UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 March 31, 2019

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: 001-38276

APELLIS PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**27–1537290**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6400 Westwind Way, Suite A Crestwood, KY	**40014**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (502) 241-4114

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 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, 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Small reporting company	☐
		Emerging growth Company	☐

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. ☐

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

Securities registered pursuant to Section 12(b) of the Act:

C

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	APLS	Nasdaq Global Select Market

As of April 30, 2019, the registrant had 63,232,476 shares of common stock, $0.0001 par value per share, outstanding.

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Item 1. Financial Statements.

APELLIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2018	March 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 176,267,666	$ 288,246,706
Refundable research and development credit	1,473,591	1,755,639
Prepaid assets	24,333,851	20,509,948
Other current assets	364,113	15,570
Total current assets	202,439,221	310,527,863
Non-current Assets:		
Right-of-use assets	—	6,621,807
Property and equipment, net	977,918	1,041,063
Other assets	116,420	162,345
Total assets	$ 203,533,559	$ 318,353,078
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 10,254,938	$ 11,916,152
Accrued expenses	5,103,002	7,342,601
Current portion of long-term debt	1,666,667	—
Current portion of right of use liabilities	—	1,127,720
Total current liabilities	17,024,607	20,386,473
Long-term liabilities:		
Development derivative liability	—	60,736,000
Term loan facility	18,722,321	—
Promissory note	6,655,193	6,673,970
Right-of-use liabilities	—	5,566,811
Other liabilities	158,783	234,932
Total liabilities	42,560,904	93,598,186
Stockholders' equity:		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized, and zero shares issued and outstanding at December 31, 2018 and March 31, 2019	—	—
Common stock, $0.0001 par value; 200,000,000 shares authorized at December 31, 2018 and March 31, 2019 and 56,279,307 shares issued and outstanding at December 31, 2018 and 63,218,476 shares issued and outstanding at March 31, 2019	5,628	6,322
Additional paid in capital	437,855,681	552,209,429
Accumulated other comprehensive loss	(122,807)	(120,645)
Accumulated deficit	(276,765,847)	(327,340,214)
Total stockholders' equity	160,972,655	224,754,892
Total liabilities and stockholders' equity	$ 203,533,559	$ 318,353,078

See accompanying notes to unaudited condensed consolidated financial statements

APELLIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the Three Months Ended March 31,	
	2018	2019
Operating expenses:		
Research and development	$ 17,402,890	$ 40,479,899
General and administrative	4,035,255	8,170,671
Operating loss	(21,438,145)	(48,650,570)
Loss on extinguishment of debt	—	(1,208,132)
Loss from remeasurement of development derivative liability	—	(736,000)
Interest expense	(667,087)	(593,505)
Interest income	400,401	867,017
Other expense, net	(31,473)	(253,177)
Net loss	(21,736,304)	(50,574,367)
Other comprehensive gain:		
Foreign currency gain	—	2,162
Total other comprehensive gain	—	2,162
Comprehensive loss, net of tax	$ (21,736,304)	$ (50,572,205)
Net loss per common share, basic and diluted	$ (0.43)	$ (0.87)
Weighted-average number of common shares used in net loss per common share, basic and diluted	50,353,812	57,897,390

See accompanying notes to unaudited condensed consolidated financial statements

APELLIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Outstanding Shares					
Balance at January 1, 2018	50,334,152	$ 5,033	$ 298,201,480	$ —	$ (149,263,653)	$ 148,942,860
Issuance of common stock upon exercise of stock options	94,868	9	225,352	—	—	225,361
Share-based compensation expense	—	—	1,610,188	—	—	1,610,188
Net loss	—	—	—	—	(21,736,304)	(21,736,304)
Balance at March 31, 2018	50,429,020	$ 5,042	$ 300,037,020	$ —	$ (170,999,957)	$ 129,042,105

