

OMEROS CORP
Form 10-Q
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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 | 91-1663741 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|--|------------|
| 201 Elliott Avenue West | 98119 |
| Seattle, Washington | |
| (Address of principal executive offices) | (Zip Code) |
| (206) 676-5000 | |
| (Registrant's telephone number, including area code) | |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| Emerging growth company | <input type="checkbox"/> | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 6, 2018, the number of outstanding shares of the registrant's common stock, par value \$0.01 per share, was 49,009,310.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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,” “likely,” “may,” “plan,” “potential,” “predict,” “project,” “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 expectations relating to demand for OMIDRIA® (phenylephrine and ketorolac intraocular solution) 1%/0.3% from wholesalers, ambulatory surgery centers, or ASCs, and hospitals, and our expectations regarding OMIDRIA product sales;

- our estimates of OMIDRIA chargebacks and rebates, distribution fees and product returns;

- our estimates regarding how long our existing cash, cash equivalents, short-term investments and revenues will be sufficient to fund our anticipated operating expenses and capital expenditures, as well as our 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, and the satisfaction of covenants thereunder;

- our expectations regarding the clinical, therapeutic and competitive benefits and importance of OMIDRIA and our product candidates;

- our expectations related to obtaining permanent separate or similar reimbursement for OMIDRIA from the Centers for Medicare & Medicaid Services, or CMS, and/or from Congress, particularly after September 30, 2020;

- our ability to design, initiate and/or 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, for OMS906 and for OMS527;

- in our OMS721 program, our expectations regarding: whether enrollment in any or all ongoing and planned Phase 3 clinical trials will proceed as expected; 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, or conditional marketing authorization, orphan medicinal product designation may be granted by the European Commission, or EC, or the European Medicines Agency, or EMA, as applicable, for indications for which we are pursuing such approval or designation; and whether we can capitalize on the financial and regulatory incentives provided by the foregoing;

- in our OMS721 program, whether and when a Biologics License Application, or BLA, for accelerated approval of OMS721 may be filed with the FDA and whether the FDA will grant accelerated or full approval for OMS721; paths to accelerated and full approval of OMS721 in hematopoietic stem cell transplant-associated thrombotic microangiopathy, or HSCT-TMA, and atypical hemolytic uremic syndrome, or aHUS ; and potential approval with respect to our Phase 3 clinical program for patients with Immunoglobulin A, or IgA, nephropathy;

- our anticipation that we will rely on contract manufacturers to manufacture OMIDRIA for commercial sale and to manufacture our product candidates for clinical trial supply and, if approved, for commercial sale;

- our ability to enter into acceptable arrangements with potential corporate partners or contract service providers, including with respect to OMIDRIA, and our ability and plans to effect any such arrangements with respect to OMIDRIA in the European Union, or EU, or in other foreign countries;

- our ability to raise additional capital through the capital markets or through one or more corporate partnerships, equity offerings, debt financings, collaborations, licensing arrangements or asset sales;

- our expectations about the commercial competition that OMIDRIA and our product candidates, if commercialized, face or may face;

- 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;

-

the factors on which we base our estimates for accounting purposes and our expectations regarding the effect of changes in accounting guidance or standards on our operating results;
• our expected financial position, performance, revenues, growth, costs and expenses, magnitude of net losses and the availability of resources; and

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the expected course and costs of potential claims, legal proceedings and administrative actions, and the merits, potential outcomes and effects of potential claims, legal proceedings and administrative actions, as well as regulatory determinations, on our business, prospects, financial condition and results of operations.

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 this Quarterly Report on Form 10-Q 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, 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 Quarterly Report on Form 10-Q. You should read this Quarterly Report on Form 10-Q completely and with the understanding that our actual results in subsequent periods may materially differ from current expectations. Except as required by applicable law, 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.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OMEROS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

(unaudited)

| | September 30, 2018 | December 31, 2017 |
|--|--------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,787 | \$ 3,394 |
| Short-term investments | 52,369 | 80,355 |
| Receivables, net | 2,297 | 17,144 |
| Inventory | 214 | 443 |
| Prepaid expense | 8,334 | 7,036 |
| Total current assets | 66,001 | 108,372 |
| Property and equipment, net | 2,520 | 2,121 |
| Restricted investments | 5,779 | 5,835 |
| Advanced payments, non-current | 1,310 | — |
| Total assets | \$ 75,610 | \$ 116,328 |
| Liabilities and shareholders' deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,847 | \$ 6,691 |
| Accrued expenses | 15,180 | 19,126 |
| Current portion of lease financing obligations | 560 | 490 |
| Total current liabilities | 24,587 | 26,307 |
| Notes payable and lease financing obligations, net | 131,695 | 84,117 |
| Deferred rent | 8,325 | 8,718 |
| Commitments and contingencies (Note 7) | — | — |
| Shareholders' deficit: | | |
| Preferred stock, par value \$0.01 per share, 20,000,000 shares authorized; none issued and outstanding at September 30, 2018 and December 31, 2017, respectively | — | — |
| Common stock, par value \$0.01 per share, 150,000,000 shares authorized; 49,009,310 and 48,211,226 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | 490 | 482 |
| Additional paid-in capital | 537,104 | 520,072 |
| Accumulated deficit | (626,591) | (523,368) |
| Total shareholders' deficit | (88,997) | (2,814) |
| Total liabilities and shareholders' deficit | \$ 75,610 | \$ 116,328 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | |

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OMEROS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In thousands, except share and per share data)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Product sales, net | \$4,608 | \$ 21,658 | \$7,852 | \$51,067 |
| Costs and expenses: | | | | |
| Cost of product sales | 36 | 184 | 355 | 613 |
| Research and development | 26,862 | 14,835 | 64,414 | 40,212 |
| Selling, general and administrative | 13,152 | 11,749 | 36,830 | 40,016 |
| Total costs and expenses | 40,050 | 26,768 | 101,599 | 80,841 |
| Loss from operations | (35,442) | (5,110) | (93,747) | (29,774) |
| Interest expense | (4,602) | (2,780) | (11,104) | (8,166) |
| Other income | 572 | 408 | 1,628 | 1,010 |
| Net loss | \$(39,472) | \$(7,482) | \$(103,223) | \$(36,930) |
| Comprehensive loss | \$(39,472) | \$(7,482) | \$(103,223) | \$(36,930) |
| Basic and diluted net loss per share | \$(0.81) | \$(0.16) | \$(2.13) | \$(0.83) |
| Weighted-average shares used to compute basic and diluted net loss per share | 48,647,416 | 46,262,211 | 48,437,870 | 44,709,418 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | | | |

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OMEROS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2018 | 2017 |
| Operating activities: | | |
| Net loss | \$(103,223) | \$(36,930) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation expense | 8,896 | 9,449 |
| Non-cash interest expense | 4,308 | 3,056 |
| Depreciation and amortization | 654 | 378 |
| Changes in operating assets and liabilities: | | |
| Receivables | 14,847 | (12,534) |
| Inventory | 229 | 306 |
| Prepaid expenses and other assets | (2,608) | (3,925) |
| Accounts payable, accrued expenses and other | (2,183) | 8,145 |
| Net cash used in operating activities | (79,080) | (32,055) |
| Investing activities: | | |
| Purchases of property and equipment | (474) | (350) |
| Purchases of investments | (45,514) | (65,109) |
| Proceeds from the sale and maturities of investments | 73,500 | 22,429 |
| Net cash provided by (used in) investing activities | 27,512 | (43,030) |
| Financing activities: | | |
| Proceeds from issuance of common stock | — | 63,627 |
| Proceeds from borrowings under notes payable | 44,550 | — |
| Proceeds upon exercise of stock options and warrants | 6,720 | 10,512 |
| Release of restricted investments | 56 | — |
| Payments on lease financing obligations | (365) | (252) |
| Net cash provided by financing activities | 50,961 | 73,887 |
| Net decrease in cash and cash equivalents | (607) | (1,198) |
| Cash and cash equivalents at beginning of period | 3,394 | 2,224 |
| Cash and cash equivalents at end of period | \$2,787 | \$1,026 |
| Supplemental cash flow information | | |
| Cash paid for interest | \$6,796 | \$5,110 |
| Conversion of accrued interest to notes payable | \$3,246 | \$2,467 |
| Fair value of warrants issued in connection with notes payable amendment | \$1,424 | \$— |
| Property acquired under capital lease | \$579 | \$632 |
| See accompanying Notes to Condensed Consolidated Financial Statements | | |

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OMEROS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1—Organization and Significant Accounting Policies

Organization

We are a commercial-stage biopharmaceutical company committed to discovering, developing and commercializing small-molecule and protein therapeutics for large-market as well as orphan indications targeting inflammation, complement-mediated diseases and disorders of the central nervous system. Our first drug product, OMIDRIA, is marketed in the United States (U.S.) for use during cataract surgery or intraocular lens replacement.

