or less. The vehicle leases can be terminated at our option, at any time, provided we compensate the lessor for differences in the book value and the fair value of each vehicle at such time. As of December 31, 2016, assuming vehicles are leased to term, the remaining aggregate rent payable under our leases is \$1.1 million.

Notes Payable

Refer to "Liquidity-Loan and Security Agreement" above.

Goods & Services

We have a non-exclusive agreement with Hospira for the commercial supply of OMIDRIA and Hospira has produced product validation batches of OMIDRIA, which are currently undergoing testing prior to seeking FDA approval of the Hospira manufacturing facility. We anticipate that Hospira will be able to provide OMIDRIA commercial product to us beginning in mid-2017 and that our existing commercial supply of OMIDRIA inventory will be adequate to supply our needs until Hospira is able to supply our OMIDRIA commercial product needs. We may also be required, in connection with in-licensing or asset acquisition agreements, to make certain royalty and milestone payments and we cannot, at this time, determine when or if the related milestones will be achieved or whether the events triggering the commencement of payment obligations will occur. Therefore, such payments are not included in the table above. See Note 8 to our Consolidated Financial Statements in this Annual Report on Form 10-K for a description of the agreements that include these royalty and milestone payment obligations.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our consolidated financial statements, in conformity with U.S. generally accepted accounting principles, or GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances; however, actual results could differ from those estimates. 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 materially 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 judgment by management and estimates about matters that are uncertain:

- revenue recognition;
- research and development expenses, primarily clinical trial expenses and manufacturing of drug product and clinical drug supply; and

- stock-based compensation.

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 revenues are comprised primarily of product sales of OMIDRIA. Revenue is recognized when there is persuasive evidence that an arrangement exists, product title and risk of loss is passed or the service has been provided, the price is fixed or determinable and collection is reasonably assured. We record OMIDRIA product revenue upon delivery to our wholesalers. Product sales to a wholesaler are not recorded if we determine that the wholesaler's on-hand OMIDRIA inventory, based on sell-through and inventory information we regularly receive from our wholesalers, exceeds approximately eight weeks of projected demand.

Product sales are recorded net of estimated chargebacks, wholesaler distribution fees, estimated product returns and rebates. Accruals, which require a substantial degree of judgment, are established for these deductions when revenue is recognized and actual amounts incurred are offset against the applicable accruals. If actual results vary from our estimates, we adjust our accruals which could have an effect on our results of operations in the period of the adjustment. We reflect each of these accruals as either a reduction in the related account receivable or as an accrued liability, depending on how the accrual is settled.

Chargebacks: Provisions for chargebacks are determined utilizing historical and projected payer mix and sale-through and inventory on-hand information received directly from wholesalers. Chargebacks are generally settled within four weeks of recording product sales revenue.

We provide reimbursement support services and financial assistance in the form of a rebate to patients whose commercial insurance is inadequate to cover the full cost of OMIDRIA. We apply an experience ratio to product sales to determine the rebate accrual. This experience ratio is reviewed and updated periodically to reflect actual results.

We provide rebate payments for which ASCs qualify by meeting or exceeding purchase volumes of OMIDRIA under our purchase volume discount program. Rebate accruals and payments are determined based on contractual volume achievement.

Distribution Fees and Product Return Allowances: We pay our wholesalers a distribution fee for services that they perform for us based on the WAC value of their purchases of OMIDRIA. We record a provision against product sales for these charges at the time of sale to the wholesaler.

We allow for the return of product up to 12 months past its expiration date or for product that is damaged. In estimating product returns, we take into consideration our return experience to date, the remaining shelf life of product we have previously sold, inventory in the wholesale channel and our expectation that product is typically not held by the healthcare providers based on the frequency of their reorders.

In late 2016, we launched a purchase volume discount program for which ASCs qualify by meeting or exceeding purchase volumes of OMIDRIA. We calculate rebate payments amounts due under this program based on actual qualifying purchase volumes and apply a contractual discount rate. For purchases of OMIDRIA not yet reported as sold-through to the ASC by our wholesalers, we apply an experience ratio to product sales to determine the rebated accrual. This experience ratio will be reviewed and updated periodically to reflect actual results.

Research and Development Expenses

Research and development costs are comprised primarily of costs for personnel, including salaries, benefits and stock compensation; an allocation of our occupancy costs; clinical study costs; contracted research; manufacturing; consulting arrangements; depreciation; materials and supplies; milestones; and other expenses incurred to sustain our overall research and development programs. Clinical trial expenses for investigational sites require certain estimates. We estimate these costs based on a cost per patient that varies depending on the clinical trial site. As actual costs become known to us, we adjust our estimates; these changes in estimates may result in understated or overstated expenses at a given point in time. Research and development costs are expensed as incurred.

Advanced payments for goods or services that will be used or rendered for future research and development activities are deferred and then recognized as an expense as the related goods are delivered or as the services are performed, or when the goods or services are no longer expected to be provided.

Selling, General and Administrative

SG&A expenses are comprised primarily of salaries, service fees incurred for our sales force, benefits, and stock-compensation costs for sales, marketing, and other personnel not directly engaged in research and development. Additionally,

SG&A includes marketing and selling expenses, professional and legal services; patent costs; depreciation, an allocation of our occupancy costs; and other general corporate expenses.

Stock-Based Compensation

Stock-based compensation expense is recognized for all share-based payments made to employees, directors and non-employees based on estimated fair values. The fair value of our stock options is calculated using the Black-Scholes option valuation model, which requires assumptions, including volatility, forfeiture rates and expected option life. If any of the assumptions used in the Black-Scholes model change significantly, stock-based compensation expense for new awards may differ materially from that recorded for existing awards and stock-based compensation for non-employees will vary as the awards are re-measured over the vesting term.

As stock-based compensation expense is based on options ultimately expected to vest, the expense has been reduced for estimated forfeitures. We estimate forfeitures for expense recognition based on our historical experience. Groups of employees that have similar historical forfeiture behavior are considered separately. We use the straight-line method to allocate compensation cost to reporting periods over each optionee's respective requisite service period for employees and directors, which is generally the vesting period.

Stock options granted to non-employees are accounted for using the fair-value approach 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.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-15 related to disclosure of an entity's ability to continue as a going concern. This standard requires management to evaluate whether substantial doubt exists regarding the entity's ability to continue as a going concern at each reporting period for a duration of one year after the date the financial statements are issued or available to be issued. The standard establishes certain required disclosures if substantial doubt exists. On December 31, 2016, we adopted ASU 2014-15 on a prospective basis. We concluded there is a substantial doubt about the company's ability to continue as a going concern (see "Going Concern" in Note 1 to our Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion).

For the year ended December 31, 2016, we early adopted and applied retrospectively FASB Accounting Standards Update, or ASU, No. 2016-15, related to clarifying the classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance requires, among other things, cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. The adoption of this standard resulted in the reclassification of \$2.7 million of cash payments for debt prepayment costs and debt extinguishment costs within the financing activities section of our Consolidated Statements of Cash Flows for the year ended December 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued amended guidance related to revenue from contracts with customers. The amended guidance introduces a new principles-based framework for revenue recognition and disclosure. Since its issuance, the FASB has issued five ASUs amending the guidance and effective date, and the SEC has rescinded certain related SEC guidance; the most recent of which was issued in December 2016. The effective date of the guidance requires us to adopt the standard at the beginning of our first quarter of fiscal 2018 with earlier application permitted. The new guidance requires either a modified retrospective method or a full retrospective method of transition. We currently anticipate adoption of the guidance at the beginning of our first quarter of fiscal 2018 under the modified retrospective method. While we have not yet completed our final review of the impact of this guidance, we currently do not anticipate a material impact on our revenue recognition practices. We continue to review variable consideration, potential disclosures, and our method of adoption to complete our evaluation of the impact on our consolidated financial statements. In addition, we continue to monitor additional changes, modifications, clarifications or interpretations undertaken by the FASB, which may impact our current conclusions.

In February 2016, the FASB issued ASU 2016-02 related to lease accounting. This standard requires lessees to recognize a right-of-use asset and a lease liability for most leases. This standard must be applied using a modified retrospective transition method and is effective for all annual and interim periods beginning after December 15, 2018. Earlier adoption is permitted. We are evaluating how this new standard will impact the presentation of our financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update ASU No. 2016-09 related to stock compensation, which simplifies several aspects of the accounting for share-based payment transactions. The new guidance requires companies to

record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the statement of cash flows. We will adopt the standard in the three months ended March 31, 2017. Upon adoption, we will recognize the previously unrecognized excess tax benefits through a cumulative-effect adjustment to accumulated deficit. The previously unrecognized excess tax effects will be recorded as a deferred tax asset, which will be fully offset by a valuation allowance.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is primarily confined to our investment securities and notes 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 high-credit-quality securities. As of December 31, 2016, we had cash, cash equivalents and short-term investments of \$45.3 million. In accordance with our investment policy, we invest funds in highly liquid, investment-grade securities. 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 and, with our current portfolio of short term investments, we are not exposed to potential loss due to changes in interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 15 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2016. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2016, our principal executive and principal financial officers concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management, with the participation of our principal executive and principal financial officers, conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this

assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013 framework). Based on the results of this assessment and on those criteria, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Ernst & Young LLP has independently assessed the effectiveness of our internal control over financial reporting as of December 31, 2016 and its report is included below.

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during our fourth fiscal quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Omeros Corporation

We have audited Omeros Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Omeros Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Omeros Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Omeros Corporation as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit, and cash flows for each of the three years in the period ended December 31, 2016 of Omeros Corporation and our report dated March 16, 2017 expressed an unqualified opinion thereon that included an explanatory paragraph regarding Omeros Corporation's ability to continue as a going concern.

/s/ Ernst & Young LLP

Seattle, Washington
March 16, 2017

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2017 Annual Meeting of Shareholders and is incorporated herein by reference. Certain information required by this item concerning executive officers is set forth in Part I of this Annual Report on Form 10-K in "Business-Executive Officers and Key Employees."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Except for the information set forth below, the information required by this item will be contained in our definitive proxy statement issued in connection with the 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides certain information regarding our equity compensation plans in effect as of December 31, 2016:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
<i>Equity compensation plans approved by security holders:</i>			
2008 Equity Incentive Plan (1)	9,628,517	\$ 9.79	524,145
Amended and Restated 1998 Stock Option Plan	180,788	2.40	—
nura inc.	69	10.63	—
Total	9,809,374	\$ 9.66	524,145

(1) Our 2008 Equity Incentive Plan (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. The 2008 Plan also allows any shares returned under our 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 Plan, to be issued under the 2008 Plan. In addition, our 2008 Plan provides for annual increases in the number of shares available for issuance thereunder on the first day of each year equal to the lower of: (i) five percent of the outstanding shares of our common stock on the last day of the preceding year; (ii) 1,785,714 shares; and (iii) such other amount as our board of directors may determine. On January 1, 2017, an additional 1,785,714 shares became available for future issuance under our 2008 Plan in accordance with the annual increase. These additional shares from the annual increase are not included in the table above.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2017 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements

Reference is made to the Index to the Financial Statements set forth on page F-1 of this Annual Report on Form 10-K.

2. Financial Statement Schedules

All schedules have been omitted as the required information is either not required, not applicable or otherwise included in the Financial Statements and notes thereto.

3. Exhibits

Reference is made to the Exhibit Index that is set forth after the Financial Statements in this Annual Report on Form 10-K.

SIGNATURES

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

OMEROS CORPORATION

/s/ GREGORY A. DEMOPULOS, M.D.

Gregory A. Demopoulos, M.D.

President, Chief Executive Officer
and Chairman of the Board of Directors

Dated: March 16, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ GREGORY A. DEMOPULOS, M.D.</u> Gregory A. Demopoulos, M.D.	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 16, 2017
<u>/s/ MICHAEL A. JACOBSEN</u> Michael A. Jacobsen	Vice President, Finance, Chief Accounting Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2017
<u>/s/ RAY ASPIRI</u> Ray Aspiri	Director	March 16, 2017
<u>/s/ THOMAS J. CABLE</u> Thomas J. Cable	Director	March 16, 2017
<u>/s/ PETER A. DEMOPULOS, M.D.</u> Peter A. Demopoulos, M.D.	Director	March 16, 2017
<u>/s/ ARNOLD C. HANISH</u> Arnold C. Hanish	Director	March 16, 2017
<u>/s/ LEROY E. HOOD, M.D., PH.D.</u> Leroy E. Hood, M.D., Ph.D.	Director	March 16, 2017
<u>/s/ RAJIV SHAH, M.D.</u> Rajiv Shah, M.D.	Director	March 16, 2017

OMEROS CORPORATION
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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 as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive loss, shareholders' deficit and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omeros Corporation at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has recurring losses from operations and has a net capital deficiency 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 that might result from the outcome of this uncertainty.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Omeros Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
March 16, 2017

OMEROS CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31,	
	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,224	\$ 1,365
Short-term investments	43,107	26,898
Receivables	12,037	6,517
Inventory	1,128	472
Prepaid expense	1,766	1,894
Total current assets	60,262	37,146
Property and equipment, net	1,181	951
Restricted cash and investments	5,835	10,679
Other assets	—	219
Total assets	<u>\$ 67,278</u>	<u>\$ 48,995</u>
Liabilities and shareholders' deficit		
Current liabilities:		
Accounts payable	\$ 2,519	\$ 6,428
Accrued expenses	13,354	9,752
Current portion of lease financing obligations	198	73
Total current liabilities	16,071	16,253
Notes payable and lease financing obligations, net	79,512	49,769
Deferred rent	9,142	9,207
Commitments and contingencies (Note 8)		
Shareholders' deficit:		
Preferred stock, par value \$0.01 per share, 20,000,000 authorized and none issued at December 31, 2016 and 2015.	—	—
Common Stock, par value \$0.01 per share, 150,000,000 shares authorized at December 31, 2016 and 2015; 43,819,133 and 38,040,891 issued and outstanding at December 31, 2016 and December 31, 2015, respectively.	438	380
Additional paid-in capital	432,002	376,528
Accumulated deficit	(469,887)	(403,142)
Total shareholders' deficit	<u>(37,447)</u>	<u>(26,234)</u>
Total liabilities and shareholders' deficit	<u>\$ 67,278</u>	<u>\$ 48,995</u>