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Outstanding Shares					
Balance at January 1, 2019	56,279,307	$ 5,628	$ 437,855,681	$ (122,807)	$ (276,765,847)	$ 160,972,655
Issuance of common stock in follow-on offering, net of offering costs	6,900,000	690	109,603,159	—	—	109,603,849
Issuance of common stock upon exercise of stock options	39,169	4	192,001	—	—	192,005
Share-based compensation expense	—	—	4,558,588	—	—	4,558,588
Net loss	—	—	—	—	(50,574,367)	(50,574,367)
Foreign currency gain	—	—	—	2,162	—	2,162
Balance at March 31, 2019	63,218,476	$ 6,322	$ 552,209,429	$ (120,645)	$ (327,340,214)	$ 224,754,892

See accompanying notes to unaudited condensed consolidated financial statements

APELLIS PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31,	
	2018	2019
Operating Activities		
Net loss	$ (21,736,304)	$ (50,574,367)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation expense	1,610,188	4,558,588
Loss on early extinguishment of debt	—	1,208,132
Loss from remeasurement of development derivative liability	—	736,000
Amortization of right-of-use assets	—	72,725
Depreciation expense	—	40,503
Accretion of discounts for promissory note	17,073	18,777
Accretion of discounts for term loan facility	208,624	104,172
Changes in operating assets and liabilities:		
Refundable research and development credit	(531,204)	(275,218)
Prepaid assets	(3,062,009)	3,824,196
Other current assets	(188,226)	24,854
Other assets	—	(45,925)
Accounts payable	921,805	1,906,521
Accrued expenses	(180,904)	2,764,408
Other liabilities	5,708	76,150
Net cash used in operating activities	(22,935,249)	(35,560,484)
Investing Activities		
Purchase of property and equipment	—	(875,111)
Net cash used in investing activities	—	(875,111)
Financing Activities		
Proceeds from issuance of common stock, net of issuance costs	—	110,262,000
Deferred issuance costs	(2,664)	(334,462)
Proceeds from development derivative liability	—	60,000,000
Proceeds from exercise of stock options	225,361	192,005
Repayment of term loan facility	—	(21,701,292)
Net cash provided by financing activities	222,697	148,418,251
Effect of exchange rate changes on cash and cash equivalents	—	(3,616)
Net (decrease) increase in cash and cash equivalents	(22,712,552)	111,979,040
Cash and cash equivalents at beginning of period	175,643,529	176,267,666
Cash and cash equivalents at end of period	$ 152,930,977	$ 288,246,706
Supplemental Disclosure of Financing Activities		
Cash paid for Interest	$ 551,750	$ 588,473

See accompanying notes to unaudited condensed consolidated financial statements

1. Nature of Organization and Operations

Apellis Pharmaceuticals, Inc. (the "Company") is a clinical-stage biopharmaceutical company focused on the development of novel therapeutic compounds to treat disease through the inhibition of the complement system, which is an integral component of the immune system, at the level of C3, the central protein in the complement cascade.

The Company was incorporated in September 2009 under the laws of the State of Delaware and has its principal office in Crestwood, Kentucky.

The Company's operations since inception have been limited to organizing and staffing the Company, acquiring rights to product candidates, business planning, raising capital and developing its product candidates.

The Company is subject to risks common in the biotechnology industry including, but not limited to, raising additional capital, development by its competitors of new technological innovations, its ability to successfully complete preclinical and clinical development of product candidates and receive timely regulatory approval of products, market acceptance of the Company's products, protection of proprietary technology, healthcare cost containment initiatives, and compliance with governmental regulations, including those of the U.S. Food and Drug Administration ("FDA").

Development Derivative Liability

On February 28, 2019, the Company entered into a development funding agreement with SFJ Pharmaceuticals Group ("SFJ") under which SFJ agreed to provide funding to the Company to support the development of APL-2 for the treatment of patients with paroxysmal nocturnal hemoglobinuria ("PNH") ("SFJ Agreement"). Pursuant to the agreement, SFJ paid the Company $60.0 million following the signing of the agreement, and agreed to pay the Company up to an additional $60.0 million in the aggregate in three equal installments upon the achievement of specified development milestones with respect to the Company's Phase 3 program for APL-2 in PNH and subject to the Company having cash resources at the time sufficient to fund at least 10 months of the Company's operations. The Company expects that those milestones will occur during 2019. In addition, upon the mutual agreement of the Company and SFJ, at any time after the earlier of the date that the Company has reviewed the primary endpoint data from its PEGASUS Phase 3 trial of APL-2 in patients with PNH and March 31, 2020, SFJ may fund an additional $50.0 million of the Company's development costs (the "Additional SFJ Funding").