Basis of Presentation

Our condensed 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 and we have determined we operate in one segment. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The information as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017 includes all adjustments, which include normal recurring adjustments, necessary to present fairly our interim financial information. The Condensed Consolidated Balance Sheet at December 31, 2017 has been derived from our audited financial statements but does not include all of the information and footnotes required by GAAP for audited annual financial information. The accompanying unaudited condensed consolidated financial statements and related notes thereto should be read in conjunction with the audited consolidated financial statements and related notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the U.S. Securities and Exchange Commission (SEC) on March 1, 2018.

Going Concern

On an interim and annual basis we are required to assess our ability to continue as a going concern for one year after the date the financial statements are issued using rules defined by Accounting Standards Codification (ASC) No. 205-40 - Going Concern (the Standard). As required by the 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 the second step of this evaluation, management's assumptions and plans are derived according to restrictions and definitions in the Standard. As such, for purposes of this exercise, the following assumptions (which are discussed in further detail following this summary) were made:

- Limited cash receipts from sales of OMIDRIA. Even though we have received an extension of transitional pass-through reimbursement for OMIDRIA for a period of two years effective October 1, 2018, we are unable at this time to predict accurately revenue from sales of OMIDRIA given that transitional pass-through reimbursement for the product has just recently been reinstated. In addition, sales of OMIDRIA are generally made with 90-day collection terms and, therefore, minimal OMIDRIA cash receipts were included for this exercise prior to January 2019; and

No public or private equity transactions or partnering revenues can be considered for purposes of this exercise in the absence of any existing or committed arrangements to raise additional capital or of any existing or consummated partnerships.

In performing the first step of the assessment, we concluded that the following conditions raise substantial doubt about our ability to meet our financial obligations as they become due. As of September 30, 2018, we had \$55.2 million in cash, cash equivalents and short-term investments, \$2.3 million of accounts receivable and \$24.6 million in current liabilities. We have a history of net losses (\$103.2 million for the nine months ended September 30, 2018) and use of cash for operations (\$79.1 million for the nine months ended September 30, 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 the financial statements are issued. In performing this second step of the assessment, we are limited to those assumptions listed above, including nominal revenues from OMIDRIA despite the reinstatement of the product's pass-through status effective October 1, 2018 pursuant to the Consolidated Appropriations Act of 2018 (Appropriations Act), and the restrictions and definitions in the Standard. Consequently, based on this assessment performed using the associated limitations required by the

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Standard, we have concluded there is substantial doubt about our ability to continue as a going concern through November 8, 2019.

Given our inability to assume any meaningful OMIDRIA sales revenues for the purpose of this exercise due to only recently reinstated pass-through, if we are unable to raise additional equity, debt or partnering capital when needed, 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 research and development efforts, or implementing other restructuring activities.

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.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09- Revenue from Contracts with Customers (Topic 606), which requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. We adopted Topic 606 on January 1, 2018 using the modified retrospective transition method.

Once we determine that an arrangement is within the scope of Topic 606 and we believe it is probable that we will collect the consideration, we perform the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation.

Upon adoption, we evaluated our contracts with customers and determined the adoption of the standard did not change the timing or the amounts of our previously recognized revenues.

Product Sales, Net

We generally record revenue from product sales when the product is delivered to our wholesalers. Product sales are recorded net of wholesaler distribution fees and estimated chargebacks, rebates and purchase volume discounts.

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.

The Centers for Medicare & Medicaid Services (CMS) initially granted transitional pass-through reimbursement status for OMIDRIA from January 1, 2015 through December 31, 2017. Pass-through status for OMIDRIA allowed for reimbursement payment to Ambulatory Surgery Centers (ASCs) and hospitals using OMIDRIA in procedures involving patients covered by Medicare Part B. In March 2018, the Appropriations Act was signed into law, which among other things extended pass-through reimbursement status for certain drugs, including OMIDRIA, for a two-year period beginning October 1, 2018. For the period January 1, 2018 through September 30, 2018, OMIDRIA was not yet subject to separate reimbursement for procedures involving patients covered by Medicare Part B.

Advanced Payments

We have various agreements with third parties that require us to pay part of the contractually due amounts in advance of receiving goods and services. These agreements relate primarily to clinical and manufacturing activities. Amounts paid in advance of services to be delivered to us beyond 12 months of the balance sheet date are recorded as non-current assets.

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.

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Recently Adopted Pronouncements

We adopted ASU 2018-05 issued by the FASB in March 2018 related to the Tax Cuts and Jobs Act (Tax Act) that was enacted in December 2017. We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21.0%. The standard requires that we record and disclose any provisional amounts related to the Tax Act. We recorded and disclosed the provisional impact to our deferred tax balance in our Annual Report on Form 10-K for the year ended December 31, 2017 that was filed with the SEC on March 1, 2018.

In May 2016, the FASB issued ASU 2017-09 related to stock-based compensation, which provides guidance on the accounting for changes to the terms and conditions of stock-based payment arrangement, or modifications. We adopted the guidance January 1, 2018 and the adoption did not have a material impact on our stock-based compensation expense.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15 related to the accounting for cloud computing arrangements and to follow the internal-use software guidance in determining which implementation costs to defer and recognize as an asset. The guidance is effective for annual periods, and interim periods beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period. We do not expect the adoption of this accounting guidance to have a material impact on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 which simplifies the accounting for share-based payments granted to non-employees for services by aligning it with the accounting for share-based payments to employees, with certain exceptions. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We do not expect the adoption of this accounting guidance to have a material impact on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 related to lease accounting. The new 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. We expect to adopt the standard on January 1, 2019 and are still in the process of evaluating the effect of adoption on our consolidated financial statements and are currently assessing our leases.

Note 2—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 nine months ended September 30, 2018 and 2017 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:

| | September 30, | |
|---|---------------|-----------|
| | 2018 | 2017 |
| Outstanding options to purchase common stock | 10,123,530 | 9,813,462 |
| Outstanding warrants to purchase common stock | 243,115 | 100,602 |
| Total | 10,366,645 | 9,914,064 |

Note 3—Accounts Receivable, Net

Accounts receivable, net consist of the following:

| | September 30, | December 31, |
|--|---------------|--------------|
| | 2018 | 2017 |

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(In thousands)

| | | |
|--------------------------------|---------|-----------|
| Trade receivables, net | \$2,165 | \$ 17,079 |
| Sublease and other receivables | 132 | 65 |
| Total accounts receivables net | \$2,297 | \$ 17,144 |

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Note 4—Fair-Value Measurements

As of September 30, 2018, and December 31, 2017, all investments were classified as short-term and available-for-sale on the accompanying Condensed Consolidated Balance Sheets. Investment income, which was included as a component of other income, consists of interest earned.

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 and liabilities measured at fair value on a recurring basis are as follows:

| | September 30, 2018 | | | |
|--|--------------------|---------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Assets: | | | | |
| Money-market funds classified as non-current restricted cash and investments | \$5,779 | \$ — | —\$ | —\$5,779 |
| Money-market funds classified as short-term investments | 52,369 | — | — | 52,369 |
| Total | \$58,148 | \$ — | —\$ | —\$58,148 |

| | December 31, 2017 | | | |
|--|-------------------|---------|---------|-----------|
| | 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 | 80,355 | — | — | 80,355 |
| Total | \$86,190 | \$ — | —\$ | —\$86,190 |

Cash held in demand deposit accounts of \$2.8 million and \$3.4 million is excluded from our fair-value hierarchy disclosure as of September 30, 2018 and December 31, 2017, respectively. There were no unrealized gains or losses associated with our short-term investments as of September 30, 2018 or December 31, 2017. The carrying amounts reported in the accompanying Condensed Consolidated Balance Sheets for receivables, accounts payable, other current monetary assets and liabilities and notes payable and lease financing obligations approximate fair value.

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Note 5—Accrued Liabilities

Accrued liabilities consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---------------------------------------|--------------------|-------------------|
| | (In thousands) | |
| Contract research and development | \$6,760 | \$ 4,251 |
| Employee compensation | 2,993 | 2,178 |
| Sales rebates, fees and discounts | 2,250 | 6,561 |
| Consulting and professional fees | 1,570 | 1,758 |
| Clinical trials | 453 | 1,026 |
| ASC/hospital product return liability | — | 2,350 |
| Other accruals | 1,154 | 1,002 |
| Total accrued liabilities | \$15,180 | \$ 19,126 |

Note 6—Notes Payable and Lease Financing Obligations

Notes payable and lease financing obligations consist of the following:

| | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| | (In thousands) | |
| Notes payable | \$132,077 | \$ 83,831 |
| Lender facility fee payable upon maturity | 6,604 | 4,192 |
| Lease financing obligations | 1,513 | 1,300 |
| Notes payable, facility fee and lease financing obligations | 140,194 | 89,323 |
| Unamortized debt discount | (6,510) | (3,527) |
| Unamortized debt issuance costs | (1,429) | (1,189) |
| Current portion of lease financing obligations | (560) | (490) |
| Non-current portion of notes payable and lease financing obligations, net | \$131,695 | \$ 84,117 |

In October 2016, we entered into the CRG Loan Agreement which permits interest-only payments through December 31, 2020. Subject to the achievement of certain milestones, this interest-only period potentially could be extended through the maturity date of September 30, 2022. In November 2016, we borrowed \$80.0 million under the CRG Loan Agreement and, in May 2018, we borrowed the remaining \$45.0 million available to us under the CRG Loan Agreement.