See notes to consolidated financial statements

OMEROS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except share and per share data)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Product sales, net	\$ 41,444	\$ 13,264	\$ —
Grant revenue	173	245	539
Total revenue	<u>41,617</u>	<u>13,509</u>	<u>539</u>
Costs and expenses:			
Cost of product sales	1,412	1,041	—
Research and development	50,699	48,379	47,946
Selling, general and administrative	43,782	35,327	22,601
Total costs and expenses	<u>95,893</u>	<u>84,747</u>	<u>70,547</u>
Loss from operations	(54,276)	(71,238)	(70,008)
Interest expense	(7,819)	(3,573)	(3,470)
Loss on early extinguishment of debt	(5,595)	(1,315)	—
Other income (expense), net	945	1,030	(195)
Net loss	<u>\$ (66,745)</u>	<u>\$ (75,096)</u>	<u>\$ (73,673)</u>
Comprehensive loss	<u>\$ (66,745)</u>	<u>\$ (75,096)</u>	<u>\$ (73,673)</u>
Basic and diluted net loss per share	<u>\$ (1.65)</u>	<u>\$ (2.00)</u>	<u>\$ (2.22)</u>
Weighted-average shares used to compute basic and diluted net loss per share	<u>40,446,410</u>	<u>37,560,257</u>	<u>33,234,294</u>

See notes to consolidated financial statements

OMEROS CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance at December 31, 2013	30,359,508	\$ 304	\$ 235,685	\$ (254,373)	\$ (18,384)
Issuance of common stock, net of offering costs	3,500,000	35	37,719	—	37,754
Issuance of common stock upon exercise of warrants	28,653	—	68	—	68
Issuance of common stock upon exercise of stock options	297,303	3	1,797	—	1,800
Stock-based compensation	—	—	8,918	—	8,918
Warrant modification	—	—	863	—	863
Net loss	—	—	—	(73,673)	(73,673)
Balance at December 31, 2014	34,185,464	342	285,050	(328,046)	(42,654)
Issuance of common stock and pre-funded warrants, net of offering costs	3,444,831	34	79,042	—	79,076
Issuance of common stock upon exercise of warrants	133,240	1	1,435	—	1,436
Issuance of common stock upon exercise of stock options	277,356	3	1,420	—	1,423
Stock-based compensation	—	—	9,581	—	9,581
Net loss	—	—	—	(75,096)	(75,096)
Balance at December 31, 2015	38,040,891	380	376,528	(403,142)	(26,234)
Issuance of common stock in direct offering, net of offering costs	3,478,260	35	37,279	—	37,314
Issuance of common stock upon exercise of stock options	1,486,167	15	3,131	—	3,146
Issuance of common stock upon exercise of warrants	749,250	7	—	—	7
Issuance of common stock under the ATM Agreement, net of offering costs	64,565	1	724	—	725
Stock-based compensation	—	—	13,582	—	13,582
Warrants issued in connection with amendment to notes payable	—	—	758	—	758
Net loss	—	—	—	(66,745)	(66,745)
Balance at December 31, 2016	<u>43,819,133</u>	<u>\$ 438</u>	<u>\$ 432,002</u>	<u>\$ (469,887)</u>	<u>\$ (37,447)</u>

See notes to consolidated financial statements

OMEROS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Operating activities:			
Net loss	\$ (66,745)	\$ (75,096)	\$ (73,673)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on early extinguishment of debt	5,595	1,315	—
Depreciation and amortization	300	209	317
Stock-based compensation expense	13,582	9,581	8,918
Non-cash interest expense	1,461	1,045	738
Conversion of accrued interest to notes payable	516	—	—
Warrant modification expense	—	—	863
Changes in operating assets and liabilities:			
Receivables	(5,520)	(6,125)	(13)
Inventory	(656)	96	(568)
Prepaid expenses and assets	347	(586)	(987)
Accounts payable and accrued expenses	(319)	4,195	5,459
Deferred rent	(65)	157	902
Net cash used in operating activities	<u>(51,504)</u>	<u>(65,209)</u>	<u>(58,044)</u>
Investing activities:			
Purchases and sales of property and equipment, net	(126)	(240)	(28)
Purchases of investments	(73,966)	(91,766)	(58,849)
Proceeds from the sale and maturities of investments	57,757	71,400	65,034
Net cash provided by (used in) investing activities	<u>(16,335)</u>	<u>(20,606)</u>	<u>6,157</u>
Financing activities:			
Proceeds from issuance of common stock and pre-funded warrants, net	38,039	79,076	37,754
Proceeds from borrowings under notes payable	100,000	50,000	32,000
Repayments on notes payable and lease financing obligations	(70,137)	(32,000)	(20,000)
Payments for debt prepayment and extinguishment costs	(5,700)	(2,673)	(521)
Payments for debt issuance costs	(1,501)	(436)	(244)
Decrease (increase) in restricted investments	4,844	(10,000)	—
Proceeds upon exercise of stock options and warrants	3,153	2,859	1,868
Net cash provided by financing activities	<u>68,698</u>	<u>86,826</u>	<u>50,857</u>
Net increase (decrease) in cash and cash equivalents	859	1,011	(1,030)
Cash and cash equivalents at beginning of period	1,365	354	1,384
Cash and cash equivalents at end of period	<u>\$ 2,224</u>	<u>\$ 1,365</u>	<u>\$ 354</u>
Supplemental cash flow information			
Cash paid for interest	\$ 5,293	\$ 4,236	\$ 2,674
Issuance of warrants in connection with amendment to notes payable	\$ 758	\$ —	\$ —
Property acquired under capital lease	<u>\$ 404</u>	<u>\$ 137</u>	<u>\$ 200</u>

See notes to consolidated financial statements

OMEROS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Organization and Basis of Presentation

Organization

We are a biopharmaceutical company committed to discovering, developing and commercializing both small-molecule and protein therapeutics for large-market as well as orphan indications targeting inflammation, coagulopathies and disorders of the central nervous system. Our first drug product OMIDRIA has been approved by the United States (U.S.) Food and Drug Administration (FDA) for use during cataract surgery or intraocular lens (IOL) replacement. We launched OMIDRIA in the U.S. in the second quarter of 2015.

Basis of Presentation

Our consolidated financial statements include the financial position and results of operations of Omeros Corporation (Omeros) and our wholly owned subsidiaries. All inter-company transactions have been eliminated. The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Segments

We operate in one segment. Management uses cash flow as the primary measure to manage our business and does not segment our business for internal reporting or decision-making.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates include revenue recognition, stock-based compensation expense and accruals for clinical trials, manufacturing of drug product and clinical drug supply and contingencies. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances; however, actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to prior periods in the consolidated balance sheets, the statements of cash flows and the accompanying notes to conform with the current presentation. None of these reclassifications impacted our net loss or working capital as they pertained to the presentation of debt matters including issuance costs, extinguishment losses, early payments and proceeds.

Going Concern

As of December 31, 2016, we adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 205-40, Presentation of Financial Statements - Going Concern (ASC 205-40), which requires management to assess our ability to continue as a going concern for one year after the date the financial statements are issued. Under ASC 205-40, management has the responsibility to evaluate whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations as they become due within one year after the date that the financial statements are issued. As required by this standard, management's evaluation shall initially not take into consideration the potential mitigating effects of management's plans that have not been fully implemented as of the date the financial statements are issued.

In performing the first step of this assessment, we concluded that the following conditions raise substantial doubt about our ability to meet our financial obligations as they become due. We have a history of net losses (\$66.7 million in 2016) and cash used in operating activities (\$51.5 million in 2016). As of December 31, 2016, we had \$45.3 million in cash, cash equivalents and short-term investments available to fund operations and debt service costs. We expect to continue to incur negative cash flows until such time as OMIDRIA or other sources of revenue generate sufficient cash inflows to finance our operations and debt service (which will be at least \$6.8 million in 2017). In addition, we also considered that pass-through reimbursement for our commercial product, OMIDRIA, is currently due to expire on January 1, 2018.

In performing the second step of this assessment, we are required to evaluate whether our plans to mitigate the conditions above alleviate the substantial doubt about our ability to meet our obligations as they become due within one year after the date that the financial statements are issued. Our future plans include securing continued separate reimbursement (or equivalent reimbursement treatment) for OMIDRIA, establishing corporate partnerships, establishing collaboration and licensing revenue agreements, and issuing public or private equity securities, including selling common stock through our at-the-market facility

(ATM) with JonesTrading Institutional Services LLC (JonesTrading) (see Note 9 for further detail) or securing additional borrowings including potentially accessing the \$45.0 million that is contingently available under the CRG Loan Agreement (see Note 7 for further detail). These sources of working capital are not currently assured, and consequently do not sufficiently mitigate the risks and uncertainties disclosed above. We have therefore concluded there is substantial doubt about our ability to continue as a going concern through March 16, 2018.

The accompanying consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying 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 classification of liabilities that may result from uncertainty related to our ability to continue as a going concern.

Note 2—Significant Accounting Policies

Cash and Cash Equivalents, Short-Term Investments and Restricted Cash and Investments

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, if any, 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 other income (expense), net. 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. We evaluate whether an investment is other-than-temporarily impaired based 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 and investments are held in certificates of deposit and money-market funds.

Inventory

Inventory is stated at the lower of cost or market determined on a specific identification basis in a manner which approximates the first-in, first-out (FIFO) method. Costs include amounts related to third party manufacturing, transportation and internal labor and overhead. Capitalization of costs as inventory begins when the product candidate receives regulatory approval in the U.S. or the European Union (EU), which for OMIDRIA began upon U.S. regulatory approval in May 2014. We expense inventory costs related to product candidates as research and development expenses prior to receiving regulatory approval in the respective territory. Inventory is reduced to net realizable value for excess and obsolete inventories based on forecasted demand.

Receivables

Receivables relate primarily to sales of OMIDRIA to wholesalers and include reductions for estimated chargebacks and product returns which are expected to be settled through reductions in receivables. Remaining receivables consist of amounts from subleases for space in The Omeros Building and, as of December 31, 2015, amounts related to grants from the National Institutes of Health (NIH). Considering the nature and historic collectability of our receivables, we concluded an allowance for doubtful accounts is not necessary as of December 31, 2016 and 2015.

Property and Equipment, net

Property and equipment are stated at cost and depreciation is calculated using the straight-line method over the estimated useful life of the assets, which is generally three to 10 years. Equipment financed under capital leases is recorded as property and equipment and is amortized over the shorter of the useful lives of the related assets or the lease term. Expenditures for equipment purchased with grant funds are recorded as a reduction to the cost of the applicable equipment. Expenditures for repairs and maintenance are expensed as incurred.

Impairment of Long-Lived Assets

The carrying amount of long-lived assets is 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 the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment will be reflected in the results of operations in the period of impairment. We have not recognized any impairment losses for the years ending December 31, 2016, 2015 and 2014.

Deferred Rent

We recognize rent expense on a straight-line basis over the noncancelable term of The Omeros Building operating lease and, accordingly, record the difference between cash rent payments and the recognition of rent expense as an increase or decrease in deferred rent liability. We also record landlord-funded lease incentives, such as reimbursable leasehold improvements, as an increase in deferred rent liability which is amortized as a reduction of rent expense over the noncancelable terms of The Omeros Building operating lease.

Revenue Recognition

Our revenues are comprised of product sales of OMIDRIA and amounts earned for services under grants from third parties. Revenue is recognized when there is persuasive evidence that an arrangement exists, product title and risk of loss is passed to the customer or the service has been provided, the price is fixed or determinable and collection is reasonably assured.

Product Sales, Net

We record revenue from product sales when the product is delivered to our wholesalers. Product sales to a wholesaler are not recorded if we determine that the wholesaler's on-hand OMIDRIA inventory, based on sell-through and inventory information we regularly receive from our wholesalers, exceeds approximately eight weeks of projected demand.

Product sales are recorded net of chargebacks, wholesaler distribution fees, estimated product returns and rebates. Accruals or allowances are established for these deductions in the same period when revenue is recognized, and actual amounts incurred are offset against the applicable accruals or allowances. We reflect each of these accruals or allowances as either a reduction in the related account receivable or as an accrued liability, depending on how the amount is expected to be settled.

Provisions for chargebacks are determined utilizing historical and projected payer mix and sale-through and inventory on-hand information received directly from wholesalers. Chargebacks are generally settled within four weeks of recording product sales revenue.

We provide reimbursement support services and financial assistance in the form of reimbursement to certain patients whose commercial insurance is inadequate to cover the full cost of OMIDRIA. We apply our historical rebate ratio to product sales to determine the rebate accrual. This ratio is reviewed and updated periodically to reflect actual results.

We provide rebate payments for which ambulatory surgery centers (ASCs) qualify by meeting or exceeding purchase volumes of OMIDRIA under a purchase volume discount program. Rebate accruals and payments under this program are determined based on contractual volume achievement.

We allow for the return of product up to 12 months past its expiration date or for product that is damaged. In estimating product returns, we take into consideration our return experience to date, the remaining shelf life of product we have previously sold, inventory in the wholesale channel and our expectation that product is typically not held by the healthcare providers based on the frequency of their reorders.

We pay our wholesalers a distribution fee for services they perform on our behalf based on a contractual rate.

Research and Development

Research and development costs are comprised primarily of costs for personnel, including salaries, benefits and stock compensation; an allocation of our occupancy costs; clinical study costs; contracted research; manufacturing; consulting arrangements; depreciation; materials and supplies; milestones; and other expenses incurred to sustain our overall research and development programs. Research and development costs are expensed as incurred.

Advance payments for goods or services that will be used or rendered for future research and development activities are deferred and then recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided.

Patents

We generally apply for patent protection on processes and product candidates we or our licensors conceive or develop. Patent costs are comprised primarily of external legal fees, filing fees incurred to file patent applications, and periodic renewal fees to keep the patent in force and are expensed as incurred as a component of general and administrative expense.

Selling, General and Administrative

Selling, general and administrative (SG&A) expenses are comprised primarily of salaries, service fees incurred for our sales force, benefits, and stock-compensation costs for sales, marketing, and other personnel not directly engaged in research and development. Additionally, SG&A includes marketing and selling expenses, professional and legal services; patent costs; depreciation, an allocation of our occupancy costs; and other general corporate expenses.

Advertising

Advertising costs, which we consider to be media and marketing materials, are expensed as incurred. We incurred \$672,000 and \$885,000 in advertising expense during the years ended December 31, 2016 and December 31, 2015, respectively. We had no similar expenses during the year ended December 31, 2014.

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. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained upon an examination. A valuation allowance is established when it is more likely than not that the deferred tax assets will not be realized.

Stock-Based Compensation

Stock-based compensation expense is recognized for all share-based payments made to employees, directors and non-employees based on estimated fair values. The fair value of our stock options is calculated using the Black-Scholes option-pricing model which requires judgmental assumptions including volatility, forfeiture rates and expected option life. For employees and directors, we use the straight-line method to allocate compensation cost to reporting periods over each optionee's requisite service period, which is generally the vesting period. Stock options granted to non-employees are accounted for using the fair-value approach and are subject to periodic revaluation over their vesting terms as earned.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is comprised of net loss and certain changes in equity that are excluded from net loss. There was no difference between comprehensive loss and net loss for the years ended December 31, 2016, 2015 or 2014.