Follow-on Public Offering

On March 11, 2019, the Company issued and sold 6,900,000 shares of its common stock at a price per share of $17.00 in a follow-on public offering ("2019 follow-on offering"). The Company received net proceeds of $109.6 million after deducting underwriting discounts and commissions of $7.0 million and offering costs of $0.7 million.

On April 23, 2018, the Company issued and sold 5,500,000 shares of its common stock at a price per share of $25.50 in a follow-on public offering ("2018 follow-on offering"). The Company received net proceeds of $131.2 million after deducting underwriting discounts and commissions of $8.4 million and offering costs of $0.5 million.

Liquidity and Financial Condition

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As of May 7, 2019, the date of issuance of these unaudited condensed consolidated financial statements, the Company believes that its cash and cash equivalents as of March 31, 2019 of $288.2 million will be sufficient to fund its operations for at least the next twelve months from the issuance of the unaudited interim consolidated financial statements. The future viability beyond that point is dependent on its ability to raise additional capital to finance its operations.

The Company is subject to risks common to other life science companies in the development stage including, but not limited to, uncertainty of product development and commercialization, lack of marketing and sales history, development by its competitors of new technological innovations, dependence on key personnel, market acceptance of products, product liability, protection of

proprietary technology, ability to raise additional financing, and compliance with FDA and other government regulations. If the Company does not successfully commercialize any of its product candidates, it will be unable to generate recurring product revenue or achieve profitability. Management's plans in order to meet its short-term and longer-term operating cash flow requirements include obtaining additional funding.

There are uncertainties associated with the Company's ability to (1) obtain additional debt or equity financing (2) enter into collaborative agreements with strategic partners, and (3) succeed in its future operations. If the Company is not able to obtain the required capital to fund its operations from any of these, or is not able to obtain such funding on terms that are favorable to the Company, it could be forced to delay, reduce or eliminate its research and development programs or future commercialization efforts and its business could be materially harmed.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Apellis Australia Pty Ltd, Apellis Ireland Ltd and Apellis Switzerland GmbH. All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and following the requirements of the Securities and Exchange Commission (the "SEC"), for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted and, accordingly, the balance sheet as of December 31, 2018 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements. These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of the Company's financial information. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019 or for any other interim period or for any other future year.

The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2019.

Fair Value of Financial Instruments

The Company is required to disclose information on the fair value of financial instruments and inputs that enable an assessment of the fair value. The three levels of the fair value hierarchy prioritize valuation inputs based upon the observable nature of those inputs as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability.

The Company's financial instruments, in addition to those presented in Note 5, Long-Term Debt, and Note 6, Fair Value Measurement, include cash and cash equivalents, the Australian research and development credit, accounts payable and accrued liabilities. Management believes that the carrying amounts of cash and cash equivalents, the Australian research and development credit, accounts payable and accrued expenses approximate the fair value due to the short-term nature of those instruments.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in banks and investment instruments having maturities of three months or less from their acquisition date. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents are valued at cost, which approximates their fair value.

Foreign Currency

Due to the growing volume of research contracts and intercompany loans that are now being exclusively denominated in local currency, effective August 1, 2018, the functional currency of the Company's Australian subsidiary was changed from the U.S. dollar to the Australian dollar. The impact of the change in functional currency was not material to the audited consolidated financial statements for the year ended December 31, 2018.

As a result of the change in functional currency, the financial position and results of operations of the Company's Australian subsidiary are measured using the foreign subsidiary's local currency. Revenues and expenses of the Australian subsidiary have been translated into U.S. dollars at average exchange rates prevailing during the period from January 1, through March 31, 2019. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' equity.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2019 presentation.