The CRG Loan Agreement accrues interest at an annual rate of 12.25% (4.00% of which can be deferred at our option through December 31, 2020 by adding such amount to the aggregate principal amount). As of September 30, 2018, as allowed under the CRG Loan Agreement, we have deferred \$7.1 million (\$3.2 million for the nine months ended September 30, 2018) of accrued interest by increasing the principal amount outstanding. 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 investments in our Condensed Consolidated Balance Sheet.

We are also required to pay 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 facility fee is being accreted to notes payable using the effective interest method over the term 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 4.00% prepayment fee through September 30, 2019, and with no prepayment fee being owed 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 outstanding principal to be prepaid.

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For calendar year 2019 and beyond, the CRG Loan Agreement requires us to achieve either (a) certain minimum net revenue amounts through the end of 2021, which is \$75.0 million for the 2019 calendar year, or (b) a minimum market capitalization threshold equal to the product of 3.0 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 (i.e., \$375.0 million). In the event we do not achieve either 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.

The CRG Loan Agreement includes customary events of default (see Note 7 of the “Notes to Consolidated Financial Statements” included in our Annual Report on Form 10-K for the year ended December 31, 2017). If there is an event of default the lenders may have the right to accelerate all our repayment obligations under the CRG Loan Agreement and to take control of our pledged assets, which consists of 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 to all outstanding obligations during the existence of an event of default.

Note 7—Commitments and Contingencies

Development Milestones and Product Royalties

We have licensed a variety of intellectual property from third parties that we are currently developing or may develop in the future. These licenses may require milestone payments during the clinical development processes as well as low single to low double-digit royalties on the net income or net sales of the product.

Contracts

We have various agreements with third parties that collectively require payment of termination fees totaling \$11.5 million as of September 30, 2018 if we cancel 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 (see Note 6).

Litigation

In May 2017, we received Notice Letters from Sandoz Inc. (Sandoz) and Lupin Ltd. and Lupin Pharmaceuticals, Inc. (collectively, Lupin), respectively, that Sandoz and Lupin had each filed an Abbreviated New Drug Application (ANDA) seeking approval from the U.S. Food and Drug Administration (FDA) to market a generic version of OMIDRIA prior to the expiration of our patents covering OMIDRIA. In June 2017, we filed patent infringement lawsuits against Sandoz and Lupin. In May 2018, we entered into a settlement agreement and consent judgment with Lupin resolving our patent litigation against Lupin and, in July 2018, our patent infringement lawsuit against Sandoz was dismissed by stipulation of the parties based on Sandoz’s revision of its Patent and Exclusivity Certification to a Paragraph III certification with respect to the patents-in-suit. As a result of an earlier settlement in October 2017 involving substantially similar assertions with Par Pharmaceutical, Inc. and its subsidiary, Par Sterile Products, LLC (collectively, Par), the Lupin settlement agreement and consent judgment and the Sandoz dismissal, all of our litigation with ANDA filers has been concluded. Based on the Par and Lupin settlement agreements and Sandoz’s conversion to a Paragraph III certification, the earliest ANDA entry date for any of the three generic manufacturers is April 2032 unless otherwise subsequently authorized pursuant to the settlement agreements.

Note 8—Shareholders’ Equity

Common Stock

For the nine months ended September 30, 2018, we received proceeds of \$6.7 million upon the exercise of stock options which resulted in the issuance of 763,575 shares of common stock. For the nine months ended September 30, 2017, we received proceeds of \$10.5 million upon the exercise of stock options and warrants which resulted in the issuance of 628,470 shares of common stock.

Warrants

In connection with the April 2018 amendment to the CRG Loan Agreement, we issued warrants to purchase up to 200,000 shares of our common stock with an exercise price of \$23.00 per share and total fair value of \$1.4 million. The warrants have a five-year term.

In September 2018, other warrant holders with a right to purchase 57,487 shares of our common stock exercised their warrants. In conjunction with this cashless exercise, we issued 34,509 shares of our common stock.

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Note 9—Stock-Based Compensation

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|-------------------------------------|--|---------|---|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (In thousands) | | (In thousands) | |
| Research and development | \$1,334 | \$1,297 | \$3,720 | \$4,034 |
| Selling, general and administrative | 1,595 | 1,744 | 5,176 | 5,415 |
| Total | \$2,929 | \$3,041 | \$8,896 | \$9,449 |

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 as follows:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---------------------------------------|--|---------|---|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Estimated weighted-average fair value | \$16.30 | \$13.66 | \$10.22 | \$8.38 |
| Weighted-average assumptions | | | | |
| Expected volatility | 78 | % 74 | % 77 | % 74 |
| Expected term, in years | 6.1 | 6.1 | 6.0 | 6.0 |
| Risk-free interest rate | 2.77 | % 1.95 | % 2.66 | % 1.99 |
| Expected dividend yield | — | % — | % — | % — |

Stock option activity for all stock plans and related information 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, 2017 | 9,657,259 | \$ 10.39 | | |
| Granted | 1,692,207 | 14.91 | | |
| Exercised | (763,575) | 8.80 | | |
| Forfeited | (462,361) | 13.39 | | |
| Balance at September 30, 2018 | 10,123,530 | \$ 11.13 | 6.6044 | \$ 134,484 |
| Vested and expected to vest at September 30, 2018 | 9,818,340 | \$ 11.06 | 6.5344 | \$ 131,102 |
| Exercisable at September 30, 2018 | 7,155,818 | \$ 10.13 | 5.6582 | \$ 102,201 |

At September 30, 2018, there were 2,967,712 unvested options outstanding that will vest over a weighted-average period of 2.8 years and 2,210,945 shares were available to grant. Excluding non-employee stock options, the total estimated compensation expense to be recognized on our unvested options is \$32.3 million.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

Our drug product OMIDRIA® is marketed in the United States, or U.S., for use during cataract surgery or intraocular lens, or IOL, replacement to maintain pupil size by preventing intraoperative miosis (pupil constriction) and to reduce postoperative pain. In our pipeline we have clinical-stage development programs focused on: complement-associated thrombotic microangiopathies; complement-mediated glomerulonephropathies; cognitive impairment; and addictive and compulsive disorders. In addition, we have a diverse group of preclinical programs and two 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, we have retained control of all commercial rights.

Commercial Products, Product Candidates, Development Programs and Platforms

OMIDRIA. OMIDRIA is approved in the U.S. by the U.S. Food and Drug Administration, or FDA, for use during cataract surgery or IOL replacement to maintain pupil size by preventing intraoperative miosis (pupil constriction) and to reduce postoperative pain. In the U.S., OMIDRIA is sold primarily through wholesalers which, in turn, sell to ASCs and hospitals. The Centers for Medicare & Medicaid Services, or CMS, the federal agency responsible for administering the Medicare program, granted transitional pass-through reimbursement status for OMIDRIA in 2014, effective from January 1, 2015 through December 31, 2017. Pass-through status allows for separate payment (i.e., outside the procedural packaged payment rate) under Medicare Part B. In March 2018, the Consolidated Appropriations Act of 2018, or the Appropriations Act, was signed into law. The Appropriations Act includes a provision that extends pass-through reimbursement status for a small number of drugs, including OMIDRIA, used during procedures performed on Medicare Part B fee-for-service patients for an additional two years, running from October 1, 2018 until October 1, 2020. As a result of this extension, each of these drugs, including OMIDRIA, receives separate payment for the two-year period that began on October 1, 2018. We also continue to pursue permanent separate reimbursement for OMIDRIA. In the recently released 2019 final rule for CMS’ outpatient prospective payment system, or OPPTS, CMS indicated that it will separately pay in the ASC setting for non-opioid drugs used during surgery that have an FDA-approved indication for postoperative pain relief and are currently packaged in calendar year 2019. Although OMIDRIA is not specifically named because it currently is paid separately, we believe that OMIDRIA meets this definition. The preamble to this section of the OPPTS Final Rule indicates that CMS will apply the exclusion from packaged payment to other drugs in the future if they meet the criteria. The OPPTS Final Rule also states that CMS will consider in future rule-making a policy that pays separately for drugs used during cataract surgery that have an FDA-approved indication to address postoperative issues. We believe that OMIDRIA also meets this definition. We also continue to pursue expansion of reimbursement for OMIDRIA by Medicare Advantage and other third-party payers. OMIDRIA revenues in the first three quarters of 2018 were significantly reduced due to the expiration of pass-through reimbursement status on January 1, 2018. Since pass-through reimbursement was reinstated on October 1 of this year, weekly sales of OMIDRIA have increased substantially from levels seen during the first nine months of the year. For more information regarding OMIDRIA reimbursement, see “Results of Operations” and “Financial Condition - Liquidity and Capital Resources” below.