Financial Instruments and Concentrations of Credit Risk

Cash and cash equivalents, receivables, accounts payable and accrued liabilities, which are recorded at invoiced amount or 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 us to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and receivables. Cash and cash equivalents are held by financial institutions and are federally insured up to certain limits. At times, our cash and cash equivalents balance exceeds the federally insured limits. To limit the credit risk, we invest our excess cash in high quality securities such as money market mutual funds, certificates of deposit and commercial paper.

Our notes payable includes features that meet the requirements under existing accounting guidance to be bifurcated from the respective notes payable agreement and to be recorded at fair value as a derivative asset or liability on the Consolidated Balance Sheet with the corresponding change in fair value recognized in Other income (expense), net on the Consolidated Statement of Operations. As of December 31, 2016, the fair value of the embedded derivatives was not material.

Major Customers

We sell OMIDRIA through a limited number of wholesalers. Each of these wholesalers, together with entities under their common control, accounted for greater than 10% of total revenues for the years ended December 31, 2016 and 2015 and greater than 10% of accounts receivable as of December 31, 2016 and 2015 as noted below.

	2016		2015	
	Percentage of Total Revenue	Percentage of Accounts Receivable	Percentage of Total Revenue	Percentage of Accounts Receivable
Distributor A	31%	27%	37%	45%
Distributor B	32%	29%	31%	23%
Distributor C	28%	24%	28%	27%
Distributor D	*	19%	*	*

* Distributor did not account for greater than 10% of total revenues for the years ended December 31, 2016 and 2015 or greater than 10% of accounts receivable at December 31, 2015

Major Suppliers

We use a single contract manufacturer to supply OMIDRIA and generally a single contract manufacturer to produce clinical trial material which creates a concentration of risk for us.

We have a non-exclusive agreement with Hospira Worldwide, Inc. (Hospira), a wholly owned subsidiary of Pfizer, Inc., for the commercial supply of OMIDRIA, and Hospira has produced product validation batches of OMIDRIA which are currently undergoing testing prior to seeking FDA approval of the Hospira manufacturing facility. We are not permitted to sell any OMIDRIA produced by Hospira, however, until the Hospira manufacturing facility is approved by the FDA.

While one source of supply is utilized for OMIDRIA and generally one source for each of our product candidates, other sources are available should we need to change suppliers. We endeavor to maintain reasonable levels of drug supply for our commercial and clinical trial use. A change in suppliers, however, could cause a delay in delivery of OMIDRIA or our clinical trial material that would adversely affect our business.

Recently Adopted Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-15 related to disclosure of an entity's ability to continue as a going concern. This standard requires management to evaluate whether substantial doubt exists regarding the entity's ability to continue as a going concern at each reporting period for a duration of one year after the date the financial statements are issued or available to be issued. The standard establishes certain required disclosures if substantial doubt exists. On December 31, 2016, we adopted ASU 2014-15 on a prospective basis. We concluded there is substantial doubt about our ability to continue as a going concern (see "Going Concern" in Note 1 for further discussion).

For the year ended December 31, 2016, we early adopted and applied retrospectively FASB Accounting Standards Update (ASU) No. 2016-15, related to clarifying the classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance requires, among other things, cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. The adoption of this standard resulted in the reclassification of \$2.7 million of cash payments for debt prepayment costs and debt extinguishment costs within the financing activities section of our Consolidated Statements of Cash Flows for the year ended December 31, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued amended guidance related to revenue from contracts with customers. The amended guidance introduces a new principles-based framework for revenue recognition and disclosure. Since its issuance, the FASB has issued five ASUs amending the guidance and effective date, and the SEC has rescinded certain related SEC guidance; the most recent of which was issued in December 2016. The effective date of the guidance requires us to adopt the standard at the beginning of our first quarter of fiscal 2018 with earlier application permitted. The new guidance requires either a modified retrospective method or a full retrospective method of transition. We currently anticipate adopting the guidance at the beginning of our first quarter of fiscal 2018 under the modified retrospective method. While we have not yet completed our final review of the impact of this guidance, we currently do not anticipate a material impact on our revenue recognition practices. We continue to review variable consideration, potential disclosures, and our method of adoption to complete our evaluation of the impact on our consolidated financial statements. In addition, we continue to monitor additional changes, modifications, clarifications or interpretations undertaken by the FASB, which may impact our current conclusions.

In February 2016, the FASB issued ASU 2016-02 related to lease accounting. This standard requires lessees to recognize a right-of-use asset and a lease liability for most leases. This standard must be applied using a modified retrospective transition method and is effective for all annual and interim periods beginning after December 15, 2018. Earlier adoption is permitted. We are evaluating how this new standard will impact the presentation of our financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update ASU No. 2016-09 related to stock compensation, which simplifies several aspects of the accounting for share-based payment transactions. The new guidance requires companies to record excess tax benefits and tax deficiencies as income tax benefit or expense in the statement of operations when the awards vest or are settled, and eliminates the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities on the statement of cash flows. We will adopt the standard in the three months ended March 31, 2017. Upon adoption, we will recognize the previously unrecognized excess tax benefits through a cumulative-effect adjustment to accumulated deficit. The previously unrecognized excess tax effects will be recorded as a deferred tax asset, which will be fully offset by a valuation allowance.

Note 3—Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares and dilutive common share equivalents outstanding for the period, determined using the treasury-stock method. Common share equivalents are excluded from the diluted net loss per share computation if their effect is anti-dilutive.

The basic and diluted net loss per share amounts for the years ended December 31, 2016, 2015 and 2014 were computed based on the shares of common stock outstanding during the respective periods. Potentially dilutive securities excluded from the diluted loss per share calculation are as follows:

	Year Ended December 31,		
	2016	2015	2014
Outstanding options to purchase common stock	9,809,374	8,310,235	8,364,469
Warrants and pre-funded warrants to purchase common stock	100,602	749,250	551,435
Total potentially dilutive securities	9,909,976	9,059,485	8,915,904

Note 4—Cash, Cash Equivalents and Investments

As of December 31, 2016 and 2015, all investments are classified as short-term and available-for-sale on the accompanying Consolidated Balance Sheets. Investment income, which is included as a component of other income (expense), consists primarily of interest earned.

Note 5—Fair-Value Measurements

On a recurring basis, we measure certain financial assets at fair value. Fair value is defined 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. The accounting standard establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required:

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 they are developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

Our fair-value hierarchy for our financial assets measured at fair value on a recurring basis are as follows:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money-market funds classified as non-current restricted cash and investments	\$ 5,835	\$ —	\$ —	\$ 5,835
Money-market funds classified as short-term investments	43,107	—	—	43,107
Total	\$ 48,942	\$ —	\$ —	\$ 48,942

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Money-market funds classified as non-current restricted cash and investments	\$ 10,679	\$ —	\$ —	\$ 10,679
Money-market funds classified as short-term investments	26,898	—	—	26,898
Total	<u>\$ 37,577</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,577</u>

Cash held in demand deposit accounts of \$2.2 million and \$1.4 million is excluded from our fair-value hierarchy disclosure as of December 31, 2016 and 2015, respectively. There were no unrealized gains or losses associated with our short-term investments as of December 31, 2016 or 2015. The carrying amounts reported in the accompanying Consolidated Balance Sheets for receivables, accounts payable, other current monetary assets and liabilities and notes payable and lease financing obligations approximate fair value.

Note 6—Certain Balance Sheet Accounts

Receivables

	December 31,	
	2016	2015
	(In thousands)	
Trade receivables	\$ 11,937	\$ 6,208
Grant receivables	—	136
Other receivables	100	173
Total receivables	<u>\$ 12,037</u>	<u>\$ 6,517</u>

Trade accounts receivable are shown net of \$297,000 and \$191,000 of chargebacks and product return allowances as of December 31, 2016 and 2015, respectively.

Inventory

	December 31,	
	2016	2015
	(In thousands)	
Raw materials	\$ 101	\$ 93
Work-in-process	854	158
Finished goods	173	221
Total inventory cost	<u>\$ 1,128</u>	<u>\$ 472</u>

Property and Equipment

	December 31,	
	2016	2015
(In thousands)		
Laboratory equipment	\$ 1,830	\$ 1,735
Capital lease equipment	774	367
Office equipment and furniture	625	625
Computer equipment	476	482
Computer software	208	174
Total cost	3,913	3,383
Less accumulated depreciation and amortization	(2,732)	(2,432)
Total property and equipment, net	\$ 1,181	\$ 951

For the years ended December 31, 2016, 2015 and 2014, depreciation and amortization expense was \$300,000, \$209,000 and \$317,000, respectively.

Accrued Expenses

	December 31,	
	2016	2015
(In thousands)		
Employee compensation	\$ 4,551	\$ 2,590
Contract research and development	3,030	2,973
Consulting and professional fees	2,223	2,400
Clinical trials	1,167	1,108
Other accruals	2,383	681
Total accrued liabilities	\$ 13,354	\$ 9,752

Note 7—Notes Payable and Lease Financing Obligations

Notes payable and lease financing obligations consist of the following:

	December 31,	
	2016	2015
(In thousands)		
Notes payable	\$ 80,516	\$ 50,000
Lender facility fee payable upon maturity	4,025	3,750
Lease financing obligations	522	279
Notes payable, facility fee and lease financing obligations	85,063	54,029
Unamortized debt discount	(3,958)	(3,750)
Unamortized debt issuance costs	(1,395)	(437)
Current portion of lease financing obligations	(198)	(73)
Notes payable and lease financing obligations, net	\$ 79,512	\$ 49,769

2014 Oxford/MidCap Loan Agreement

In March 2014, we entered into a Loan and Security Agreement (the Oxford/MidCap Loan Agreement) with Oxford and MidCap Financial SBIC, LP (MidCap) pursuant to which we borrowed \$32.0 million. We used \$19.1 million of the loan proceeds to repay all of the amounts owed by us under our previously outstanding loan agreement and, after deducting loan initiation costs, we received \$12.7 million in net proceeds. The Oxford/MidCap Loan Agreement provided for interest-only payments at an annual rate of 9.25% through March 1, 2015 with principal and interest payments of \$1.0 million commencing

April 1, 2015 through its maturity date of March 1, 2018. In addition, the Oxford/MidCap Loan Agreement required a \$2.2 million loan maturity fee payment upon full repayment of the loan and a prepayment fee equal to 1.0% of the then-outstanding principal balance if we paid the loan prior to the maturity date. These costs were being amortized to interest expense using the effective interest method over the term of the Oxford/MidCap Loan Agreement.

2015 Oxford/EWB Loan Agreement

In December 2015, we entered into a Loan and Security Agreement (the Oxford/EWB Loan Agreement) with Oxford and East West Bank (EWB) pursuant to which we borrowed \$50.0 million. In addition, we could borrow an additional \$20.0 million contingent upon the satisfaction of certain conditions including minimum net revenues from OMIDRIA. We used \$27.3 million of the loan proceeds to repay all of the amounts owed by us under the Oxford/Midcap Loan Agreement including the outstanding principal of \$24.8 million, the loan maturity fee of \$2.2 million and the prepayment fee of \$248,000. After deducting all loan initiation costs and outstanding interest on the Oxford/MidCap Loan Agreement, we received \$22.3 million in net proceeds. We accounted for the termination of the Oxford/Midcap Loan Agreement as a debt extinguishment and, accordingly, incurred a loss of \$1.3 million associated with the unamortized loan maturity fee and the prepayment fee.

The Oxford/EWB Loan Agreement also required a \$3.8 million loan maturity fee upon full repayment of the initial \$50.0 million borrowed and \$525,000 for each additional \$10.0 million borrowed. We had the option to prepay the outstanding principal balance in its entirety at any time if we pay a prepayment equal to 1.0% of the then-outstanding principal balance. The Oxford/EWB Loan Agreement contained covenants that required us to, among other provisions, maintain \$10.0 million in restricted cash and certain eligible term investments, and to establish an at-the-market (ATM) equity facility (see Note 9 for further discussion of the ATM equity facility).

In May 2016, we entered into the First Amendment to the Oxford/EWB Loan Agreement (the Amendment) whereby we accelerated the borrowing of the additional \$20.0 million available to us under the Oxford/EWB Loan Agreement. After deducting all loan initiation costs, we received \$19.9 million in net proceeds. The Amendment did not modify the interest rate or any terms or covenants of the Loan Agreement except to increase the final payment fee rate applicable to the additional \$20.0 million borrowed from 5.25% to 6.25% reflecting the accelerated draw-down of the additional loan. In connection with the Amendment, we issued warrants to purchase an aggregate of 100,602 shares of Omeros common stock (the Warrants) to Oxford and EWB at the then current market price of \$9.94 per share. We accounted for the Warrants as a discount to our notes payable (see Note 9 for further discussion of the Warrants).

We accounted for the Amendment as a debt modification and, accordingly, the unamortized discount and debt issuance costs associated with the Loan Agreement were being amortized to interest expense using the effective interest method over the remaining term of the Loan Agreement.

2016 CRG Loan Agreement

In October 2016, we entered into the CRG Loan Agreement with CRG Servicing LLC, which requires interest-only payments through December 31, 2020 and, subject to the achievement of certain milestones, potentially through the maturity date of September 30, 2022. We initially borrowed \$80.0 million and may borrow up to an additional \$45.0 million in two tranches of \$25.0 million and \$20.0 million, respectively, contingent upon achievement of certain conditions on or before June 30, 2017 and December 31, 2017, respectively. To borrow the \$25.0 million under the first tranche, we must achieve OMIDRIA net product sales of at least \$18.0 million during any consecutive three month period or an average market capitalization of at least \$700.0 million for any consecutive three month period, in each case ending on or prior to June 30, 2017, and the borrowing must occur on or prior to September 19, 2017. To borrow the \$20.0 million under the second tranche, we must achieve OMIDRIA net product sales of at least \$25.0 million during any consecutive three month period or an average market capitalization of at least \$1.0 billion for any consecutive three month period, in each case ending on or prior to December 31, 2017, and the borrowing must occur on or prior to March 21, 2018.

We used \$75.7 million of the initial loan proceeds to repay all amounts owed by us under our then-outstanding Oxford/EWB Loan Agreement including the outstanding principal of \$70.0 million, the loan maturity fee of \$5.0 million and the prepayment fee of \$700,000. After deducting the loan initiation costs and related fees on the CRG Loan Agreement, we received \$3.0 million in net proceeds. We accounted for the termination of the Oxford/EWB Loan Agreement as a debt extinguishment and, accordingly, incurred a loss of 5.6 million associated with the unamortized loan maturity fee, loan initiation costs and the prepayment fee.