3. Accrued Expenses

Accrued expenses are as follows:

	December 31, 2018	March 31, 2019
Accrued research and development	$ 3,481,570	$ 4,702,232
Accrued payroll liabilities	269,046	1,777,244
Other	1,352,386	863,125
Total	$ 5,103,002	$ 7,342,601

4. Development Derivative Liability

On February 28, 2019, the Company entered into the SFJ Agreement under which SFJ agreed to provide funding to the Company to support the development of APL-2 for the treatment of patients with PNH. Pursuant to the agreement, SFJ paid the Company $60.0 million following the signing of the agreement, and agreed to pay the Company up to an additional $60.0 million in the aggregate in three equal installments upon the achievement of specified development milestones with respect to the Company's Phase 3 program for APL-2 in PNH and subject to the Company having cash resources at the time sufficient to fund at least 10 months of the Company's operations. The Company expects that those milestones will occur during 2019. In addition, upon the mutual agreement of the Company and SFJ, at any time after the earlier of the date that the Company has reviewed the primary endpoint data from its PEGASUS Phase 3 trial of APL-2 in patients with PNH and March 31, 2020, SFJ may fund an additional $50.0 million of the Company's development costs (the "Additional SFJ Funding").

Following regulatory approval by the FDA or the European Medicines Agency ("EMA") for the use of APL-2 as a treatment for PNH the Company will be obligated to pay SFJ an initial payment of $2.5 million (or a total of $5 million if regulatory approval is granted by the FDA and the EMA) and then an additional $192.5 million in the aggregate (or $385 million if regulatory approval is granted by the FDA and the EMA) in six additional annual payments with the majority of the payments being made from the third anniversary to the sixth anniversary of regulatory approval. Such payments will be proportionately adjusted in the event that the actual funding from SFJ is lower or greater than $120 million (including as a result of the payment of the Additional SFJ Funding). Additionally, the Company granted a security interest in all of its assets, excluding intellectual property and license agreements to which it is a party. In connection with the grant of the security interest, the Company agreed to certain affirmative and negative covenants, including restrictions on its ability to pay dividends, incur additional debt or enter into licensing transactions with respect to its intellectual property, other than specified types of licenses.

The SFJ Agreement is presented as a derivative liability on the balance sheet as of March 31, 2019. The liability was initially recorded at the value of the aggregate cash received pursuant to the contractual terms, which was determined to have been fair value, and subsequently remeasured at the end of the fiscal quarter as a level 3 derivative, with the change in fair value of $736,000 recorded in loss from remeasurement of development derivative liability on the income statement.

The derivative is valued using a scenario-based discounted cash flow method, whereby each scenario makes assumptions about the probability and timing of cash flows, and such cash flows are present valued using a risk-adjusted discount rate. The analysis is calibrated such that the value of the derivative as of the date of the SFJ Agreement was consistent with an arm's-length transaction. Key inputs to the level 3 fair value model include (i) the probability and timing of achieving stated development goals to receive the next tranche of funding, (ii) the probability and timing of achieving FDA and EMA approval, (iii) SFJ's cost of borrowing (8.00%), and (iv) the Company's cost of borrowing (16.16%).

SFJ's implied cost of borrowing was 8.00% and the Company's implied cost of borrowing was 16.16.% as of the reporting date. These implied costs of borrowing were determined assuming the SFJ Agreement was initially executed with arm's-length terms. If the SFJ Agreement was instead not determined to be an arm's-length transaction, then implied discount rates could differ.

5. Long-term Debt

Term Loan Facility

On October 20, 2017, the Company entered into a loan and security agreement with Silicon Valley Bank ("SVB") to provide for a $20.0 million term loan facility (the "term loan facility"). Borrowings under the term loan facility accrued interest at a floating rate per annum equal to the WSJ prime rate plus 1.50%. Under the agreement, the Company was required to make monthly interest-only payments through November 1, 2019 and was required to make 24 equal monthly payments of principal, plus accrued interest, from November 1, 2019 through October 1, 2021, when all unpaid principal and interest became due and payable.

On March 26, 2019, the Company voluntarily repaid all outstanding amounts due and owed, including applicable termination fees, under the term loan facility. The final payment of $21,802,403 totaled per diem interest of $101,111 and $21,701,292 for the outstanding balance of the term loan which included (i) a final payment equal to 8% of the original principal amount of the term loan of $1,600,000, and (ii) a prepayment fee contractually owed of $100,000 plus other fees of $1,292 which resulted in a total loss on extinguishment of debt of $1,208,132.