In October 2017 and May 2018, we entered into a settlement agreement and consent judgment with Par Pharmaceutical, Inc. and its subsidiary, Par Sterile Products, LLC, or collectively Par, and with Lupin Ltd. and Lupin Pharmaceuticals, Inc., or collectively Lupin, respectively, resolving our patent infringement lawsuits against these companies that resulted from each having 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 our Orange Book Patents for OMIDRIA. In addition, in July 2018 we announced that our patent infringement lawsuit against Sandoz, Inc., or Sandoz, which had also filed an ANDA containing a Paragraph IV Certification seeking approval to market a generic version of OMIDRIA, had been dismissed by stipulation of the parties based on Sandoz's conversion to Paragraph III certifications with respect to the patents covering OMIDRIA. As a result, all of our litigation with ANDA filers has been concluded. Based on the Par and Lupin settlement agreements and Sandoz's conversion to a Paragraph III certification, the earliest ANDA entry date for any of the three generic manufacturers is April 2032 unless otherwise subsequently authorized pursuant to the settlement agreements. For more information regarding these matters, see Part II, Item 1, "Legal Proceedings."

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Outside of the U.S., we have received approval from the European Commission, or EC, to market OMIDRIA in 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. In July 2018, we reported that OMIDRIA had been placed on the market in the European Union, or EU, on a limited basis, which maintained the ongoing validity of the European marketing authorization for OMIDRIA. 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. Timing of any partnerships or independent launch depends on numerous factors, including domestic sales of OMIDRIA, completion of mutual diligence exercises and/or entry into suitable agreements with contract service vendors. In addition, we have an exclusive supply and distribution agreement for the sale of OMIDRIA in certain countries in the Middle East, including the Kingdom of Saudi Arabia and the United Arab Emirates, under which sales began on a limited basis in the Kingdom of Saudi Arabia in 2016. At this time we do not expect to see significant sales of OMIDRIA in any countries within the EEA or other international territories if we are unable to enter into partnerships for the marketing and distribution of OMIDRIA or complete an independent broad launch in any such country.

Product Candidates. We have the following clinical-stage programs in our pipeline:

MASP-2 - OMS721. OMS721 is our lead human monoclonal antibody targeting mannan-binding lectin-associated serine protease-2, or MASP-2, the effector enzyme of the lectin pathway of the complement system. The current development focus for OMS721 is diseases in which the lectin pathway has been shown to contribute to significant tissue injury and pathology. These diseases are typically characterized by significant end organ injuries, such as kidney or central nervous system injury, when not treated. Phase 3 programs are underway for OMS721 in HSCT-TMA, in IgA nephropathy, and in atypical hemolytic uremic syndrome, or aHUS. In addition, we have two ongoing OMS721 Phase 2 clinical trials, one in patients with TMAs and the other in renal diseases currently focused on patients with IgA nephropathy. We are also developing small-molecule inhibitors of MASP-2 designed for oral administration that we are targeting for initiation of clinical trials in 2020.

The FDA has granted breakthrough therapy designation to OMS721 for the treatment of HSCT-TMA in patients who have persistent TMA despite modification of immunosuppressive therapy, or high-risk HSCT-TMA. We continue to work closely with the FDA and we have met recently with the FDA and with multiple European national regulatory authorities to discuss potential approval pathways for OMS721 for the treatment of HSCT-TMA. Feedback from the European national regulatory authorities has been positive, and includes uniform recommendation to submit a marketing authorization application, or MAA, for full approval of OMS721 in HSCT-TMA. We next plan to request a centralized advice meeting with EMA's Committee for Human Medicinal Products, or CHMP. We have already applied for eligibility to EMA's centralized review procedure, which allows submission of a single MAA that, if approved, authorizes the product to be marketed in all EU member states and European Free Trade Association countries rather than requiring separate national approvals. We have also provided EMA with our letter of intent to submit an MAA and look forward to receiving assignment of our rapporteur and co-rapporteur who will work with us through the MAA submission and review process for OMS721 in stem-cell TMA. We intend to begin collection of chart-review-based historical data following further discussion with the FDA and finalization of the data collection and analysis plan. The comparison of OMS721-treated patients to the historical control is designed to support accelerated approval in the U.S. and full approval in Europe. Close interactions with the FDA and European regulatory agencies are ongoing and we continue preparations for U.S. Biologics License Application, or BLA, and European MAA submissions.

In April 2018, we reported interim results in patients with HSCT-TMA from the ongoing Phase 2 study. The analysis of 100-day mortality, an important endpoint previously used as an approval endpoint in another condition related to HSCT, showed that OMS721-treated patients had improved survival relative to the historical control (53% vs 10%; $p = 0.0002$).

For the IgA nephropathy program, patient enrollment is ongoing in our OMS721 Phase 3 clinical trial, which is referred to as ARTEMIS-IGAN, in patients at least 18 years of age with biopsy-confirmed IgA nephropathy and with 24-hour urine protein excretion greater than one gram per day at baseline on optimized renin-angiotensin system, or RAS, blockade. The primary endpoint for this trial is reduction in proteinuria. This trial includes a subset of patients

with baseline proteinuria levels of two or more grams per day and is designed to include pathways for both accelerated and full approvals depending on the magnitude and duration of the effect on proteinuria.

In October 2018, we reported new interim results in patients with IgA nephropathy from the ongoing Phase 2 clinical trial. These patients represent the second reported cohort of IgA nephropathy patients in the trial. The objective of the cohort was to assess safety and to provide longer-term observation with the option of repeat dosing, and the analyses were prespecified to provide descriptive data on the effects of OMS721 in a small number of patients. Unlike the

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previously reported first cohort of four IgA nephropathy patients who were taking corticosteroids at the time of study enrollment, patients in the second cohort are not taking steroids. The cohort included 12 patients, of which three had confounding factors making meaningful interpretation unreliable and thus were excluded from the analysis. There was no “run-in” period in this study. Patients were treated for 12 weeks with weekly dosing of either OMS721 or placebo, then were followed for six weeks with no treatment. After week 18, patients initially treated with placebo and patients initially treated with OMS721 were able to receive additional 12-week courses of dosing with OMS721 at investigator discretion. The study is ongoing and patients in the second cohort may receive more than one 2-week course of OMS721 and will be followed for two years. At the time of data reporting, four patients were in the study for between nine months and one year. The remaining patients were in the study for between 18 weeks and nine months. At week 18, median reduction in proteinuria was 18.4% in the five OMS721-treated patients and 18.0% in the four placebo patients. The one OMS721-treated patient whose proteinuria level remained elevated after the initial treatment course subsequently reached a 67.8% reduction from baseline following an additional course of OMS721 dosing.

After week 18 when all patients with elevated proteinuria are eligible at physician discretion to receive OMS721, median reduction from baseline in proteinuria was 56% for the eight patients who had at least 18 weeks of data and was 61% for the four patients who had over nine months of data, improvements that we believe are not consistent with the natural history of the disease. Four patients in this OMS721 dosing-extension period have reached between 9 and 12 months beyond baseline, and show reductions in proteinuria of 54 percent, 57 percent, 65 percent, and 68 percent. At most recent assessment, two of these four patients continued to demonstrate sustained reductions in proteinuria for 2.5 and 5 months, respectively, after cessation of treatment with OMS721; the other two patients just recently completed treatment courses. All of these patients in the follow-up period received at least one 12-week course of treatment with OMS721; five of the eight had received only one course of OMS721 treatment at the time of data release. Despite a small cohort of patients, and although median reductions in proteinuria in the placebo group were comparable to those in the OMS721 group following the initial 12-week course of treatment, we and international experts in IgA nephropathy we have consulted believe that these data are strongly positive and supportive of a disease modifying effect, with proteinuria reduction ranging from greater than 50% to approximately 70%, a magnitude consistent with what we previously reported from the first cohort of this clinical trial.

The Phase 3 clinical program in patients with aHUS, in which patient enrollment is ongoing, consists of one Phase 3 clinical trial – a single-arm (i.e., no control arm), open-label trial in patients with newly diagnosed or ongoing aHUS. This trial is targeting approximately 40 patients for full approval in Europe and accelerated approval in the U.S. with approximately 80 total patients required by FDA for full approval.

OMS721 has received multiple designations from the FDA and from the EMA across the three current indications. These include:

HSCT-TMA: In the U.S., the FDA has granted OMS721 (1) breakthrough therapy designation in patients who have persistent TMA despite modification of immunosuppressive therapy, (2) orphan drug designation for the prevention (inhibition) of complement-mediated TMAs, and (3) orphan drug designation for the treatment of HSCT-TMA. The EC also granted OMS721 a designation as an orphan medicinal product for treatment in hematopoietic stem cell transplantation.

IgA nephropathy: In the U.S., OMS721 has received from the FDA (1) breakthrough therapy designation for the treatment of IgA nephropathy and (2) orphan drug designation in IgA nephropathy. In Europe, OMS721 has received from the EC designation as an orphan medicinal product for the treatment of primary IgA nephropathy.

aHUS: In the U.S., OMS721 has received from the FDA (1) fast-track designation for the treatment of patients with aHUS and (2) orphan drug designation for the prevention (inhibition) of complement-mediated TMAs, which includes aHUS.

PDE10 - OMS824. In our OMS824 program, we continue to advance our phosphodiesterase 10, or PDE10, inhibitors for treatment of neurological disorders. The FDA has authorized our conduct of clinical trials in Huntington’s disease with our lead candidate subject to dosing limitations. Given the dosing limitations, we are currently focused on assessing the relative advantages of a number of our back-up compounds and potential indications.