The CRG Loan Agreement accrues interest at an annual rate of 12.25% (4.00% of which can be deferred at our option during the interest-only period by adding such amount to the aggregate principal amount) and is interest only for a minimum of four years and, subject to the achievement of certain milestones, potentially through the maturity date. If an OMIDRIA net revenue milestone is satisfied during the 12-month period ending on December 31, 2019, the interest rate may be reduced to

11.50%, 3.50% of which may be deferred at our option and added to the principal amount outstanding. In addition, if either the OMIDRIA net revenue milestone is satisfied during such period or a market capitalization milestone is achieved during the fourth quarter of 2020, the loan would convert to interest-only until the September 30, 2022 maturity. The CRG Loan Agreement requires us to maintain cash and cash equivalents of \$5.0 million during the term of the agreement which is recorded as restricted cash and investments in our Consolidated Balance Sheet.

We are also required to pay the Lenders a facility fee equal to 5.00% of the aggregate principal amount borrowed (including principal additions related to deferred interest) on repayment of the CRG Loan Agreement. The \$4.0 million related to the facility fee is being accreted to notes payable using the effective interest method over the term of the loan agreement.

We may prepay all or a portion of the outstanding principal under the CRG Loan Agreement at any time upon prior notice to the Lenders subject to a prepayment fee through September 30, 2019, with no prepayment fee thereafter. In certain circumstances, including a change of control and certain asset sales or licensing transactions, we are required to prepay all or a portion of the loan, including the applicable prepayment premium of on the amount of the outstanding principal to be prepaid.

The CRG Loan Agreement also requires us to achieve either (a) certain minimum net revenue amounts through the end of 2021, which are \$35.0 million, \$55.0 million and \$65.0 million for the 2016, 2017 and 2018 calendar years, respectively, or (b) a minimum market capitalization threshold equal to the product of 6.4 multiplied by the aggregate principal amount of loans outstanding under the CRG Loan Agreement determined as of the fifth business day following announcement of earnings results for the applicable year. If we are unable to satisfy the minimum annual revenue requirement or the market capitalization threshold for any given year, we may avoid a related default by repaying the shortfall between actual revenues and the minimum revenue requirement for such year using proceeds generated by an equity or subordinated debt issuance. We exceeded the OMIDRIA minimum revenue requirement for 2016.

The CRG Loan Agreement also includes customary events of default that include, among other things, non-payment, inaccuracy of representations and warranties, covenant breaches, cross default to material indebtedness or material agreements, bankruptcy and insolvency, material judgments and a change of control. An event of default under the CRG Loan Agreement also includes the occurrence of any material adverse effect upon our business, condition (financial or otherwise), operations, performance or property taken as a whole. If there is an event of default under the CRG Loan Agreement, the lenders may have the right to accelerate all of our repayment obligations under the CRG Loan Agreement and to take control of our pledged assets, which include substantially all of our assets including our intellectual property. Under certain circumstances, a default interest rate of an additional 4.00% per annum will apply on all outstanding obligations during the existence of an event of default under the Loan Agreement.

On December 31, 2016, as allowed under the CRG Loan Agreement, we deferred \$516,000 of interest due on December 31, 2016 by increasing the principal amount outstanding. As of December 31, 2016, we were not in default under the CRG Loan Agreement.

Lease Financing Obligations

We have capital leases for certain lab and office equipment which have lease terms expiring between October 2017 and December 2021. Equipment costs related to these capital leases of \$774,000 and \$367,000 is included in our property and equipment as of December 31, 2016 and December 31, 2015, respectively and the accumulated depreciation on this equipment was \$230,000 and \$98,000, respectively. The remaining principal payments under these capital leases totaled \$522,000 and \$281,000 as of December 31, 2016 and 2015, respectively.

Future Principal Payments

Future principal payments as of December 31, 2016 under the CRG Loan Agreement and our capital equipment financing leases, based on stated contractual maturities, are as follows:

Year Ending December 31,	Notes Payable	Lease Financing Obligations	Total
	(In thousands)		
2017	\$ —	\$ 198	\$ 198
2018	—	199	199
2019	—	89	89
2020	—	31	31
2021	46,009	5	46,014
Thereafter	34,507	—	34,507
Total future principal payments	\$ 80,516	\$ 522	\$ 81,038

The principal payments reflected in the table above exclude the \$4.0 million lender's facility fee due on repayment of the CRG Loan Agreement.

Note 8—Commitments and Contingencies

Real Estate and Equipment Lease Obligations

We lease office and laboratory spaces in The Omeros Building. The initial term of the real estate lease ends in November 2027 and we have two options to extend the lease term, each by five years. As of December 31, 2016, the remaining aggregate non-cancelable rent under the initial terms of the real estate, excluding common area maintenance and related operating expenses, was \$50.5 million. The deferred rent balance of \$9.2 million relates to rent deferrals and landlord funded lease incentives since the inception of our lease and is being amortized to research and development and selling, general and administrative expense on a straight-line basis through the initial term of the lease.

Rent expense, including the amortization of lease incentives and rent deferrals, totaled \$4.4 million, \$4.5 million and \$4.5 million for the years ended December 31, 2016, 2015 and 2014, respectively.

We periodically sublease unused office and laboratory space in The Omeros Building to third-party tenants. Rental income received under these subleases was \$737,000, \$889,000 and \$568,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Rental income is recorded as other income (expense), net in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

We rent equipment and fleet vehicles for our sales force under various operating lease agreements which have remaining aggregate non-cancellable rent of \$1.1 million at December 31, 2016.

Future minimum payments related to our leases at December 31, 2016, are as follows:

Year Ending December 31,	Lease Payments	Sublease Receipts	Net Lease Payments
	(In thousands)		
2017	\$ 4,474	\$ 663	\$ 3,811
2018	4,545	663	3,882
2019	4,632	597	4,035
2020	4,690	335	4,355
2021	4,552	—	4,552
Thereafter	28,712	—	28,712
Total	\$ 51,605	\$ 2,258	\$ 49,347

Contracts

We have various agreements with third parties that collectively require payment of termination fees totaling \$2.2 million as of December 31, 2016 if we cancel the work within specific time frames, either prior to commencing or during performance of the contracted services. This is in addition to fees associated with the CRG Loan Agreement as described within Note 7 and within the Contractual Obligations and Commitments and Financial Condition - Liquidity and Capital Resources sections of Management's Discussion and Analysis.

Development Milestones and Product Royalties

Phosphodiesterase 10 (PDE10) inhibitors - In connection with a funding agreement with The Stanley Medical Research Institute entered into in December 2006, beginning the first calendar year after commercial sales of any therapeutic product that inhibits or modulates PDE10 (including for schizophrenia or Huntington's disease), we are obligated to pay royalties based on net income of the product, as defined in the agreement. Based on the amount of grant funding received, the maximum amount of royalties payable by us is \$12.8 million. For the years ended December 31, 2016, 2015 and 2014, we did not owe any royalties.

Peroxisome proliferators activated receptor gamma (PPAR γ) - In February 2009, we entered into a patent assignment agreement whereby we acquired all intellectual property rights, including patent applications, related to PPAR γ agonists for the treatment and prevention of addictions to substances of abuse, as well as other compulsive behaviors. In February 2011, we amended the patent assignment agreement to include all intellectual property rights, including patent applications, related to dietary supplements that increase PPAR γ activity. We will be required to make payments up to \$3.8 million in total, for both PPAR γ agonists and dietary supplements that increase PPAR γ activity, upon achievement of certain development events, such as the initiation of clinical trials and receipt of marketing approval. In addition, we are obligated to pay a low single-digit percentage royalty on any net sales of drug products that are covered by the patent assignment agreement. For the years ended December 31, 2016, 2015 and 2014, we did not owe any development milestones or royalties.

Phosphodiesterase 7 (PDE7) inhibitors - Under a license agreement with Daiichi Sankyo Co., Ltd. (Daiichi Sankyo) we hold an exclusive license to phosphodiesterase 7 (PDE7) inhibitors owned by Daiichi Sankyo for use in (1) the treatment of movement disorders and other specified indications; (2) addiction and compulsive disorders; and (3) all other indications except those related to dermatologic conditions. We will be required to make milestone payments to Daiichi Sankyo of up to \$33.5 million upon the achievement of certain events, such as successful completion of certain preclinical toxicology studies; dosing of human subjects in Phase 1, 2 and 3 clinical trials; receipt of marketing approval of a PDE7 inhibitor product; and reaching specified sales milestones. However, if only one of the three indications is advanced through each milestone, the total milestone payments would be \$23.5 million. In addition, we are obligated to pay Daiichi Sankyo a low single-digit percentage royalty on any net sales of a PDE7 inhibitor licensed under the agreement provided that if the sales are made by a sublicensee, the amount payable by us to Daiichi Sankyo is capped at a low double-digit percentage of all royalty and specified milestone payments that we receive from the sublicensee. For the year ended December 31, 2013, we paid \$50,000 upon execution of an amendment which was recognized as research and development expense. For the years ended December 31, 2016, 2015 and 2014, we did not owe any development milestones or royalties.

Mannan-binding lectin-associated serine protease-2 (MASP-2) - In April 2010, we entered into an exclusive license agreement with Helion Biotech ApS (Helion), pursuant to which we received a royalty bearing, worldwide exclusive license to all of Helion's intellectual property rights related to MASP-2 antibodies, polypeptides and methods in the field of inhibition of mannan-binding lectin-mediated activation of the complement system for the prevention, treatment or diagnosis of any disease or condition. We will be required to make development and sales milestone payments to Helion of up to \$6.1 million upon the achievement of certain events, such as the filing of an Investigational New Drug Application (IND) with the FDA; initiation of Phase 2 and 3 clinical trials; receipt of marketing approval; and reaching specified sales milestones. We are obligated to pay Helion a low single-digit percentage royalty on net sales of a MASP-2 inhibitor product covered by the patents licensed under the agreement. For the year ended December 31, 2016 and 2015, we did not owe any development milestones or royalties. For the year ended December 31, 2014, we incurred development milestone costs of \$300,000 under this agreement which was recognized as research and development expense.

G protein-coupled receptor (GPCR) - In October 2010, we entered into funding agreements for our GPCR program with Vulcan and LSDF. In connection with the funding agreements, we agreed to pay Vulcan and LSDF tiered percentages of the net proceeds derived from the GPCR program. The percentage rates decrease as the cumulative net proceeds reach specified thresholds, and the blended percentage rate in the aggregate is in the mid-teens with respect to approximately the first \$1.5 billion of cumulative net proceeds. If we receive cumulative net proceeds in excess of approximately \$1.5 billion, the percentage rate decreases to one percent. Pursuant to the agreement with Vulcan, we may pay a portion of Vulcan's share of the one percent of net proceeds to a life sciences initiative (LSI) to be established in accordance with the LSDF agreement. The LSI will be a non-profit, tax-exempt organization with a mission to advance life sciences in the State of Washington.

Net proceeds are generally defined in the Vulcan and LSDF agreements as (1) all consideration received by us in any form relating directly to the GPCR program less (2) all expenses and expenditures in excess of \$25.0 million incurred by us in connection with the GPCR program. Any consideration that we receive (a) from government entities (subject to specified exceptions), (b) from third parties that have designated such consideration for the purpose of funding research and development expenses and related overhead or (c) in the form of grants, as well as any expenses or expenditures that we incur that are paid for with such consideration, are excluded for purposes of determining net proceeds.

Under our agreement with Vulcan, we granted Vulcan a security interest in our personal property related to the GPCR program, other than intellectual property, which security interest is junior to any existing or future security interests granted in connection with a financing transaction and which will be automatically released after Vulcan receives \$25.0 million under the agreement. We also agreed not to grant any liens on intellectual property related to the GPCR program. The term of our agreement with Vulcan is 35 years, provided that the term will automatically extend until the cumulative net proceeds that we receive from the GPCR program are approximately \$1.5 billion.

Under our agreement with LSDF, after LSDF receives \$25.0 million, any remaining amounts that would be payable to LSDF will be paid to LSI. Our obligations with respect to LSI are limited to creating LSI's charter documents, incorporating LSI, selecting directors and applying for tax exempt status, all in consultation with LSDF. The term of our agreement with LSDF expires on the six-month anniversary following the last date that we deliver a report related to our incurrence of grant-funded expenses described in the agreement. The term of our payment obligations to LSDF is the same as that under our agreement with Vulcan.

As of December 31, 2016, we have not derived any net proceeds as defined in the Vulcan and LSDF agreements from our GPCR program.

Litigation

In July 2015, we received a Paragraph IV Notice Letter from Par Pharmaceutical, Inc. and its subsidiary, Par Sterile Products, LLC, (collectively, Par) stating that Par filed an Abbreviated New Drug Application (ANDA) seeking approval from the FDA to market a generic version of OMIDRIA prior to the expiration of three patents listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (Orange Book) for OMIDRIA (the Orange Book Patents). Following receipt of the Paragraph IV Notice Letter, in September 2015 we filed a patent infringement lawsuit under the Hatch-Waxman Act against Par. In April 2016, August 2016 and November 2016, we amended the lawsuit to assert additional OMIDRIA patents. Par has stipulated to infringement of each of the currently asserted patents, and the court entered a partial judgment that Par's filing of its ANDA constitutes an act of infringement of each of the currently asserted patents, subject to Par's continued invalidity defenses and any challenge to enforceability. The filing of our suit against Par triggered a 30-month stay of the FDA's approval of Par's ANDA, which is expected to remain in effect until late January 2018. We have reviewed the invalidity assertions in Par's Paragraph IV Notice Letter and defenses and counterclaims and believe they do not have merit, and we intend to defend our patents vigorously in the litigation against Par.

Note 9—Shareholders' Equity

Common Stock

As of December 31, 2016, we had reserved shares of common stock for the following purposes:

Options granted and outstanding	9,809,374
Options available for future grant	524,145
Common stock warrants	100,602
Total shares reserved	10,434,121

Options Available for Future Grant - On January 1, 2017, an additional 1,785,714 shares became available for future issuance under the 2008 Equity Incentive Plan (the 2008 Plan) in accordance with the annual increase provisions of the 2008 Plan. These additional shares are not included in the table above.

At Market Issuance Sales Agreement - In January 2016, we entered into an At Market Issuance Sales Agreement (the ATM Agreement) with JonesTrading Institutional Services LLC (JonesTrading) pursuant to which we may direct JonesTrading to sell shares of our common stock directly on The Nasdaq Global Market, through a market maker other than on an exchange or in negotiated transactions. Any sales made under the ATM Agreement are based solely on our instructions and JonesTrading will receive a 1.7% commission from the gross proceeds. The ATM Agreement may be terminated by either party at any time upon 10 days' notice to the other party or by JonesTrading at any time in certain circumstances including the occurrence of a material adverse effect to Omeros. During the year ended December 31, 2016, we sold 64,565 shares of our common stock at an average price of \$11.41 per share under the ATM Agreement and received net proceeds of \$724,000. We currently may sell shares of our common stock having an aggregate offering price of up to \$50.0 million under the ATM Agreement.