In connection with the Company's entry into the term loan facility, the Company issued to SVB a warrant to purchase 14,064 shares of the Company's common stock with an exercise price per share of $5.484. The warrant has a ten-year term and includes a put option pursuant to which, in the event of an acquisition, change in control or dissolution or winding up of the Company, or the expiration of the warrant, SVB may require the Company to repurchase the warrant for a total aggregate purchase price of $250,000.

Related Party Promissory Note

On October 19, 2017, the Company issued and sold an unsecured promissory note in the principal amount of $7.0 million to Golda Darty Partners S.A. ("GDP"), an affiliate of one of the Company's stockholders. The promissory note accrues interest at a rate per annum of 8.0%, and is due and payable quarterly in arrears on the 19th day of each April, July, October and January. The promissory note has a maturity date of October 19, 2022 when the $7,000,000 is due and payable in its entirety. The promissory note is contractually subordinated to the Company's obligations to SFJ under the SFJ Agreement.

In connection with the issuance and sale of the above promissory note, the Company issued to GDP a warrant to purchase 93,764 shares of the Company's common stock at a price per share of $5.484, which was exercised in whole in October 2017. The Company recorded the fair value of the warrant in the aggregate amount of $430,160 as a discount to the promissory note. This amount is being accreted as additional interest expense over the term of the promissory note.

6. Leases

On January 1, 2019, The Company adopted ASU 2016-02 *Leases (Topic 842)* using a modified retrospective method. The Company recognized $5.5 million of lease assets and liabilities. There was no impact to retained earnings upon adoption of Topic 842. The underlying assets of the Company's leases primarily relate to office space leases, but also include some equipment leases. The Company determines if an arrangement qualifies as a lease at its inception.

As a practical expedient permitted under Topic 842, the Company has elected to account for the lease and non-lease components as a single lease component for all leases of which it is the lessee. Lease payments, which may include lease and non-lease components, are included in the measurement of the Company's lease liabilities to the extent that such payments are either fixed

amounts or variable amounts that depend on a rate or index as stipulated in the lease contract. When the Company cannot readily determine the rate implicit in the lease, the Company determines its incremental borrowing rate by using the rate of interest that it would have to pay to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Company enters into lease agreements with terms generally ranging from 2-7 years. Some of the Company's lease agreements include Company options to extend the lease on a month to month basis or for set periods for up to 5 years. Many leases also include options to terminate the leases within 1 year or per other contractual terms. Renewal and termination options were generally not included in the lease term for the Company's existing operating leases.

As of March 31, 2019, all leases were classified as operating lease assets and liabilities. Operating lease assets were $6.6 million and operating lease liabilities were $6.7 million at March 31, 2019. At March 31, 2019, the weighted average remaining lease term of operating leases was 5.29 years and the weighted average discount rate used to measure the outstanding operating lease liabilities leases was 8.54%.

For the three months ended March 31, 2019, the total lease cost for operating lease expense was: $403,542.

Supplemental cash flow information related to operating leases for the three months ended March 31, 2019 is as follows:

Operating cash flows from operating leases	$330,816
Right of use assets obtained in exchange for lease obligations	$6,940,332

The maturity of the Company's operating lease liabilities as of March 31, 2019 are as follows:

2019	$1,154,778
2020	1,691,742
2021	1,320,200
2022	1,353,133
2023 and thereafter	2,829,649
Total future minimum lease payments	8,349,502
Less imputed interest	(1,654,971)
Total operating lease liabilities	$6,694,531

Comparative disclosures under ASC 840:

Rental expense under operating leases totaled $136,215 for the three months ended March 31, 2018.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, ASC 840, *Leases*, Future minimum rental payments for lease obligations with initial terms in excess of one year as of December 31, 2018 were as follows:

2019	$1,251,720
2020	1,292,025
2021	975,750
2022	998,350
2023 and thereafter	2,341,219
	$6,859,064

7. Fair Value Measurements

The fair value of the following financial instruments are based on level 2 inputs. As of December 31, 2018 and March 31, 2019, the fair value of the Company's promissory note was approximately $7.4 million, based on discounted cash flows, market-based expectations for interest rates, credit risk and the contractual terms of the debt instrument. The term loan facility paid interest at a variable interest rate and accordingly the carrying amount approximated fair value at December 31, 2018.