PPAR - OMS405. In our peroxisome proliferator-activated receptor gamma, or PPAR , program, Phase 2 clinical trials have been conducted by our collaborators to evaluate a PPAR agonist, alone or in combination with other agents, and

have yielded positive data in the treatment of addiction to heroin and to nicotine. We have 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 agonist in patients with cocaine use disorder.

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PDE7 - OMS527. In our phosphodiesterase 7, or PDE7, program, we are developing proprietary compounds to treat addiction and compulsive disorders as well as movement disorders. A Phase 1 single-ascending- and multiple-ascending-dose clinical trial is underway and is designed to assess safety and pharmacokinetics of the compound in healthy subjects. We have completed dosing in the first six cohorts of subjects and have studied whether pharmacokinetics is affected by food. The compound to date has been well tolerated and pharmacokinetic data support once-daily dosing, with or without food. Completion of the Phase 1 trial is expected in the first half of 2019. Following Phase 1 completion, if successful, we plan to conduct our initial OMS527 Phase 2 clinical trial in patients with nicotine addiction.

Development Programs and Platforms. Our preclinical programs and platforms include:

MASP-3 - OMS906. In our mannan-binding lectin-associated serine protease-3, or MASP-3 program, we are developing MASP-3 inhibitors for the treatment of disorders related to the alternative pathway of the complement system. MASP-3 is thought to be the key activator of the alternative pathway. In preparation for clinical trials, the manufacturing scale-up process is underway for a MASP-3 inhibitor antibody and we are currently targeting paroxysmal nocturnal hemoglobinuria, or PNH, as the first clinical indication for OMS906. We are currently planning for clinical trials to begin in late 2019 or early 2020. We are also developing small-molecule inhibitors of MASP-3.

GPCR Platform and Programs. 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 are conducting in vitro and in vivo preclinical efficacy studies and optimizing compounds for a number of targets including: GPR151, which is linked to schizophrenia and cognition; GPR161, which is associated with triple negative breast cancer and various sarcomas; and GPR174, which is involved in modulation of the immune system and, in animal and ex vivo human studies, increases cytokine production and inhibits production of regulatory T cells and checkpoint molecules, all of which are known to be important in cancer, in autoimmune disease, such as multiple sclerosis, and in organ transplantation.

Antibody Platform. 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. Using our platform and other know-how and techniques, we have generated antibodies to several clinically significant targets, including highly potent antibodies against MASP-3 and MASP-1.

Financial Summary

During the three months ended September 30, 2018 and 2017, our OMIDRIA revenues were \$4.6 million and \$21.7 million, respectively, and our net losses were \$39.5 million (including \$5.0 million of non-cash expenses) and \$7.5 million (including \$4.2 million of non-cash expenses) for the same periods. The significant reduction in OMIDRIA revenues between the periods is due to the expiration of separate Medicare reimbursement for OMIDRIA on January 1, 2018, which was reinstated on October 1, 2018 for a two-year-period pursuant to the Appropriations Act. See “Results of Operations - Revenue” below for additional details. We expect that our net losses will continue until such time as we derive sufficient revenues from sales of OMIDRIA and/or other sources, such as licensing, product sales and other revenues from our product candidates, to cover our expenses.

As of September 30, 2018, we had \$55.2 million in cash, cash equivalents and short-term investments available for general corporate use. In addition, we had restricted investments of \$5.8 million that we were required to maintain in depository and investment accounts primarily pursuant to our Term Loan Agreement, or the CRG Loan Agreement, with CRG Servicing LLC, or CRG, as administrative and collateral agent, and the lenders identified therein, which requires us to maintain a balance of cash and cash equivalents of \$5.0 million, and our lease related to the Omeros Building.

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Results of Operations

Revenue

On January 1, 2018, we adopted Accounting Standards Update (ASU) 2014-09 (Topic 606) “Revenue from Contracts with Customers” using the modified retrospective transition method. The adoption of ASU 2014-09 did not change the timing or the amounts of our previously recognized revenue. For more information regarding revenue recognition, see Part I, Item 1, Note 1 - “Organization and Significant Accounting Policies.”

Our revenue consists of the following:

| Three Months | | Nine Months | |
|----------------|------|----------------|------|
| Ended | | Ended | |
| September 30, | | September 30, | |
| 2018 | 2017 | 2018 | 2017 |
| (In thousands) | | (In thousands) | |

Product sales, net \$4,608 \$21,658 \$7,852 \$51,067

Pass-through status for OMIDRIA allows for separate reimbursement payment (i.e., outside the packaged procedural payment) to ASCs and hospitals using OMIDRIA in procedures involving patients covered by Medicare Part B. CMS originally granted transitional pass-through reimbursement status for OMIDRIA through December 31, 2017. For the period January 1, 2018 through September 30, 2018, OMIDRIA was not subject to pass-through reimbursement payment for procedures involving patients covered by Medicare Part B and, therefore, was not subject to separate reimbursement for procedures involving these patients. In March 2018, the Appropriations Act was signed into law, which among other things extended pass-through reimbursement status for certain drugs, including OMIDRIA, for a two-year period beginning October 1, 2018. CMS has since implemented the Appropriations Act for dates of service beginning October 1, 2018. In the recently released 2019 final rule for CMS’ OPPS, CMS indicated that it will separately pay in the ASC setting for non-opioid drugs used during surgery that have an FDA-approved indication for postoperative pain relief and are currently packaged in calendar year 2019. Although OMIDRIA is not specifically named because it currently is paid separately, we believe that OMIDRIA meets this definition. The preamble to this section of the OPPS Final Rule states that CMS will apply the exclusion from packaged payment to other drugs in the future if they meet the criteria. The OPPS Final Rule also indicates that CMS will consider in future rule-making a policy that pays separately for drugs used during cataract surgery that have an FDA-approved indication to address postoperative issues. We believe that OMIDRIA also meets this definition. We are continuing to confirm these and to pursue other avenues of permanent separate payment or similar reimbursement for OMIDRIA beyond September 30, 2020 but can provide no assurance that these efforts will be successful.

During the three and nine months ended September 30, 2018, OMIDRIA revenue was \$4.6 million and \$7.9 million as compared to \$21.7 million and \$51.1 million for the three and nine months ended September 30, 2017. The decrease in revenue during the three and nine months ended September 30, 2018 compared to the same periods in prior year was due to the significantly reduced usage of OMIDRIA by ASCs and hospitals following the expiration of transitional pass-through reimbursement status for OMIDRIA on January 1, 2018.

During the last two weeks of September 2018, we saw increased purchases from our wholesalers in anticipation of renewed buying from our ASC and hospital customers as a result of the reinstatement of pass-through reimbursement of OMIDRIA on October 1, 2018. In addition, in the third quarter of 2018, we recognized \$2.1 million of net revenue related to inventory at the wholesalers. We previously deferred this amount due to reduced demand from ASCs and hospitals as a result of the loss of pass-through reimbursement and we recognized this amount in the third quarter due to the anticipated increase in ASC and hospital demand following the reinstatement of pass-through reimbursement effective October 1, 2018.

In the last week of September and for October 2018, we saw OMIDRIA sales from our wholesalers to our ASC and hospital customers (sell-through) increase significantly as compared to the first three quarters of 2018 as ASCs and hospitals began to restock OMIDRIA prior to the reinstatement of pass-through reimbursement for OMIDRIA, which became effective October 1, 2018. We cannot yet predict how quickly or the full extent to which ASCs and hospitals will resume or increase their usage of OMIDRIA, but in October 2018, our ASC and hospital customers purchased

approximately 17,500 units of OMIDRIA from our wholesalers. Sell-through in October 2018 was 81% of sell-through in October 2017, which was our highest month of OMIDRIA sell-through to date.

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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. Our total gross-to-net provision for the three and nine months ended September 30, 2018 was 28.7% and 27.2%, respectively, of gross OMIDRIA product sales. This compares to 24.7% and 24.2% for the corresponding periods in 2017. The primary reason for the higher gross-to-net deduction percentages in the first three quarters of 2018 is the increase in chargebacks due to a higher percentage of our product sales being eligible for government-mandated discounts. In addition, we had an increase in the percentage of our sales subject to patient co-pay assistance payments under our OMIDRIAssure Reimbursement Services Program during this same period. These increases were partially offset by a decrease in rebates related to our volume discount program with ASCs during this period.

We expect that our fourth quarter provision for gross-to-net deductions as a percentage of sales will be comparable to that for the third quarter of 2018.