Securities Offerings - In August 2016, we sold 3.5 million shares of our common stock at a public offering price of \$11.50 per share. After deducting underwriter discounts and offering expenses, we received net proceeds from the offering of \$37.3 million.

In February 2015, we sold 3.4 million shares of our common stock at a public offering price of \$20.03 and sold pre-funded warrants to purchase up to 749,250 shares of our common stock at a public offering price of \$20.02 per pre-funded warrant share. The public offering price for the pre-funded warrants was equal to the public offering price of the common stock, less the \$0.01 per share exercise price of each pre-funded warrant. After deducting underwriter discounts and offering expenses of \$4.9 million, we received net proceeds from the transaction of \$79.1 million.

In March 2014, we sold 3.5 million shares of our common stock at a public offering price of \$11.50 per share. After deducting underwriter discounts and offering expenses of \$2.5 million, we received net proceeds from the transaction of \$37.8 million.

Warrants

The following table summarizes our outstanding warrants at December 31, 2016:

Outstanding At December 31, 2016	Expiration Date	Exercise Price
100,602	May 18, 2023	\$9.94

In connection with an amendment to the Oxford/EWB Loan Agreement in May 2016, we issued warrants to purchase an aggregate of 100,602 shares of our common stock to Oxford and EWB (the Warrants). We evaluated the terms of the Warrants and determined that the Warrants should be recorded as permanent equity. The aggregate fair value of the Warrants on the issue date was \$758,000, which we recorded as a discount to our notes payable. We were amortizing the Warrants over the remaining term of the Oxford/EWB Loan Agreement using the effective interest method. On October 26, 2016, in connection with our repayment of the Oxford/EWB Loan Agreement (see Note 7), the unamortized discount to our notes payable was expensed as a loss on early extinguishment of debt in our Consolidated Statement of Operations and Comprehensive Loss. The Warrants remain outstanding and exercisable through May 18, 2023 at an exercise price per share of \$9.94 per share.

In March 2016, we received cash proceeds of approximately \$7,500 upon the cash exercise of our then-outstanding pre-funded warrants referenced above. The warrants had a weighted average exercise price of \$0.01 per share, and the exercise resulted in the issuance of 749,250 shares of our common stock.

In March 2009, we issued warrants with an exercise price of \$12.25 per share to brokers who assisted us in our Series E financing (the Series E Warrants). In both March and September 2014, we extended the expiration dates of the Series E Warrants by six months. We evaluated the fair value of the Series E Warrants before and after each modification, and we recorded \$863,000 change in fair value as other income (expense), net in our Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2014.

For the year ending December 31, 2014, Series E Warrants were exercised, through cash and cashless net exercise, resulting in cash proceeds of \$68,000 and the issuance of 28,653 shares of our common stock. Additionally, for the year ended December 31, 2015, we received cash proceeds of \$1.4 million upon the cash and cashless exercise of Series E Warrants which resulted in the issuance of 133,240 shares of our common stock.

Note 10—Stock-Based Compensation

The 2008 Plan provides for the grant of incentive and non-statutory stock options, restricted stock, stock appreciation rights, performance units and performance shares to employees, directors and consultants and subsidiary corporations' employees and consultants. Options are granted with exercise prices equal to the closing fair market value of the common stock on the date of the grant. The terms of options may not exceed 10 years and options generally vest over a four-year period.

The 2008 Plan also allows any shares returned under our 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 Plan, to be issued under the 2008 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 year, equal to the lower of:

- five percent of the outstanding shares of our common stock on the last day of the preceding year;
- 1,785,714 shares; or
- such other amount as our board of directors may determine.

As of December 31, 2016, a total of 10,333,519 shares were reserved for issuance under our stock plans, of which 524,145 were available for future grants. On January 1, 2017, an additional 1,785,714 shares became available for future issuance under our 2008 Plan in accordance with the annual increase. In February 2017, options exercisable for up to 1,434,250 shares were granted to employees related to 2016 annual performance grants.

Compensation cost for stock options granted to employees and directors is based on the grant-date fair value and is recognized over the vesting period of the applicable option on a straight-line basis. Stock-based compensation expense is based on options ultimately expected to vest, and therefore has been reduced for estimated forfeitures. We estimate forfeitures based on our historical experience; separate groups of employees that have similar historical forfeiture behavior are considered separately for expense recognition.

The fair value of each option grant to employees and directors is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were applied to employee and director stock option grants during the periods ended:

	Year Ended December 31,		
	2016	2015	2014
Estimated weighted-average fair value	\$ 6.89	\$ 11.31	\$ 7.39
Weighted-average assumptions:			
Expected volatility	74%	71%	73%
Expected term, in years	5.7	6.0	5.8
Risk-free interest rate	1.63%	1.68%	1.87%
Expected dividend yield	—%	—%	—%

The risk-free interest rates are based on the implied yield currently available in U.S. Treasury securities at maturity with an equivalent term. For purposes of determining the expected term of the awards in the absence of sufficient historical data relating to stock-option exercises, we apply a simplified approach in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award. We have not declared or paid any dividends and do not currently expect to do so in the foreseeable future. Since October 2014, we have based our expected volatility on our own trading history which is roughly equivalent to the average expected term of our options and we do not anticipate future volatility will differ significantly from the past.

Stock options granted to non-employees are accounted for using the fair-value approach. The fair value of non-employee option grants is 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 years ended December 31, 2016, 2015 and 2014, we granted to non-employees options to purchase 38,000 shares, 4,200 shares and 86,000 shares of common stock, respectively.

Stock-based compensation expense includes amortization of stock options granted to employees and non-employees and has been reported in our Consolidated Statements of Operations and Comprehensive Loss as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands)		
Research and development	\$ 6,304	\$ 4,977	\$ 4,754
Selling, general and administrative	7,278	4,604	4,164
Total stock-based compensation expense	<u>\$ 13,582</u>	<u>\$ 9,581</u>	<u>\$ 8,918</u>

In connection with the non-employee options, we recognized expense of \$313,000, \$492,000 and \$289,000 during the years ended December 31, 2016, 2015 and 2014, respectively.

Stock option activity for all stock plans is as follows:

	Options Outstanding	Weighted- Average Exercise Price per Share	Remaining Contractual Life (in years)	Aggregate Intrinsic Value (In thousands)
Balance at December 31, 2015	8,310,235	\$ 7.97		
Granted	3,128,567	10.72		
Exercised	(1,486,167)	2.12		
Forfeited and expired	(143,261)	12.92		
Balance at December 31, 2016	<u>9,809,374</u>	<u>\$ 9.66</u>	<u>7.12</u>	<u>\$ 11,162</u>
Vested and expected to vest at December 31, 2016	<u>9,483,392</u>	<u>\$ 9.60</u>	<u>7.05</u>	<u>\$ 11,155</u>
Exercisable at December 31, 2016	<u>6,568,859</u>	<u>\$ 8.87</u>	<u>6.17</u>	<u>\$ 11,087</u>

The total intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 was \$13.6 million, \$3.9 million and \$2.9 million, respectively.

At December 31, 2016, there were 3,240,515 unvested options outstanding that will vest over a weighted-average period of 2.4 years. Excluding non-employee stock options, the remaining estimated compensation expense to be recognized in connection with these options is \$19.0 million.

Note 11—Income Taxes

We have a history of losses and therefore have 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.

Significant components of deferred income taxes are as follows:

	December 31,	
	2016	2015
(In thousands)		
Deferred tax assets:		
Net operating loss carryforwards	\$ 126,410	\$ 110,092
Tax credit carryforwards	18,741	14,758
Stock-based compensation	11,102	8,136
Deferred rent	3,318	3,324
Other	4,401	2,744
Total deferred tax assets	163,972	139,054
Less valuation allowance	(163,972)	(139,054)
Net deferred tax assets	\$ —	\$ —

As of December 31, 2016 and 2015, we had federal net operating loss carryforwards of approximately \$378.9 million and \$325.9 million, respectively, state net operating losses of approximately \$50.0 million and \$30.6 million, respectively, and tax credit carryforwards of approximately \$18.7 million and \$14.8 million, respectively. Approximately \$13.3 million of our net operating loss carryforwards relate to tax deductible stock-based compensation in excess of amounts recognized for financial statement purposes. To the extent that net operating loss carryforwards, if realized, relate to stock-based compensation, the resulting tax benefits will be recorded to shareholders' equity, rather than to the results of operations.

In certain circumstances, due to ownership changes, our net operating loss and tax credit carryforwards may be subject to limitations under Section 382 of the Internal Revenue Code. To date, we have not completed a Section 382 study. Unless previously utilized, our net operating loss and research and development tax credit carryforwards expire between 2018 and 2036.

We have established a 100% valuation allowance due to the uncertainty of our ability to generate sufficient taxable income to realize the deferred tax assets. Our valuation allowance increased \$24.9 million, \$30.4 million and \$25.8 million in 2016, 2015 and 2014, respectively, primarily due to net operating losses incurred during these periods.

Reconciliation of income tax computed at federal statutory rates to the reported provisions for income taxes is as follows:

	Year ended December 31,		
	2016	2015	2014
Federal statutory tax rate	(34)%	(34)%	(34)%
State tax rates	(2)%	(2)%	— %
Other permanent differences	3 %	1 %	2 %
Change in valuation allowance	37 %	41 %	35 %
Tax credits	(4)%	(5)%	(4)%
Other	— %	(1)%	1 %
Effective tax rate	— %	— %	— %

We file federal and certain state income tax returns, which provides varying statutes of limitations on assessments. However, because of net operating loss carryforwards, substantially all of our tax years remain open to federal and state tax examination.

The guidance for accounting for uncertainties in income taxes requires that we 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 of December 31, 2016, 2015 and 2014, we maintained an uncertain tax position of \$212,000 related to a reduction of our research and development credit deferred tax asset. Further, there were no unrecognized tax benefits that, if recognized, would impact our effective tax rate.

We 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 us in relation to the underpayment of income taxes.

Note 12—401(k) Retirement Plan

We have adopted a 401(k) plan. To date, we have not matched employee contributions or made discretionary contributions to the plan. Starting in 2017, the plan will provide for an annual company match on employee contributions, initially set at a maximum of 4.0% of each participating employee's contributions, with a maximum company match of \$4,000 per employee per year. All employees are eligible to participate, provided they meet the requirements of the plan.

Note 13—Quarterly Information (Unaudited)

The following table summarizes the unaudited statements of operations and comprehensive loss for each quarter of 2016 and 2015 (in thousands, except per share amounts):

2016	For the Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenue	\$ 7,419	\$ 10,004	\$ 11,289	\$ 12,905
Total operating expenses	26,871	20,933	23,327	24,762
Loss from operations	(19,452)	(10,929)	(12,038)	(11,857)
Net loss	(20,539)	(12,612)	(13,962)	(19,632)
Basic and diluted net loss per share	\$ (0.54)	\$ (0.32)	\$ (0.34)	\$ (0.45)

2015	For the Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Revenue	\$ 388	\$ 3,187	\$ 3,259	\$ 6,675
Total operating expenses	18,318	19,154	22,560	24,715
Loss from operations	(17,930)	(15,967)	(19,301)	(18,040)
Net loss	(18,669)	(16,680)	(19,921)	(19,826)
Basic and diluted net loss per share	\$ (0.51)	\$ (0.44)	\$ (0.53)	\$ (0.52)

ITEM 16. FORM 10-K SUMMARY

Not included.

EXHIBIT INDEX

Exhibit No.	Exhibit Description	Form	File No.	Incorporated by Reference		Filed Herewith
				Exhibit No.	Filing Date	
3.1	Amended and Restated Articles of Incorporation of Omeros Corporation	10-K	001-34475	3.1	03/31/2010	
3.2	Amended and Restated Bylaws of Omeros Corporation	10-K	001-34475	3.2	03/31/2010	
4.1	Form of Omeros Corporation common stock certificate	S-1/A	333-148572	4.1	10/02/2009	
4.2	Form of Omeros Corporation Warrant to Purchase Common Stock	8-K	001-34475	10.3	05/19/2016	
10.1*	Form of Indemnification Agreement entered into between Omeros Corporation and its directors and officers	S-1	333-148572	10.1	01/09/2008	
10.2*	Second Amended and Restated 1998 Stock Option Plan (as amended)	S-1	333-148572	10.2	01/09/2008	
10.3*	Form of Stock Option Agreement under the Second Amended and Restated 1998 Stock Option Plan (that does not permit early exercise)	S-1	333-148572	10.3	01/09/2008	
10.4*	nura, inc. 2003 Stock Plan	S-1	333-148572	10.6	01/09/2008	
10.5*	Form of Stock Option Agreement under the nura, inc. 2003 Stock Plan	S-1	333-148572	10.7	01/09/2008	
10.6*	2008 Equity Incentive Plan (as amended)					X
10.7*	Form of Stock Option Award Agreement under the 2008 Equity Incentive Plan	10-Q	001-34475	10.2	11/07/2013	
10.8*	Second Amended and Restated Employment Agreement between Omeros Corporation and Gregory A. Demopoulos, M.D. dated April 7, 2010	8-K	001-34475	10.1	04/12/2010	
10.9*	Offer Letter between Omeros Corporation and Marcia S. Kelbon, Esq. dated August 16, 2001	S-1	333-148572	10.12	01/09/2008	
10.10*	Technology Transfer Agreement between Omeros Corporation and Gregory A. Demopoulos, M.D. dated June 16, 1994	S-1	333-148572	10.14	01/09/2008	
10.11	Technology Transfer Agreement between Omeros Corporation and Pamela Pierce, M.D., Ph.D. dated June 16, 1994	S-1	333-148572	10.15	01/09/2008	
10.12*	Second Technology Transfer Agreement between Omeros Corporation and Gregory A. Demopoulos, M.D. dated December 11, 2001	S-1	333-148572	10.16	01/09/2008	
10.13	Second Technology Transfer Agreement between Omeros Corporation and Pamela Pierce, M.D., Ph.D. dated March 22, 2002	S-1	333-148572	10.17	01/09/2008	
10.14	Lease dated January 27, 2012 between Omeros Corporation and BMR-201 Elliott Avenue LLC	8-K	001-34475	10.1	02/01/2012	