The fair value of the SFJ Agreement is presented as a derivative liability based on level 3 inputs. The derivative is valued using a scenario-based discounted cash flow method, whereby each scenario makes assumptions about the probability and timing of cash flows, and such cash flows are present valued using a risk-adjusted discount rate. The analysis is calibrated such that the value of the derivative as of the date of the SFJ Agreement was consistent with an arm's-length transaction. Key inputs to the level 3 fair value model include (i) the probability and timing of achieving stated development goals to receive the next tranche of funding, (ii) the probability and timing of achieving FDA and EMA approval, (iii) SFJ's cost of borrowing (8.00%), and (iv) the Company's cost of borrowing (16.16%).

SFJ's implied cost of borrowing was 8.00% and the Company's implied cost of borrowing was 16.16% as of the reporting date. These implied costs of borrowing were determined assuming the SFJ Agreement was initially executed with arm's-length terms. If the SFJ Agreement was instead not determined to be an arm's-length transaction, then implied discount rates could differ.

8. Refundable Research and Development Credit and Income Taxes

The Company earns non-income related refundable Australian research and development credits that are settled and paid to the Company annually. The associated income from the credits are an offset to research and development expenses.

The Company's income tax provision is computed based on the federal statutory rate and the average state statutory rates, net of the related federal benefit. For the three months ended March 31, 2019 and 2018, there were no current or deferred income tax expenses or benefits due to the Company's net losses, research and development credits and increases in its deferred tax asset valuation allowance during those periods.

The Company's estimate of the realizability of the deferred tax asset is dependent on estimates of projected future levels of taxable income. In analyzing future taxable income levels, the Company considered all evidence currently available, both positive and negative. Based on this analysis, the Company has recorded a valuation allowance for all deferred tax assets as of March 31, 2019.

9. Commitments and Contingencies

The Company contracts to conduct research and development activities with third parties. The scope of the services under the research and development contracts can be modified and the contracts cancelled by the Company upon written notice. In some instances, the contracts may be cancelled by the third party upon written notice. If the Company were to cancel these contracts as of March 31, 2019, the Company would be required to pay certain termination costs and other fees of approximately $1,768,400 that would be incurred in future periods.

The Company also has certain payment and other obligations under the SFJ Agreement, which are discussed above in Note 4.

10. Net Loss per Share

Since the Company was in a loss position for all periods presented, basic net loss per common share is the same as diluted net loss per common share for all periods presented as the inclusion of all potential common shares outstanding would have been anti-dilutive. Shares outstanding presented below were excluded from the calculation of diluted net loss per share, prior to the use of the treasury stock method, as their effect is anti-dilutive:

	For the Three Months Ended March 31,	
	2018	2019
Common stock options	7,418,316	9,191,033
Common stock warrants	14,064	14,064
Total	7,432,380	9,205,097

11. Related Party Transaction

Effective as of May 1, 2018, the Company entered into a subscription license agreement and a services agreement with Revon Systems, Inc. (“Revon”). Under the subscription license agreement, Revon granted the Company an exclusive license to use the Revon software platform and applications for any purpose with respect to the Company's programs in age-related macular degeneration, hemolytic diseases and complement-dependent nephropathies for an annual license fee of $175,000 and an option to obtain a perpetual, exclusive license thereafter for $350,000. Under the services agreement, Revon will provide development services with respect to the Revon software to the Company for $250,000 during the first year.

Each of Cedric Francois, the Company’s chief executive officer, Pascal Deschatelets, the Company’s chief operating officer, and Alec Machiels, a member of the board of directors, is an affiliate of Revon. The Board approved the Revon agreements after review by a subcommittee of the disinterested members of the Board and determination by the full Board that the terms of the Revon agreements were fair, reasonable and in the best interests of the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and related notes for the year ended December 31, 2018 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2019, which we refer to as the 2018 Annual Report on Form 10-K.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans and objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "target," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. The following information and any forward-looking statements should be considered in light of factors discussed elsewhere in this Quarterly Report on Form 10-Q particularly including those risks identified in Part II—Item 1A "Risk Factors" and our other filings with the SEC.