A summary of our gross-to-net related accruals for the nine months ended September 30, 2018 is as follows:

| | Chargebacks and Rebates | Distribution Fees and Product Return Allowances | Total |
|----------------------------------|----------------------------|---|----------|
| | (In thousands) | | |
| Balance as of December 31, 2017 | \$5,724 | \$ 3,373 | \$9,097 |
| Provisions | 2,541 | 386 | 2,927 |
| Payments | (7,087) | (2,847) | (9,934) |
| Balance as of September 30, 2018 | \$1,178 | \$ 912 | \$2,090 |

Chargebacks and Rebates

We record a provision for estimated chargebacks and rebates at the time we recognize OMIDRIA product sales revenue and reduce the accrual when payments are made, or credits are granted. Our chargebacks are related to a Pharmaceutical Pricing Agreement, a Federal Supply Schedule agreement, a 340B prime vendor agreement and a Medicaid Drug Rebate Agreement. We also record a provision for estimated payments under our OMIDRIAssure Reimbursement Services Program and rebates under our purchase volume discount programs.

Distribution Fees and Product Return Allowances

We pay our wholesalers a distribution fee for services they perform for us based on the dollar value of their purchases of OMIDRIA. We record a provision for these charges as a reduction to revenue at the time of sale to the wholesaler and make payments to our wholesalers based on contractual terms.

We 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. We record a provision for returns upon sale of OMIDRIA to our wholesaler. When a return or claim is received, we issue a credit memo to the wholesaler against its outstanding receivable to us or reimburse the customer.

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, contract research organizations, or 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.

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The following table illustrates our expenses associated with these activities:

| | Three Months Ended September 30, 2018 2017 | | Nine Months Ended September 30, 2018 2017 | |
|---|--|---------|---|----------|
| | (In thousands) | | (In thousands) | |
| Direct external expenses: | | | | |
| Clinical research and development: | | | | |
| MASP-2 Program - OMS721 | \$15,660 | \$6,480 | \$31,904 | \$13,935 |
| OMIDRIA - Ophthalmology | 511 | 436 | 1,795 | 2,848 |
| PDE7 - OMS527 | 1,206 | — | 1,206 | — |
| Other clinical programs | 253 | 22 | 915 | 111 |
| Total clinical research and development | 17,630 | 6,938 | 35,820 | 16,894 |
| Preclinical research and development | 1,203 | 1,438 | 5,640 | 3,011 |
| Total direct external expenses | 18,833 | 8,376 | 41,460 | 19,905 |

| | | | | |
|---|----------|----------|----------|----------|
| Internal, overhead and other expenses | 6,695 | 5,162 | 19,234 | 16,273 |
| Stock-based compensation expense | 1,334 | 1,297 | 3,720 | 4,034 |
| Total research and development expenses | \$26,862 | \$14,835 | \$64,414 | \$40,212 |

The \$10.5 million and \$21.6 million increases in direct external expenses for the three and nine months ended September 30, 2018, compared to the same periods in 2017, were due primarily to higher third-party manufacturing scale-up costs including the acquisition of raw manufacturing materials to be used over approximately two years for our OMS721 program as we continue to increase our production capacity to meet anticipated clinical and commercial requirements, higher clinical costs associated with initiating our OMS721 IgA nephropathy Phase 3 clinical trial and the July 2018 initiation of our Phase 1 clinical trial in OMS527, our PDE7 program for addiction and compulsive disorders. In addition, we also incurred higher third-party preclinical development expenses in the first half of 2018 as we advanced OMS527 into the clinic and as we continued preclinical development of our MASP-2 small-molecule inhibitors, OMS906 and our GPCR programs. These increases were partially offset by decreased costs due to completing the transfer of OMIDRIA manufacturing to a new facility in December 2017.

The changes in internal, overhead and other expenses are primarily due to increased employee related costs.

For the fourth quarter of 2018, we expect our overall research and development costs to will likely increase given our continuing manufacturing efforts for OMS721, our Phase 3 clinical programs for OMS721 and our ongoing Phase 1 OMS527 trial.

At this time, we are unable to estimate with any certainty the longer-term 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. Clinical development timelines, the probability of success and development costs can differ materially as new data become available and as expectations change. While we are focused currently on advancing our product development programs, our future research and development expenses will depend, in part, on the preclinical or clinical success of each product candidate as well as ongoing assessments of each program's commercial potential. In addition, we 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 delay our generation of product revenue and 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.

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Selling, General and Administrative Expenses

| | Three Months Ended September 30, 2018 2017 (In thousands) | | Nine Months Ended September 30, 2018 2017 (In thousands) | |
|--|--|-----------|---|-----------|
| Selling, general and administrative expenses, excluding stock-based compensation expense | \$ 11,557 | \$ 10,005 | \$ 31,654 | \$ 34,601 |
| Stock-based compensation expense | 1,595 | 1,744 | 5,176 | 5,415 |
| Total selling, general and administrative expenses | \$ 13,152 | \$ 11,749 | \$ 36,830 | \$ 40,016 |

The increase in selling, general and administrative expenses during the three months ended September 30, 2018 compared to the same periods in 2017 was primarily due increased costs associated with the OMIDRIA sales force expansion and preparation for the reinitiation of pass-through payment status for OMIDRIA. Pre-commercialization activities associated with OMS721 also contributed to the increase. These increases were partially offset by decreased legal costs associated with the conclusion of our patent infringement lawsuit against Par, which was resolved in October 2017.

The decrease in selling, general and administrative expenses during the nine months ended September 30, 2018 compared to the same period in 2017 was primarily due to reduced legal costs associated with the Par lawsuit. We expect that our selling, general and administrative expenses in the fourth quarter could slightly increase from current levels due to a full quarter of costs associated with the expansion of our OMIDRIA field sales force, increased marketing activities following the October 1, 2018 reinstatement of OMIDRIA pass-through payment status, and early pre-commercialization activities of OMS721.

The changes in stock-based compensation expense during the three and nine months ended September 30, 2018 compared to the same periods in the prior year were primarily due to timing and fair value of new employee option grants.

Interest Expense

| | Three Months Ended September 30, 2018 2017 (In thousands) | | Nine Months Ended September 30, 2018 2017 (In thousands) | |
|------------------|--|---------|---|---------|
| Interest expense | \$4,602 | \$2,780 | \$11,104 | \$8,166 |

The increase in interest expense during the three and nine months ended September 30, 2018 compared to the same periods in the prior year was primarily due to the May 2018 borrowing of the remaining \$45.0 million available to us under the CRG Loan Agreement and deferred interest being added to the outstanding balance under our CRG Loan Agreement.

Financial Condition - Liquidity and Capital Resources

We have generated net losses of \$39.5 million and \$103.2 million for the three and nine months ended September 30, 2018, respectively and incurred negative cash flows for operations of (\$36.9 million and \$79.1 million, respectively, for the three and nine months ended September 30, 2018). As of September 30, 2018, we had \$55.2 million in cash, cash equivalents and short-term investments available for general corporate use that are held principally in money-market accounts as compared to \$83.7 million at December 31, 2017. Our accounts receivable balance at September 30, 2018 was \$2.3 million compared to \$17.1 million at December 31, 2017 due to significantly reduced 2018 revenues for OMIDRIA because of the temporary loss of pass-through reimbursement effective January 1, 2018. We also had \$24.6 million of current liabilities outstanding at September 30, 2018.

Our notes payable and lease financing obligation increased to \$132.3 million as of September 30, 2018, compared to \$84.6 million as of December 31, 2017, primarily due to borrowing the remaining \$45.0 million available to us under the CRG Loan Agreement and the deferral of \$3.2 million of interest payments also under the CRG Loan Agreement. For more information regarding the CRG Loan Agreement, see Part I, Item 1, Note 6 - “Notes Payable and Lease Financing Obligations.”

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The significant reduction in OMIDRIA usage from January 1, 2018 to September 30, 2018 had a negative impact on our cash flows for the first three quarters of 2018 as sales for OMIDRIA decreased significantly during this period. OMIDRIA revenues for October 2018, following the reinstatement of pass-through reimbursement, have increased substantially from the run rate we experienced in the first three quarters of the year. We expect the run rate will continue to increase, but we cannot predict how quickly or the extent to which ASCs and hospitals will resume or increase their usage of OMIDRIA.

We expect to continue to incur negative cash flows until OMIDRIA product sales or other sources of revenue (e.g., corporate partnering, licensing or product sales) generate sufficient cash inflows to finance our operations and debt service requirements. Until we are cash-flow positive, we will need to continue to raise operating funds through the issuance of public or private equity securities, incurring additional debt and/or pursuing partnering and licensing opportunities.

On an interim and annual basis, we are required to assess our ability to continue as a going concern for one year after the date the financial statements are issued using rules defined by Accounting Standard Codification (ASC) No. 205-40 - Going Concern, or the Standard. In performing the 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 the financial statements are issued. In performing this assessment, we are limited to the restrictions and definitions in the Standard. As such, we did not consider any future sources of working capital that we may otherwise be able to access, including significant growth in revenues from the sale of OMIDRIA experienced in October 2018. Consequently, based on the assessment we performed using the associated limitations required by the Standard, we have concluded that there is substantial doubt about our ability to continue as a going concern through November 8, 2019.