10.15	First Amendment to Lease dated November 5, 2012 between Omeros Corporation and BMR-201 Elliott Avenue LLC	10-Q	001-34475	10.2	11/09/2012
10.16	Second Amendment to Lease dated November 16, 2012 between Omeros Corporation and BMR-201 Elliott Avenue LLC	10-K	001-34475	10.18	03/18/2013
10.17	Third Amendment to Lease dated October 16, 2013 between Omeros Corporation and BMR-201 Elliott Avenue LLC	10-K	001-34475	10.18	03/13/2014
10.18	Fourth Amendment to Lease dated September 8, 2015 between Omeros Corporation and BMR-201 Elliott Avenue LLC	10-Q	001-34475	10.3	11/09/2015
10.19†	Commercial Supply Agreement between Omeros Corporation and Hospira Worldwide, Inc. dated October 9, 2007	S-1/A	333-148572	10.28	09/16/2009
10.20†	Exclusive License and Sponsored Research Agreement between Omeros Corporation and the University of Leicester dated June 10, 2004	S-1/A	333-148572	10.29	09/16/2009
10.21†	Research and Development Agreement First Amendment between Omeros Corporation and the University of Leicester dated October 1, 2005	S-1	333-148572	10.30	01/09/2008
10.22†	Research and Development Agreement Eighth and Ninth Amendments between Omeros Corporation and the University of Leicester dated March 21, 2012 and September 1, 2013	10-K	001-34475	10.24	03/16/2015
10.23†	Exclusive License and Sponsored Research Agreement between Omeros Corporation and the Medical Research Council dated October 31, 2005	S-1/A	333-148572	10.31	09/16/2009
10.24†	Amendment dated May 8, 2007 to Exclusive License and Sponsored Research Agreement between Omeros Corporation and the Medical Research Council dated October 31, 2005	S-1	333-148572	10.32	01/09/2008
10.25†	Funding Agreement between Omeros Corporation and The Stanley Medical Research Institute dated December 18, 2006	S-1/A	333-148572	10.33	05/15/2009
10.26†	Patent Assignment Agreement between Omeros Corporation and Roberto Ciccocioppo, Ph.D. dated February 23, 2009	S-1/A	333-148572	10.47	09/16/2009
10.27†	First Amendment to Patent Assignment Agreement between Omeros Corporation and Roberto Ciccocioppo, Ph.D. effective December 31, 2010	10-K	001-34475	10.28	03/18/2013
10.28*	Omeros Corporation Non-Employee Director Compensation Policy				X
10.29†	License Agreement between Omeros Corporation and Daiichi Sankyo Co., Ltd. (successor-in-interest to Asubio Pharma Co., Ltd.) dated March 3, 2010	10-Q	001-34475	10.1	05/12/2010
10.30†	Amendment No. 1 to License Agreement with an effective date of January 5, 2011 between Omeros Corporation and Daiichi Sankyo Co., Ltd.	10-Q	001-34475	10.1	05/10/2011
10.31†	Amendment No. 2 to License Agreement with an effective date of January 25, 2013 between Omeros Corporation and Daiichi Sankyo Co., Ltd.	10-Q	001-34475	10.1	05/09/2013

10.32†	Exclusive License Agreement between Omeros Corporation and Helion Biotech ApS dated April 20, 2010	10-Q	001-34475	10.2	08/10/2010	
10.33†	Platform Development Funding Agreement between Omeros Corporation and Vulcan Inc. and its affiliate dated October 21, 2010	10-K	001-34475	10.44	03/15/2011	
10.34†	Grant Award Agreement between Omeros Corporation and the Life Sciences Discovery Fund Authority dated October 21, 2010	10-K	001-34475	10.45	03/15/2011	
10.35†	Pharmaceutical Manufacturing and Supply Agreement dated March 5, 2014 by and between Patheon Manufacturing Services, LLC (successor-in-interest to DSM Pharmaceuticals, Inc.) and Omeros Corporation	10-Q	001-34475	10.5	05/12/2014	
10.36†	First Amendment to Pharmaceutical Manufacturing and Supply Agreement between Patheon Manufacturing Services (successor-in-interest to DSM Pharmaceuticals, Inc.) and Omeros Corporation dated July 7, 2015	10-Q	001-34475	10.2	11/09/2015	
10.37†	Second Amendment to Pharmaceutical Manufacturing and Supply Agreement between Patheon Manufacturing Services (successor-in-interest to DSM Pharmaceuticals, Inc.) and Omeros Corporation dated August 24, 2016	10-Q	001-34475	10.1	11/09/2016	
10.38††	Third Amendment to Pharmaceutical Manufacturing and Supply Agreement between Patheon Manufacturing Services (successor-in-interest to DSM Pharmaceuticals, Inc.) and Omeros Corporation dated December 5, 2016					X
10.39†	Master Services Agreement between Omeros Corporation and Ventiv Commercial Services, LLC, made as of May 12, 2014	10-Q	001-34475	10.1	08/11/2014	
10.40†	Project Agreement (Detailing and Sales Operation Services) between Omeros Corporation and Ventiv Commercial Services, LLC, made as of May 12, 2014	10-Q	001-34475	10.2	08/11/2014	
10.41	First Amendment to Project Agreement (Detailing and Sales Operation Services) between Omeros Corporation and Ventiv Commercial Services, LLC, dated June 13, 2014	10-Q	001-34475	10.3	08/11/2014	
10.42†	Second Amendment to Project Agreement (Detailing and Sales Operation Services) between Omeros Corporation and Ventiv Commercial Services, LLC, made as of October 17, 2014	10-K	001-34475	10.45	03/16/2015	
10.43	Project Agreement (Sales Operation Services for Client Sales Teams) between Omeros Corporation and Ventiv Commercial Services, LLC, made as of January 1, 2016	10-K	001-34475	10.42	3/15/2016	
10.44†	Commercial Supply Agreement among Omeros Corporation, Hospira S.p.A. and Hospira Worldwide, Inc. dated October 3, 2014	10-K	001-34475	10.46	03/16/2015	
10.45†	First Amendment to Commercial Supply Agreement dated August 1, 2015 by and between Omeros Corporation and Hospira Worldwide, Inc.	10-Q	001-34475	10.1	11/09/2015	
10.46†	License Agreement effective as of June 9, 2015 by and between Omeros Corporation, JCB Laboratories, LLC, and Fagron Compounding Services, LLC, d/b/a Fagron Sterile Services	10-Q	001-34475	10.1	08/10/2015	
10.47	At Market Issuance Sales Agreement dated January 6, 2016 between Omeros Corporation and JonesTrading Institutional Services LLC	8-K	001-34475	1.1	01/06/2016	

10.48	Loan and Security Agreement between Omeros and Oxford Finance LLC, as collateral agent and as a lender, and East West Bank, as a lender, dated December 30, 2015	8-K	001-34475	10.1	01/06/2016	
10.49	First Amendment to Loan and Security Agreement between Omeros and Oxford Finance LLC, as collateral agent and as a lender, and East West Bank, as a lender, dated May 16, 2016	8-K	001-34475	10.1	05/19/2016	
10.50	Form of Secured Promissory Note issued by Omeros to Oxford Finance LLC and to East West Bank, each dated December 30, 2015	8-K	001-34475	10.2	01/06/2016	
10.51	Form of Secured Promissory Note issued by Omeros to Oxford Finance LLC and to East West Bank	8-K	001-34475	10.2	05/19/2016	
10.52	Term Loan Agreement among Omeros Corporation, nura, inc., CRG Servicing LLC, as administrative agent, and certain lenders, dated October 26, 2016	8-K	001-34475	10.1	10/27/2016	
10.53	Form of Security Agreement among Omeros Corporation, nura, inc. and CRG Servicing LLC	8-K	001-34475	10.2	10/27/2016	
12.1	Ratio of Earnings to Fixed Charges					X
23.1	Consent of Independent Registered Public Accounting Firm					X
31.1	Certification of Principal Executive Officer Pursuant to Rule 13-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rule 13-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
99.1	Description of Capital Stock					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

* Indicates management contract or compensatory plan or arrangement.

† Portions of this exhibit are redacted in accordance with a grant of confidential treatment.

†† Portions of this exhibit are redacted in accordance with a request for confidential treatment.

OMEROS CORPORATION
2008 EQUITY INCENTIVE PLAN

(as amended December 13, 2016)

1. Purposes of the Plan. The purposes of this Plan are:
- to attract and retain the best available personnel for positions of substantial responsibility,
 - to provide additional incentive to Employees, Directors and Consultants, and
 - to promote the success of the Company's business.

The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Units and Performance Shares.

2. Definitions. As used herein, the following definitions will apply:

(a) "Administrator" means the Board or any Committee as will be administering the Plan, in accordance with Section 4 of the Plan.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares.

(d) "Award Agreement" means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(e) "Board" means the Board of Directors of the Company.

(f) "Change in Control" means the occurrence of any of the following events:

(i) A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; provided, however, that for purposes of this subsection (i), the acquisition

of additional stock by any one Person, who is considered to own more than 50% of the total voting power of the stock of the Company will not be considered a Change in Control; or

(ii) A change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any twelve (12) month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subsection (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's shareholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person, that owns, directly or indirectly, 50% or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least 50% of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (iii)(B)(3). For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(f), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

(g) "Code" means the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code herein will be a reference to any successor or amended section of the Code.

(h) "Committee" means a committee of Directors or of one or more other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(i) "Common Stock" means the common stock of the Company.

(j) "Company" means Omeros Corporation, a Washington corporation, or any successor thereto.

(k) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.

(l) "Director" means a member of the Board.

(m) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.

(n) “Employee” means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director’s fee by the Company will be sufficient to constitute “employment” by the Company.

(o) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(p) “Exchange Program” means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have higher or lower exercise prices and different terms), Awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator, and/or (iii) the exercise price of an outstanding Award is reduced. The Administrator will determine the terms and conditions of any Exchange Program in its sole discretion.

(q) “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Select Market, the Nasdaq Global Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Common Stock on the day of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(iii) For purposes of any Awards granted on the Registration Date, the Fair Market Value will be the initial price to the public as set forth in the final prospectus included within the registration statement in Form S-1 filed with the Securities and Exchange Commission for the initial public offering of the Company’s Common Stock; or

(iv) In the absence of an established market for the Common Stock, the Fair Market Value will be determined in good faith by the Administrator.

(r) “Fiscal Year” means the fiscal year of the Company.

(s) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

- (t) “Inside Director” means a Director who is an Employee.
- (u) “Nonstatutory Stock Option” means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.
- (v) “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (w) “Option” means a stock option granted pursuant to the Plan.
- (x) “Outside Director” means a Director who is not an Employee.
- (y) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (z) “Participant” means the holder of an outstanding Award.
- (aa) “Performance Share” means an Award denominated in Shares which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine pursuant to Section 10.
- (bb) “Performance Unit” means an Award which may be earned in whole or in part upon attainment of performance goals or other vesting criteria as the Administrator may determine and which may be settled for cash, Shares or other securities or a combination of the foregoing pursuant to Section 10.
- (cc) “Period of Restriction” means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Administrator.
- (dd) “Plan” means this 2008 Equity Incentive Plan.
- (ee) “Registration Date” means the effective date of the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company’s securities.
- (ff) “Restricted Stock” means Shares issued pursuant to a Restricted Stock award under Section 7 of the Plan, or issued pursuant to the early exercise of an Option.
- (gg) “Restricted Stock Unit” means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, granted pursuant to Section 8. Each Restricted Stock Unit represents an unfunded and unsecured obligation of the Company.
- (hh) “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(ii) “Section 16(b)” means Section 16(b) of the Exchange Act.

(jj) “Service Provider” means an Employee, Director or Consultant.

(kk) “Share” means a share of the Common Stock, as adjusted in accordance with Section 13 of the Plan.

(ll) “Stock Appreciation Right” means an Award, granted alone or in connection with an Option, that pursuant to Section 9 is designated as a Stock Appreciation Right.

(mm) “Subsidiary” means a “subsidiary corporation”, whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be issued under the Plan is 1,750,000 Shares, plus any Shares subject to stock options or similar awards granted under the Company’s Second Amended and Restated 1998 Stock Option Plan (the “Existing Plan”) that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the Existing Plan that are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan from the Existing Plan pursuant to this clause equal to 6,046,303 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Automatic Share Reserve Increase. The number of Shares available for issuance under the Plan will be increased on the first day of each Fiscal Year beginning with the first Fiscal Year following the Fiscal Year in which the Registration Date occurs, in an amount equal to the least of (i) 3,500,000 Shares, (ii) 5% of the outstanding Shares on the last day of the immediately preceding Fiscal Year or (iii) such number of Shares determined by the Board.

(c) Lapsed Awards. If an Award expires or becomes unexercisable without having been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to Restricted Stock, Restricted Stock Units, Performance Units or Performance Shares, is forfeited to or repurchased by the Company due to failure to vest, the unpurchased Shares (or for Awards other than Options or Stock Appreciation Rights the forfeited or repurchased Shares) which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). With respect to Stock Appreciation Rights, only Shares actually issued pursuant to a Stock Appreciation Right will cease to be available under the Plan; all remaining Shares under Stock Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Awards of Restricted Stock, Restricted Stock Units, Performance Shares or Performance Units are repurchased by the Company or are forfeited to the Company, such Shares will become available for future grant under the Plan. Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Shares, such cash payment will not result

in reducing the number of Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in Section 13, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in Section 3(a), plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to Sections 3(b) and 3(c).

(d) Share Reserve. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code on or after the Registration Date, the Plan will be, to the extent the Administrator determines it to be necessary to so qualify Awards as “performance based compensation,” administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 on or after the Registration Date, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan will be administered by: (A) the Board; or (B) a Committee, which committee will be constituted to satisfy Applicable Laws and consist of Directors or, solely to the extent permitted by Section 4(a)(v), the Company’s Chief Executive Officer.

(v) Chief Executive Officer. To the extent permitted by applicable law, the Board may delegate to the Company’s Chief Executive Officer the authority (A) to grant Options to Employees who are not subject to Section 16 of the Exchange Act and who are not “covered employees” within the meaning of Section 162(m)(3) of the Code and (B) to make all other determinations with respect thereto, subject to any additional limitations or requirements specified by the Board. Any such delegate shall serve at the pleasure of, and may be removed at any time by, the Board.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator will have the authority, in its discretion:

(i) to determine the Fair Market Value;

(ii) to select the Service Providers to whom Awards may be granted hereunder;

(iii) to determine the number of Shares to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator will determine;

(vi) to determine the terms and conditions of any, and to institute any Exchange Program;

(vii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(viii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(ix) to modify or amend each Award (subject to Section 18 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to Section 6(b) of the Plan regarding Incentive Stock Options);

(x) to allow Participants to satisfy withholding tax obligations in such manner as prescribed in Section 14 of the Plan;

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xii) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award; and

(xiii) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations will be final and binding on all Participants and any other holders of Awards.

5. Eligibility. Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Stock Options.

(a) Limitations. Each Option will be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock

Options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds one hundred thousand dollars (\$100,000), such Options will be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options will be taken into account in the order in which they were granted. The Fair Market Value of the Shares will be determined as of the time the Option with respect to such Shares is granted.