Cash Flow Data

Nine Months Ended
September 30,
2018 2017
(In thousands)

Selected cash flow data

Cash provided by (used in):

| | | |
|----------------------|------------|------------|
| Operating activities | \$(79,080) | \$(32,055) |
| Investing activities | 27,512 | (43,030) |
| Financing activities | 50,961 | 73,887 |

Operating Activities. Net cash used in operating activities for the nine months ended September 30, 2018 increased by \$47.0 million as compared to the same period in 2017. The increase in cash used in operating activities in the current period compared to the prior year largely resulted from an increase in our net loss of \$66.3 million and a \$10.3 million decrease in funds provided by accounts payable, accrued expenses and other. This increase in cash used in operating activities was partially offset by a \$27.4 million increase in funds provided due to the collection of accounts receivable that existed as of December 31, 2017 that were minimally replaced in 2018 because of the significantly reduced OMIDRIA sales related to the loss of pass-through reimbursement from January 1, 2018 to September 30, 2018.

Investing Activities. Cash flows from investing activities primarily reflect cash used to purchase short-term investments and proceeds from the sale 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 these fluctuations in cash flows to be important to the understanding of our liquidity and capital resources.

Net cash provided by investing activities during the nine months ended September 30, 2018 was \$27.5 million, a change of \$70.5 million from the \$43.0 million net cash used in investing activities for the same period in 2017. The primary differences between the periods is that in the nine months ended September 30, 2018, we used the \$44.6 million we received under the CRG Loan Agreement in May 2018 to purchase investments. In addition, investments sold increased by \$51.1 million during the nine months ended September 30, 2018 compared to the same period in

2017 in order to provide cash to fund our operations due to the increase in our net loss.

Financing Activities. Net cash provided by financing activities during the nine months ended September 30, 2018 was \$51.0 million, a decrease of \$22.9 million compared to the same period in 2017. The decrease in net cash provided by financing activities for the nine months ended September 30, 2018 was primarily due to the \$63.6 million received from common stock offering in August 2017 offset by the \$44.6 million incremental borrowing in May 2018 under our CRG Loan Agreement. In

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addition, during the nine months ended September 30, 2018, proceeds from the exercise of stock option and warrants decreased by \$3.8 million compared to the prior year period.

Loan and Security Agreement

In October 2016, we entered into the CRG Loan Agreement, pursuant to which we pledged substantially all of our assets, including intellectual property, as collateral. In May 2018, we borrowed the remaining \$45.0 million available under the CRG Loan Agreement, and as of September 30, 2018, \$132.1 million was outstanding. For more information regarding the CRG Loan Agreement, see Part I, Item 1, Note 6 - “Notes Payable and Lease Financing Obligations.”

Contractual Obligations and Commitments

Our future minimum contractual commitments and obligations were reported in our Annual Report on Form 10-K for the year ended December 31, 2017 that was filed with the Securities and Exchange Commission (SEC) on March 1, 2018. Other than the following, our future minimum contractual obligations and commitments have not changed materially from the amounts previously reported.

Goods & Services

We have certain non-cancelable obligations under various other agreements for the acquisitions of goods and services associated with the manufacturing of our product candidates that contain firm commitments. As of September 30, 2018, our aggregate firm commitments are \$11.5 million.

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 amount above.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States, 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 judgments, estimates and assumptions associated with the following critical accounting policies have the greatest potential impact on our condensed consolidated financial statements:

- Revenue recognition;

- Research and development expenses, primarily clinical trial expenses and manufacturing of drug product and clinical drug supply; and

- Stock-based compensation.

For a detailed discussion of these critical accounting policies and significant judgments and estimates, refer to “Critical Accounting Policies and Significant Judgments and Estimates” within “Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2017 that was filed with the SEC on March 1, 2018. There have not been any material changes in our critical accounting policies and significant judgments and estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

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

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ITEM 3. 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 September 30, 2018, we had cash, cash equivalents and short-term investments of \$55.2 million. In accordance with our investment policy, we invest funds in highly liquid, investment-grade securities. These 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 4. CONTROLS AND PROCEDURES

Evaluation of 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 September 30, 2018. 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 September 30, 2018, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In May 2017, we received Notice Letters from Sandoz and Lupin that each had 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 six Orange Book-listed patents covering OMIDRIA. On June 21, 2017, we filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Sandoz and on June 22, 2017 we filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Lupin. The Delaware lawsuits against Sandoz and Lupin were consolidated for all purposes by court order entered on October 16, 2017. The lawsuits were filed under the Hatch-Waxman Act for Sandoz's and Lupin's respective infringement of six Omeros patents: U.S. Patent Nos. 8,173,707, 8,586,633, 9,066,856, 9,278,101, 9,399,040 and 9,486,406, which relate to OMIDRIA and are listed in the Orange Book. A seventh patent related to OMIDRIA, U.S. Patent 9,855,246, was issued to Omeros on January 2, 2018, was then listed in the Orange Book for OMIDRIA on January 9, 2018, and both lawsuits were subsequently amended to assert this additional patent.

As previously disclosed, we entered into a settlement agreement and consent judgment with Lupin on May 22, 2018. On July 24, 2018, following Sandoz's amendment of its ANDA to revise its Patent and Exclusivity Certification from a Paragraph IV certification to a Paragraph III certification, we and Sandoz filed in the U.S. District Court for the District of Delaware a stipulation to dismiss without prejudice our lawsuit against Sandoz. Sandoz's amendment of its ANDA to include a Paragraph III certification means that the FDA cannot approve the ANDA until after the July 2033 expiry of the Orange Book-listed patents. In the stipulated dismissal, which was entered by the court on July 25, 2018, Sandoz stipulated and agreed that it was no longer seeking approval of its ANDA until after the expiration of the patents that have been listed in the Orange Book for OMIDRIA.

As a result of the Sandoz dismissal, as well as prior settlement agreements with Par and Lupin, all of our litigation with ANDA filers has been concluded. Based on these outcomes, the earliest ANDA entry date for any of the three generic manufacturers is April 2032 unless otherwise subsequently authorized pursuant to the settlement agreements.

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 Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017.

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 months ended September 30, 2018, we recorded net sales of OMIDRIA of \$4.6 million. We have not generated revenue from sales of OMIDRIA to date that is 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:

pricing, coverage and reimbursement policies of government and private payers such as Medicare, Medicaid, the U.S. Department of Veterans Affairs, group purchasing organizations, insurance companies, health maintenance organizations and other plan administrators;

- a lack of acceptance by physicians, patients and other members of the healthcare community;
- 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;

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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/or other foreign territories; and

• a lack of adequate financial or other resources.

The scheduled expiration of pass-through reimbursement status for OMIDRIA under Medicare Part B on January 1, 2018 adversely affected our revenues, and following the October 1, 2018 reinstatement of pass-through reimbursement, we cannot definitively project when or to what extent OMIDRIA sales will recover or increase beyond 2017 levels.

Effective January 1, 2018, as scheduled, OMIDRIA no longer was eligible for separate payment under Medicare Part B. Consequently, from January 1, 2018 through September 30, 2018, ASCs and hospitals received from CMS the same procedural payment whether or not OMIDRIA was used for the procedure. Due to this scheduled expiration of transitional pass-through payment status, we saw a significant reduction in ASC and hospital demand for OMIDRIA beginning in December 2017 and a corresponding decrease in sales to our wholesalers that continued into the third quarter of 2018, with OMIDRIA sales during this period having been substantially reduced. Pass-through reimbursement status for OMIDRIA resumed on October 1, 2018 for a two-year period, consistent with the statutory changes included in the Appropriations Act, and we are experiencing early sales growth, but we cannot definitively project when or to what extent ASCs or hospitals will resume use of OMIDRIA. Some ASCs and/or hospitals that used OMIDRIA prior to the transitional pass-through expiration could decide not to resume using OMIDRIA after October 1, 2018, which would inhibit or limit our potential sales growth.

We continue to confirm and seek permanent separate or similar reimbursement for OMIDRIA. However, this requires action from legislative and/or administrative authorities and, consequently, we cannot guarantee that any such action will be taken or, if taken, when such action will be effective, nor can we predict the actual reimbursement rate. In addition, we can provide no assurances that separate reimbursement for OMIDRIA will continue to be available on or after October 1, 2020, or if available, that the resulting reimbursement payment rates will be adequate.

Any of these risks, if realized, would adversely affect our ability to generate revenue and attain profitability and there could be a material adverse effect on our financial condition, results of operations and growth prospects and the trading price of our stock could decline.

If OMIDRIA or any other product that we develop and commercialize does not receive adequate coverage or 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 would suffer.

Our revenues and profitability depend heavily on the pricing, availability and duration of adequate coverage or 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. Any 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 coverage and reimbursement for any product from each government or third-party payer can be a time-consuming and costly process that may require expansion of staff and/or increased use 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 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 or any of our 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 coverage or reimbursement for newly approved products, and we may not be able to provide data sufficient to be granted adequate coverage or 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 coverage or

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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.

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 and the trading price of our stock could decline.

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;

- 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 September 30, 2018, we had an accumulated deficit of approximately \$626.6 million. We expect to continue to spend substantial amounts to:

- initiate and conduct clinical trials and manufacture clinical and registration batches for our programs and product candidates;

- continue OMIDRIA sales and marketing;

- continue research and development in our programs;

- make principal, interest and fee payments under the CRG Loan Agreement; 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 partnering. We are unable to predict the extent of any future losses and cannot provide assurance that we will generate sufficient revenue from OMIDRIA or other commercial products 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,

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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.

Management, as well as our independent registered public accounting firm, have concluded that a substantial doubt is deemed to exist concerning our ability to continue as a going concern.

ASU 2014-15, requires management to assess our ability to continue as a going concern for one year after the date the financial statements are issued. As further discussed in Part I, Item 1, Note 1 “Organization and Significant Accounting Policies-Going Concern” to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q, given the restrictions and limitations under which the assessment is required to be conducted, substantial doubt is deemed to exist about the company’s ability to continue as a going concern through November 8, 2019. 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 Quarterly Report on Form 10-Q, 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. 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, risk management plans, 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, clinical data collection protocols, and nonclinical studies before initiating those trials or studies, the FDA may decide that the design of our clinical trials and clinical data collection protocols 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.

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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 Good Manufacturing Practices, advertising and promotion restrictions, pharmacovigilance requirements including risk management activities, reporting and recordkeeping obligations and other requirements. As a result of any of these requirements 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 or state 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 U.S. 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 Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the ACA. In December 2017 portions of the ACA dealing with the individual mandate insurance requirement were effectively repealed by the Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, and Congress and/or President Trump may seek to repeal other aspects of the ACA. In addition, other legislative changes have been proposed and adopted since the ACA was enacted. President Trump and the Secretary of Health and Human Services have also made statements about controlling drug prices, including enabling CMS to negotiate U.S. drug pricing to align with foreign drug pricing. We cannot predict the ultimate content, timing or effect of any healthcare reform legislation or executive order or other measure, or the impact that the resulting changes 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 addition, 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.

U.S. federal income tax reform could adversely affect us.

The Tax Act, among other things, includes changes to U.S. federal tax rates, imposes additional limitations on the deductibility of interest, changes to the Orphan Drug Credit, allows for the expensing of capital expenditures, puts into effect the migration from a "worldwide" system of taxation to a territorial system and modifies or repeals many business deductions and credits. The estimated impact of the Tax Act is based on our management's current knowledge and

assumptions and recognized impacts could be materially different from current estimates based on further analysis of the new law. For the year ended December 31, 2017, we revalued our net deferred tax assets and liabilities at the newly enacted U.S. corporate rate, and the estimated impact was recognized in our financial statements for the year ended December 31, 2017.

Failure to obtain and maintain 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

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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. OMIDRIA, as well as any of our product candidates, if approved, that are marketed outside of the United States, may face a variety of risks associated with international operations that, if realized, could materially adversely affect our business.

We may be subject to additional risks for OMIDRIA or any of our product candidates that are marketed outside the U.S., including:

- reduced protection for intellectual property rights;
- unexpected changes in tariffs, trade barriers and regulatory requirements, including those associated with the withdrawal of the United Kingdom from the European Union;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- foreign currency fluctuations 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.

Any of these risks, if realized, could increase our operating expenses and reduce our revenues.

We have no internal capacity to manufacture commercial or clinical 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 and supplying 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 and to support New Drug Applications, Biologics License Applications, or similar applications to regulatory authorities seeking marketing approval for our product candidates. 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. It can take several years to qualify and validate a new contract manufacturer, and we cannot guarantee that we would be able to complete in a successful and timely manner the appropriate validation processes or obtain the necessary regulatory approvals for one or more additional or replacement manufacturers. 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.

In addition, OMS721 is a biologic drug product and any other product candidate from certain of our programs, including but not limited to MASP-2 and MASP-3, 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. The regulatory requirements for commercial supply are more stringent than for clinical supply and we cannot guarantee that a contract manufacturer producing drug product for clinical trials will be able to complete

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in a successful and timely manner the appropriate validation processes or obtain the necessary regulatory approvals for marketing approval and commercial supply in a timely manner or at all.

Our contract manufacturers may encounter difficulties with formulation, manufacturing, supply chain and/or release 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 or quality 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.

Any significant delays in the manufacture and/or supply of clinical or commercial supplies could materially harm our business, financial condition, results of operations and prospects.

Ingredients, excipients, test kits 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, test kits and materials for OMIDRIA and our product candidates, we have not yet entered into agreements for the supply of all such ingredients, excipients, test kits 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, test kits 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 or clinical protocols 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 and clinical data collection protocols 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 and clinical data collection protocols 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 and clinical data collection protocols;
- 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 or collecting historical control data for any reason including disease severity, trial or data collection 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,

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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; or
- the amendment of clinical trial or data collection protocols to reflect changes in regulatory requirements and guidance
- or other reasons as well as subsequent re-examination of amendments of clinical trial or data collection 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 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 forgo 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

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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, and safety and/or efficacy outcomes of early clinical trials may not be consistent with outcomes of subsequent clinical trials.

We may incur substantial costs as a result of commercial disputes, claims, litigation or other legal proceedings relating to our business operations, especially with regard to patent and other intellectual property rights and such costs or an adverse outcome in such a proceeding may have a material negative effect on our financial condition, results of operations or stock price.

Like other biopharmaceutical companies, our business involves numerous commercial contractual arrangements, important intellectual property rights, potential product liability, uncertainties with respect to clinical development, manufacture and regulatory approvals and other aspects that create heightened risks of disputes, claims and legal proceedings. These include claims that may be faced in one or more jurisdictions related to the safety of our product candidates and products, the development of our product candidates, our ability to obtain regulatory approval for our product candidates, our expectations regarding product development and regulatory approval, sales and marketing practices, commercial disputes, competition, environmental matters, employment matters and other matters. These matters could consume significant time and resources, even if we are successful. Some of our competitors may be able to sustain the costs of complex litigation more effectively than we can because they have substantially greater resources. In addition, we may pay damage awards or settlements or become subject to equitable remedies that could, individually or in the aggregate, have a material negative effect on our financial condition, results of operations or stock price. Any uncertainties resulting from the initiation and continuation of any litigation also could have a material adverse effect on our ability to raise the capital necessary to continue our operations.

Like other biopharmaceutical companies, we may initiate or become subject to litigation regarding patents and other intellectual property rights. Patent infringement litigation involves many complex technical and legal issues and its outcome is often difficult to predict and the risk involved in doing so can be substantial. Generic drug manufacturers could seek approval to market a generic version of our products or challenge our intellectual property rights with respect to our product candidates. If we choose to go to court or take other enforcement action to stop someone else from using our inventions, that individual or company has the right to ask the court to rule that our underlying patents are invalid or should not be enforced against that third-party. In addition, a lawsuit or patent office proceeding 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 any of our products being launched prior to the expiration of our related patents. There is also the risk that, even if the validity of these patents is upheld, a court will refuse to stop the other party on the ground that such other party's activities do not infringe our patents. Separately, although we have conducted searches of third-party patents with respect to our programs, a third party could also 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. An adverse outcome in any such intellectual property matter could have a material negative effect on our financial condition, results of operations or stock price.

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 U.S. Patent and Trademark Office 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

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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 or is limited to method of use patent protection, 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.

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 \$125.0 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.

After 2018, the CRG Loan Agreement requires us to achieve either (a) certain minimum net revenue amounts through the end of 2021, which is \$75.0 million for the 2019 calendar year, or (b) a minimum market capitalization threshold equal to the product of 3.0 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 (i.e., \$375.0 million). 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 cannot guarantee that we will satisfy the 2019 annual revenue covenant in the CRG Loan Agreement or the alternative market capitalization covenant that will be calculated in February or March 2020.

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 and to take control of our pledged assets, which include substantially all of our assets including our intellectual property. Upon the acceleration of the

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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.

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 for OMIDRIA or for our

product candidates, if commercialization 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.

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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), 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, or if we do not meet diligence or other obligations under the corresponding licenses, 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 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.

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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 September 30, 2018, our stock traded as high as \$27.00 per share and as low as \$8.36 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, 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 10,366,645 shares of common stock as of September 30, 2018 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 September 30, 2018, we also had approximately 2,210,945 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.

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

(a) Unregistered Sales of Equity Securities. On April 12, 2018, we issued warrants to purchase an aggregate of 200,000 shares of common stock, or the CRG Warrants, to the CRG Loan Agreement lenders. For more information regarding the CRG Warrants, refer to Item 1.01 of our Current Report on Form 8-K that was filed with the SEC on April 13, 2018.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| 10.1(1) | <u>Settlement Agreement, dated as of May 22, 2018, by and among Omeros Corporation and Lupin Ltd. and Lupin Pharmaceuticals, Inc.</u> |
| 31.1 | <u>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</u> |
| 31.2 | <u>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</u> |
| 32.1 | <u>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</u> |
| 32.2 | <u>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</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

(1) Incorporated by reference to Exhibit 10.1 of the registrant's Current Report on Form 8-K filed on May 24, 2018 (File No. 001-34475).

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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

Dated: November 8, 2018 /s/ Gregory A. Demopulos
Gregory A. Demopulos, M.D.
President, Chief Executive Officer and Chairman of the Board of Directors

Dated: November 8, 2018 /s/ Michael A. Jacobsen
Michael A. Jacobsen
Vice President, Finance, Chief Accounting Officer and Treasurer

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