(b) Term of Option. The term of each Option will be stated in the Award Agreement. In the case of an Incentive Stock Option, the term will be ten (10) years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five (5) years from the date of grant or such shorter term as may be provided in the Award Agreement.

(c) Option Exercise Price and Consideration.

(i) Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option will be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

a) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

b) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator will fix the period within which the Option may be exercised and will determine any conditions that must be satisfied before the Option may be exercised.

(iii) Form of Consideration. The Administrator will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (1) cash; (2) check; (3) promissory note, (4) other Shares, provided that such Shares have a Fair Market Value on the date of surrender equal to the aggregate

exercise price of the Shares as to which such Option will be exercised and provided that accepting such Shares, in the sole discretion of the Administrator, will not result in any adverse accounting consequences to the Company; (5) consideration received by the Company under a broker-assisted (or other) cashless exercise program implemented by the Company in connection with the Plan; (6) any combination of the foregoing methods of payment; or (7) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder will be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option may not be exercised for a fraction of a Share.

An Option will be deemed exercised when the Company receives: (i) notice of exercise (in such form as the Administrator may specify from time to time) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised (together with applicable withholding taxes). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder will exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

Exercising an Option in any manner will decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's termination as the result of the Participant's death or Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for three (3) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time

as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve (12) months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

7. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, will determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock will be evidenced by an Award Agreement that will specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, will determine. Unless the Administrator determines otherwise, the Company as escrow agent will hold Shares of Restricted Stock until the restrictions on such Shares have lapsed.

(c) Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

(d) Other Restrictions. The Administrator, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate.

(e) Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan will be released from escrow as soon as practicable after the last day of the Period of Restriction or at such other time as the

Administrator may determine. The Administrator, in its discretion, may accelerate the time at which any restrictions will lapse or be removed.

(f) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(g) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock will be entitled to receive all dividends and other distributions paid with respect to such Shares, unless the Administrator provides otherwise. If any such dividends or distributions are paid in Shares, the Shares will be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(h) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

8. Restricted Stock Units.

(a) Grant. Restricted Stock Units may be granted at any time and from time to time as determined by the Administrator. After the Administrator determines that it will grant Restricted Stock Units under the Plan, it will advise the Participant in an Award Agreement of the terms, conditions, and restrictions related to the grant, including the number of Restricted Stock Units.

(b) Vesting Criteria and Other Terms. The Administrator will set vesting criteria in its discretion, which, depending on the extent to which the criteria are met, will determine the number of Restricted Stock Units that will be paid out to the Participant. The Administrator may set vesting criteria based upon the achievement of Company-wide, business unit, or individual goals (including, but not limited to, continued employment), or any other basis determined by the Administrator in its discretion.

(c) Earning Restricted Stock Units. Upon meeting the applicable vesting criteria, the Participant will be entitled to receive a payout as determined by the Administrator. Notwithstanding the foregoing, at any time after the grant of Restricted Stock Units, the Administrator, in its sole discretion, may reduce or waive any vesting criteria that must be met to receive a payout.

(d) Form and Timing of Payment. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Administrator and set forth in the Award Agreement. The Administrator, in its sole discretion, may only settle earned Restricted Stock Units in cash, Shares, or a combination of both.

(e) Cancellation. On the date set forth in the Award Agreement, all unearned Restricted Stock Units will be forfeited to the Company.

9. Stock Appreciation Rights.

(a) Grant of Stock Appreciation Rights. Subject to the terms and conditions of the Plan, a Stock Appreciation Right may be granted to Service Providers at any time and from time to time as will be determined by the Administrator, in its sole discretion.

(b) Number of Shares. The Administrator will have complete discretion to determine the number of Stock Appreciation Rights granted to any Service Provider.

(c) Exercise Price and Other Terms. The per share exercise price for the Shares to be issued pursuant to exercise of a Stock Appreciation Right will be determined by the Administrator and will be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant. Otherwise, subject to Section 6(a) of the Plan, the Administrator, subject to the provisions of the Plan, will have complete discretion to determine the terms and conditions of Stock Appreciation Rights granted under the Plan.

(d) Stock Appreciation Right Agreement. Each Stock Appreciation Right grant will be evidenced by an Award Agreement that will specify the exercise price, the term of the Stock Appreciation Right, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, will determine.

(e) Expiration of Stock Appreciation Rights. A Stock Appreciation Right granted under the Plan will expire upon the date determined by the Administrator, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 6(d) of the Plan also will apply to Stock Appreciation Rights.

(f) Payment of Stock Appreciation Right Amount. Upon exercise of a Stock Appreciation Right, a Participant will be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (ii) The number of Shares with respect to which the Stock Appreciation Right is exercised.

At the discretion of the Administrator, the payment upon Stock Appreciation Right exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as will be determined by the Administrator, in its sole discretion. The Administrator will have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

(b) Value of Performance Units/Shares. Each Performance Unit will have an initial value that is established by the Administrator on or before the date of grant. Each Performance Share will have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator will set performance objectives or other vesting provisions (including, without limitation, continued status as a Service Provider) in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Service Providers. The time period during which the performance objectives or other vesting provisions must be met will be called the "Performance Period." Each Award of Performance Units/Shares will be evidenced by an Award Agreement that will specify the Performance Period, and such other terms and conditions as the Administrator, in its sole discretion, will determine. The Administrator may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Administrator in its discretion.

(d) Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares will be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Unit/Share, the Administrator, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Performance Unit/Share.

(e) Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares will be made as soon as practicable after the expiration of the applicable Performance Period. The Administrator, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

(f) Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares will be forfeited to the Company, and again will be available for grant under the Plan.

11. Leaves of Absence/Transfer Between Locations. Unless the Administrator provides otherwise, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Service Provider will not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the ninety-first (91st) day of such leave any Incentive Stock Option held by the Participant will cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option.

12. Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award will contain such additional terms and conditions as the Administrator deems appropriate.

13. Adjustments; Dissolution or Liquidation; Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Shares that may be delivered under the Plan and/or the number, class, and price of Shares covered by each outstanding Award, and the numerical Share limits in Section 3 of the Plan.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. In the event of a merger or Change in Control, each outstanding Award will be treated as the Administrator determines, including, without limitation, that each Award be assumed or an equivalent option or right substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. The Administrator will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award or does not replace the Award with a comparable cash incentive program of the successor corporation (or a Parent or Subsidiary of the successor corporation) based on the value of the Award at the time of the consummation of the transaction (“Cash Incentive Program”) in connection with a merger or Change in Control, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Stock Appreciation Rights, including Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Stock Appreciation Right is not assumed, substituted or replaced by a Cash Incentive Program in the event of a merger or Change in Control, the Administrator will notify the Participant in writing or electronically that the Option or Stock Appreciation Right will be exercisable for a period of time determined by the Administrator in its sole discretion, and the Option or Stock Appreciation Right will terminate upon the expiration of such period.

Upon the consummation of a Change in Control where the successor corporation assumes or substitutes for the Award or replaces the Award with a Cash Incentive Program, the Participant will vest in and have the right to exercise his or her outstanding Options and Stock Appreciation Rights with

respect to fifty percent (50%) of the Shares that otherwise would not be vested or exercisable covering such Awards as of the date of the Change of Control, the restrictions on Restricted Stock and Restricted Stock Units will lapse with respect to 50% of the Shares subject to such restrictions covering such Awards as of the date of the Change of Control, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met with respect to fifty percent (50%) of the Shares subject to such goals, criteria, terms and conditions covering such Awards as of the date of the Change of Control.

For the purposes of this subsection (c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Stock Appreciation Right or upon the payout of a Restricted Stock Unit, Performance Unit or Performance Share, for each Share subject to such Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

Notwithstanding anything in this Section 13(c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided, however, a modification to such performance goals only to reflect the successor corporation's post-Change in Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (unless such resignation is at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Stock Appreciation Rights as to all of the Shares underlying such Award, including those Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Stock and Restricted Stock Units will lapse, and, with respect to Performance Units and Performance Shares, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

14. Tax Withholding.

(a) Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, local, foreign

or other taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

(b) Withholding Arrangements. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (a) paying cash, (b) electing to have the Company withhold otherwise deliverable cash or Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

15. No Effect on Employment or Service. Neither the Plan nor any Award will confer upon a Participant any right with respect to continuing the Participant's relationship as a Service Provider with the Company, nor will they interfere in any way with the Participant's right or the Company's right to terminate such relationship at any time, with or without cause, to the extent permitted by Applicable Laws.

16. Date of Grant. The date of grant of an Award will be, for all purposes, the date on which the Administrator makes the determination granting such Award, or such other later date as is determined by the Administrator. Notice of the determination will be provided to each Participant within a reasonable time after the date of such grant.

17. Term of Plan. Subject to Section 21 of the Plan, the Plan will become effective upon its adoption by the Board. It will continue in effect for a term of ten (10) years from the date adopted by the Board, unless terminated earlier under Section 18 of the Plan.

18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Shareholder Approval. The Company will obtain shareholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan will impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan will not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

19. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares will not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares will comply with Applicable

Laws and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

21. Shareholder Approval. The Plan will be subject to approval by the shareholders of the Company within twelve (12) months after the date the Plan is adopted by the Board. Such shareholder approval will be obtained in the manner and to the degree required under Applicable Laws.

APPENDIX A
TO
OMEROS CORPORATION 2008 EQUITY INCENTIVE PLAN
(for California residents only, to the extent required by 25102(o))

This Appendix A to the Omeros Corporation 2008 Equity Incentive Plan shall apply only to the Participants who are residents of the State of California and who are receiving an Award that is granted under the Plan prior to the Registration Date. Capitalized terms contained herein shall have the same meanings given to them in the Plan, unless otherwise provided by this Appendix A. Notwithstanding any provisions contained in the Plan to the contrary and to the extent required by Applicable Laws, the following terms shall apply to all Awards granted to residents of the State of California, until the earlier to occur of the Registration Date, or such time as the Administrator amends this Appendix A or the Administrator otherwise provides.

(a) The term of each Option shall be stated in the Award Agreement, provided, however, that the term shall be no more than ten (10) years from the date of grant thereof.

(b) Unless determined otherwise by the Administrator, Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Participant, only by the Participant. If the Administrator in its sole discretion makes an Award transferable, such Award may only be transferred (i) by will, (ii) by the laws of descent and distribution, (iii) to a revocable trust, or (iv) as permitted by Rule 701 of the Securities Act of 1933, as amended.

(c) If a Participant ceases to be a Service Provider, such Participant may exercise his or her Option within such period of time as specified in the Award Agreement, which shall not be less than thirty (30) days following the date of the Participant's termination, to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for three (3) months following the Participant's termination.

(d) If a Participant ceases to be a Service Provider as a result of the Participant's Disability, the Participant may exercise his or her Option within such period of time as specified in the Award Agreement, which shall not be less than six (6) months following the date of the Participant's termination, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for twelve (12) months following the Participant's termination. For purposes of this Appendix A, "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

(e) If a Participant dies while a Service Provider, the Option may be exercised within such period of time as specified in the Award Agreement, which shall not be less than six (6) months following the date of the Participant's death, to the extent the Option is vested on the date of death (but

in no event later than the expiration of the term of such Option as set forth in the Award Agreement) by the Participant's designated beneficiary, personal representative, or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for twelve (12) months following the Participant's termination.

(f) No Award shall be granted to a resident of California more than ten (10) years after the earlier of the date of adoption of the Plan or the date the Plan is approved by the shareholders.

(g) In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, shall adjust the number and class of shares of common stock that may be delivered under the Plan and/or the number, class, and price of shares covered by each outstanding Option. The Administrator shall also make such adjustments to the extent required by Section 25102(o) of the California Corporations Code.

(h) This Appendix A shall be deemed to be part of the Plan and the Administrator shall have the authority to amend this Appendix A in accordance with Section 18 of the Plan.

OMEROS CORPORATION

NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

Omeros Corporation (the “**Company**”) believes that the granting of equity and cash compensation to its Directors represents a powerful tool to attract, retain and reward Directors who are not Employees of the Company (“**Outside Directors**”) and to align the interests of our Outside Directors with those of our shareholders. This Non-Employee Director Compensation Policy (the “**Compensation Policy**”) is intended to formalize the Company’s policy regarding grants of equity and cash compensation to its Outside Directors. Unless otherwise defined herein, capitalized terms used in this Compensation Policy will have the meaning given such term in the Company’s 2008 Equity Incentive Plan (the “**Plan**”). Outside Directors shall be solely responsible for any tax obligations they incur as a result of the equity and cash payments received under this Compensation Policy.

Equity Compensation

Outside Directors will be entitled to receive all types of Awards (except Incentive Stock Options) under the Plan, including discretionary Awards not covered under this Compensation Policy. All grants of Awards to Outside Directors pursuant to Sections (c) and (d) of this Compensation Policy will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions:

(a) **Type of Option**. Options granted pursuant to this Compensation Policy will be Nonstatutory Stock Options and, except as otherwise provided herein, will be subject to the other terms and conditions of the Plan.

(b) **No Discretion**. No person will have any discretion to select which Outside Directors will be granted Awards under this Compensation Policy or to determine the number of Plan Shares to be covered by such Awards (except as provided in Section (e) below).

(c) **Initial Award**. Each person who first becomes an Outside Director on or after the closing of the Company’s initial public offering of its Common Stock (the “**Closing Date**”) will be automatically granted an Option to purchase 15,000 Shares (the “**Initial Award**”) on the date on which such person first becomes an Outside Director following the Closing Date, whether through election by the shareholders of the Company or appointment by the Board to fill a vacancy; provided, however, that a Director who is an Employee (an “**Inside Director**”) who ceases to be an Inside Director, but who remains a Director, will not receive an Initial Award.

(d) **Annual Award**. Each Outside Director will be automatically granted an Option to purchase 7,500 Shares (an “**Annual Award**”) on the date of each annual meeting of the shareholders of the Company beginning on the date of the first annual meeting of the shareholders of the Company that is held at least six months after such Outside Director received his/her Initial Award, provided that the Annual Award shall not be granted to any Outside Director who is not continuing as a Director following the applicable annual meeting.

(e) Terms. The terms of each Award granted pursuant to this Compensation Policy will be as follows:

(i) The term of the Award will be ten (10) years.

(ii) The exercise price for Shares subject to Awards will be one hundred percent (100%) of the Fair Market Value per Share on the grant date.

(iii) Subject to Section 13 of the Plan, the Initial Award will vest and become exercisable as to 1/3 of the Shares subject to the Initial Award on the one-year anniversary of the date of grant, and 1/3 of the Shares subject to the Initial Award shall vest each annual anniversary of the date of grant thereafter, provided that the Outside Director continues to serve as a Director through each such date.

(iv) Subject to Section 13 of the Plan, each Annual Award will fully vest and become exercisable on the date that is immediately prior to the day of the next annual meeting of the shareholders of the Company held after the date of grant, provided that the Outside Director continues to serve as a Director through such date.

(f) Revisions. The Board or a committee of the Board in its discretion may change and otherwise revise the terms of Awards granted under this Compensation Policy, including, without limitation, the number of Shares subject thereto, for Awards of the same or different type granted on or after the date the Board or a committee of the Board determines to make any such change or revision.

(g) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Plan Shares, other securities, or other property), recapitalization, share split, reverse share split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Shares occurs following the Closing Date, the Administrator, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Policy, will adjust the number of Shares issuable pursuant to Initial Awards and Annual Awards to be granted under Sections (c) and (d) of the Policy.

(h) Change in Control. In the event of a merger or Change in Control, Awards granted to Outside Directors pursuant to this Compensation Policy will be treated as set forth in Section 13 of the Plan.

* * *

Cash Compensation

(1) Annual Fee. The Company will pay each Outside Director an annual fee of \$40,000 for serving on the Board (the “**Annual Fee**”). The Annual Fee will be paid to each Outside Director in four equal installments on a quarterly basis at the end of the applicable quarter provided the individual served as an Outside Director during the full quarter, with the amount pro rated for any Outside Director who did not serve the full quarter.

(2) Committee Chairperson Fees. The Company will pay each Outside Director who serves as chairperson of the Audit Committee, Compensation Committee or Nominating and Governance Committee the applicable annual fee for serving as the chairperson set forth in the table below (the “**Annual Chairperson Fee**”). The Annual Chairperson Fee shall be paid in four equal installments on a quarterly basis at the end of the applicable quarter provided the individual served as an Outside Director during the full quarter, with the amount pro rated for any chairperson who did not serve as the chairperson for the full quarter. The Annual Chairperson Fee for each committee shall be:

<u>Committee</u>	<u>Annual Chairperson Fee</u>
Audit Committee	\$15,000
Compensation Committee	\$10,000
Nominating and Governance Committee	\$5,000

(3) Non-Chair Committee Member Fees. The Company will pay each Outside Director who serves on the Audit Committee, Compensation Committee or Nominating and Governance Committee in a non-chairperson capacity the applicable annual fee for serving on the applicable committee set forth in the table below (the “**Annual Non-Chair Committee Member Fee**”). For clarification, the chairperson of a committee will receive the Annual Chairperson fee, but not the Annual Non-Chair Committee Member Fee, for such committee. The Annual Non-Chair Committee Member Fee shall be paid in four equal installments on a quarterly basis at the end of the applicable quarter provided the individual served as an Outside Director during the full quarter, with the amount pro rated for any Outside Director who did not serve on the applicable committee for the full quarter. The Annual Non-Chair Committee Member Fee for each committee shall be:

<u>Committee</u>	<u>Annual Non-Chair Committee Member Fee</u>
Audit Committee	\$7,500
Compensation Committee	\$5,000
Nominating and Governance Committee	\$2,500

(4) Annual Lead Independent Director Fee. The Company will pay the Outside Director serving as Lead Independent Director, if any, an annual fee of \$10,000 for service as Lead Independent Director (the “**Annual Lead Independent Director Fee**”) in addition to any other

fees payable to such Outside Director under this Compensation Policy. The Annual Lead Independent Director Fee will be paid to the Lead Independent Director in four equal installments on a quarterly basis at the end of the applicable quarter provided the Outside Director served as Lead Independent Director during the full quarter, with the amount pro rated for the Outside Director who did not serve the full quarter as Lead Independent Director.

(5) Revisions. The Board or a committee of the Board in its discretion may change and otherwise revise the terms of the cash compensation granted under this Compensation Policy, including, without limitation, the amount of cash compensation to be paid, on or after the date the Board or a committee of the Board determines to make any such change or revision.

(6) Section 409A. In no event shall cash compensation payable pursuant to this Compensation Policy be paid later than March 15 following the calendar year in which the applicable quarter ends (or if the individual did not serve as an Outside Director for the full quarter, then March 15 following the calendar year in which the Outside Director's service terminated with the Company), in compliance with the "short-term deferral" exception to Section 409A ("**Section 409A**") of the Internal Revenue Code of 1986, as amended. The Compensation Policy is intended to comply with the requirements of Section 409A so that none of the compensation to be provided hereunder shall be subject to the additional tax imposed under Section 409A, and any ambiguities herein shall be interpreted to so comply.

* * *

**Third Amendment to
Pharmaceutical Manufacturing and Supply Agreement**

This is an Amendment (this "**Amendment**") to the Pharmaceutical Manufacturing and Supply Agreement dated **March 5, 2014**, as previously amended July 7, 2015 and August 24, 2016 between DSM Pharmaceuticals, Inc. ("**DSM**") and Omeros Corporation ("**Omeros**") (the "**Master Agreement**"), and is entered into as of December 05, 2016 (the "**Amendment Effective Date**"). All initially capitalized terms in this Amendment shall have the same meaning as set forth in the Master Agreement unless otherwise defined herein.

Whereas, DSM's right and obligations under the Master Agreement were assigned to and assumed by Patheon Manufacturing Services LLC ("**Patheon**") as of May 31, 2014.

Whereas the Master Agreement provides for the manufacture of Omeros' Product OMS302, which has been approved by FDA as OMIDRIA® (phenylephrine and ketorolac injection) 1%/0.3%, pursuant to which Patheon has been providing fill and finish services for Product at Patheon's [†] facility in [†] ("**Patheon [†] Facility**") and labeling and packaging services for such Product at Patheon's [†] facility in [†] ("**Patheon [†] Facility**"), and Patheon ceased filling and finishing manufacturing at the Patheon [†] Facility as of December 31, 2015, which is the end of the Initial Term of the Master Agreement (the "**Initial Term Expiration Date**").

Whereas Omeros and Patheon are working towards entry into a Master Manufacturing Services Agreement for fill and finish manufacture of Product at the Patheon [†] Facility, and Omeros and Patheon wish to provide for the labeling and packaging at the Patheon [†] Facility after the Initial Term Expiration Date of Product that has been filled and finished at the Patheon [†] Facility on or before the Initial Term Expiration Date.

Therefore Omeros and Patheon agree that the Master Agreement shall be hereby amended as follows:

Section 11.1 of the Master Agreement shall be revised to read as follows:

11.1 Term. Unless sooner terminated pursuant to the terms hereof or otherwise extended by mutual written agreement of the Parties, the term of this Agreement shall commence on the Effective Date and shall continue in force and effect until December 31, 2017 (the "Initial Term"), provided, however, that the Parties agree that DSM and its successors-in-interest shall have no obligation under this Agreement after December 31, 2015 to provide manufacturing, processing, purifying, formulating, or finishing Manufacturing services for Product at DSM's [†] facility located in [†] or at any other facility, but shall be obligated until December 31, 2017 only to provide packaging, labeling, holding, handling, storing, preparing for shipment, inspecting and quality control and stability testing Manufacturing services at Patheon's [†] facility located in [†] for Product that was filled and finished prior to December 31, 2015 at DSM's [†] facility located in [†].

All other terms of the Master Agreement shall remain unchanged and in full force and effect.

[signature page follows]

IN WITNESS WHEREOF, the duly authorized representatives of the parties have executed this Amendment as of the Amendment Effective Date set forth above.

PATHEON MANUFACTURING SERVICES LLC

By: /s/ Christie James

Name: Christie James

Title: Director, Business Management

OMEROS CORPORATION

By: /s/ Marcia S. Kelbon

Name: Marcia S. Kelbon

Title: General Counsel & Secretary

† DESIGNATES PORTIONS OF THIS DOCUMENT THAT HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT FILED SEPARATELY WITH THE COMMISSION

Omeros Corporation
Computation of Deficiency in the Coverage of Fixed Charges by Earnings Before Fixed Charges

	<u>Year Ended December 31,</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In thousands)				
Earnings before fixed charges:					
Loss from continuing operations before income taxes	\$ (66,745)	\$ (75,096)	\$ (73,673)	\$ (39,796)	\$ (38,444)
Add fixed charges	16,697	8,295	6,824	5,621	2,305
Add amortization of capitalized interest	—	—	—	—	—
Add distributed income of equity investees	—	—	—	—	—
Subtract capitalized interest	—	—	—	—	—
Loss before fixed charges	<u>\$ (50,048)</u>	<u>\$ (66,801)</u>	<u>\$ (66,849)</u>	<u>\$ (34,175)</u>	<u>\$ (36,139)</u>
Fixed Charges:					
Interest expense	\$ 6,359	\$ 2,709	\$ 2,710	\$ 1,865	\$ 1,355
Amortization of debt expense and loss from extinguishment of debt	7,055	2,177	759	502	374
Estimate of interest expense within rental expense	3,283	3,409	3,355	3,254	576
Preference security dividend requirements of consolidated subsidiaries	—	—	—	—	—
Total fixed charges	<u>\$ 16,697</u>	<u>\$ 8,295</u>	<u>\$ 6,824</u>	<u>\$ 5,621</u>	<u>\$ 2,305</u>
Deficiency of earnings available to cover fixed charges	<u>\$ (66,745)</u>	<u>\$ (75,096)</u>	<u>\$ (73,673)</u>	<u>\$ (39,796)</u>	<u>\$ (38,444)</u>

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 333-162732, 333-165861, 333-172905, 333-180216, 333-187344, 333-194693, 333-202788 and 333-210219) pertaining to the Omeros Corporation 2008 Equity Incentive Plan, the Omeros Corporation Second Amended and Restated 1998 Stock Option Plan, the Nura, Inc. 2003 Stock Option Plan, the Omeros Corporation Stock Option Grant to Gregory A. Demopulos, M.D., and the Omeros Corporation Stock Option Grant to Pamela Pierce Palmer, M.D., Ph.D. and the Registration Statement (Form S-3 No. 333-201581) and related Prospectus of Omeros Corporation pertaining to the registration of up to \$100,000,000 of its common stock, preferred stock, debt securities, depositary shares, warrants, subscription rights, or units, of our reports dated March 16, 2017, with respect to the consolidated financial statements of Omeros Corporation, and the effectiveness of internal control over financial reporting of Omeros Corporation, included in this Annual Report (Form 10-K) of Omeros Corporation for the year ended December 31, 2016.

/s/ Ernst & Young LLP

Seattle, Washington
March 16, 2017

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory A. Demopoulos, M.D., certify that:

1. I have reviewed this annual report on Form 10-K of Omeros Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 16, 2017

/s/ Gregory A. Demopoulos

Gregory A. Demopoulos, M.D.
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael A. Jacobsen, certify that:

1. I have reviewed this annual report on Form 10-K of Omeros Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 16, 2017

/s/ Michael A. Jacobsen

Michael A. Jacobsen

Principal Financial and Accounting Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Omeros Corporation (the "Company") for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as may be expressly set forth by specific reference in such filing.

Dated: March 16, 2017

/s/ Gregory A. Demopoulos

Gregory A. Demopoulos, M.D.
Principal Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Omeros Corporation (the "Company") for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as may be expressly set forth by specific reference in such filing.

Dated: March 16, 2017

/s/ Michael A. Jacobsen

Michael A. Jacobsen

Principal Financial and Accounting Officer

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. For more detailed information, please see our articles of incorporation and bylaws, which are filed as exhibits 3.1 and 3.2, respectively, to our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on March 31, 2010.

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. If we liquidate, dissolve or wind up, holders of our 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 our common stock. All outstanding shares of common stock are fully paid and nonassessable.

Preferred Stock

Under the terms of our articles of incorporation, our board of directors is authorized to issue shares of preferred stock in one or more series without shareholder approval. The rights, preferences, privileges and restrictions of the preferred stock of each series will be fixed by the articles of amendment to the articles of incorporation relating to that series. Our board of directors has the discretion to fix the number of shares of any such series and the designation thereof and to fix and amend the powers, preferences and rights, and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued series of preferred stock, including the voting rights, dividend rights, dividend rate, conversion rights, rights and terms of redemption (including sinking fund provisions), redemption prices and liquidation preferences of any such series. Our board of directors has authority to decrease the number of shares of any series of preferred stock that is outstanding, but not below the number of shares of any such series then outstanding. In addition, any such reduction is subject to the powers, preferences and rights, and the qualifications, limitations and restrictions thereof stated in the articles of incorporation or the board resolution originally fixing the number of shares of such series.

The issuance of preferred stock will affect, and may adversely affect, the rights of holders of common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until our board of directors determines the specific rights, preferences and privileges attached to that series of preferred stock. The effects of issuing preferred stock could include one or more of the following:

- restricting dividends on the common stock;

- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or
- delaying or preventing changes in control or management of the company.

Warrants

As of December 31, 2016, we had warrants outstanding to purchase up to an aggregate of 100,602 shares of our common stock. The warrants have an exercise price of \$9.94 per share and will expire on May 18, 2023.

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.

Washington Anti-Takeover Statute

Chapter 23B.19 of the Washington Business Corporation Act, with limited exceptions, prohibits a “target corporation” from engaging in specified “significant business transactions” for a period of five years after the share acquisition by an “acquiring person”, unless (a) the significant business transaction or the acquiring person’s purchase of shares was approved by a majority of the members of the target corporation’s board of directors prior to the acquiring person’s share acquisition or (b) the significant business transaction was both approved by the majority of the members of the target corporation’s board and authorized at a shareholder meeting by at least two-thirds of the outstanding voting shares (excluding the acquiring person’s shares or shares over which the acquiring person has voting control) at or subsequent to the acquiring person’s share acquisition. 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. “Significant business transactions” include, among other transactions:

- mergers, share exchanges or consolidations with, dispositions of assets to, or issuances of stock to or redemptions of stock from, the acquiring person;
- termination of 5% or more of the employees of the target corporation employed in Washington over a five-year period as a result of the acquiring person’s acquisition of 10% or more of the shares;
- allowing the acquiring person to receive any disproportionate benefit as a shareholder; and

- liquidating or dissolving the target corporation.

After the five-year period, “significant business transactions” are permitted, as long as they comply with the “fair price” provisions of the statute or are approved by a majority of the outstanding shares other than those of which the acquiring person has beneficial ownership. A corporation may not “opt out” of this statute. 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.

Amendment of Bylaws

Our articles of incorporation and bylaws provide that shareholders can amend or repeal our bylaws only upon the affirmative vote of the holders of our voting stock.

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 effect a change of control. 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 the company.

Board Vacancies Filled Only by Directors Then in Office

Only our board of directors may determine the number of directors on our board and fix such number by resolution from time to time. Our articles of incorporation provide that vacancies and newly created seats on our board of directors may only be filled by the majority vote of the remaining members of our board of directors. 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 our voting stock at a meeting of shareholders called for such purpose.

Board Classification

Our board of directors is divided into three classes. The directors in each class will serve for a three-year term, with one class being elected each year by our shareholders. This system of electing 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.