Overview

We are a clinical-stage biopharmaceutical company focused on the development of novel therapeutic compounds to treat disease through the inhibition of the complement system, which is an integral component of the immune system, at the level of C3, the central protein in the complement cascade. We believe that this approach can result in broad inhibition of the principal pathways of the complement system and has the potential to effectively control a broad array of complement-dependent autoimmune and inflammatory diseases.

We have the most advanced clinical program targeting C3with Phase 3 clinical trials of our lead product candidate, APL-2, in multiple indications. We believe that APL-2 has the potential to be a best-in-class treatment that may address the limitations of existing treatment options or provide a treatment option where there currently is none. APL-2 has already shown activity that we believe is clinically meaningful in clinical trials for four distinct medical conditions — geographic atrophy in age-related macular degeneration, or GA; paroxysmal nocturnal hemoglobinuria, or PNH; cold agglutinin disease, or CAD; and warm antibody autoimmune hemolytic anemia, or w/AIHA. In additional to trials for these indications, we have also initiated clinical trials of APL-2 in patients with glomerular diseases with complement involvement.

We initiated a Phase 3 clinical program consisting of two Phase 3 clinical trials evaluating APL-2 in patients with GA in September 2018. In our Phase 2 clinical trial of APL-2 in patients with GA, treatment with APL-2 resulted in a significant reduction in the rate of GA lesion growth over 12 months. We also initiated a Phase 3 clinical program evaluating APL-2 in patients with PNH who are anemic while being treated with eculizumab, an approved therapy for PNH, in June 2018, and plan to initiate a second Phase 3 clinical trial in patients with PNH who have not been treated with eculizumab in mid 2019. In our ongoing Phase 1b trials in PNH, APL-2 has achieved improvements in transfusion dependency, hemoglobin levels and other hematological indicators that we believe are clinically meaningful. In our ongoing Phase 2 clinical trials of APL-2 in patients with CAD and wAIHA, patients with CAD and with wAIHA have achieved reduced extravascular hemolysis, measured by increased hemoglobin levels, reduced reticulocytes and bilirubin levels, and reduced intravascular hemolysis, measured by reduced lactate dehydrogenase. We plan to continue clinical development of APL-2 for these indications. We are also conducting clinicals trials of APL-2 for glomerular diseases with complement involvement. We are also developing novel compounds targeting C3 and plan to conduct clinical trials of these compounds in additional complement-dependent diseases. We hold worldwide commercialization rights to APL-2 and those other novel compounds targeting C3.

In our clinical trials of APL-2 for the treatment of PNH, we are currently using an off-the-shelf, FDA-cleared device that enables patients to self-administer APL-2 through subcutaneous infusion. In addition, we are developing, with a third-party manufacturer, a custom, on-body drug delivery system that is expected to further improve the ease of self-administration of APL-2. Initial clinical testing in a Phase 1 trial with healthy volunteers indicates that the pharmacokinetic (PK) profile of APL-2 administered subcutaneously at 2x weekly at a dose of 1,080 mg, both with the 510(k) approved device used in the PEGASUS Phase 3 trial and with the custom delivery system is comparable to that of APL-2 administered once daily at a dose between 270 mg and 360 mg.

Since our commencement of operations in May 2010, we have devoted substantially all of our resources to developing our proprietary technology, developing product candidates, undertaking preclinical studies and conducting clinical trials for APL-2, building our intellectual property portfolio, organizing and staffing our company, business planning, raising capital, and providing general and administrative support for these operations.

On February 28, 2019, we entered into a development funding agreement, which we refer to as the SFJ agreement, with SFJ Pharmaceuticals Group or SFJ, under which SFJ agreed to provide funding to us to support the development of APL-2 for the treatment of patients with PNH. Pursuant to the agreement, SFJ paid us $60.0 million following the signing of the agreement, and agreed to pay us up to an additional $60.0 million in the aggregate in three equal installments upon the achievement of specified development milestones with respect to our Phase 3 program for APL-2 in PNH and subject to our having cash resources at the time sufficient to fund at least 10 months of our operations. We expect that those milestones will occur during 2019. In addition, upon the mutual agreement of us and SFJ, at any time after the earlier of the date that we have reviewed the primary endpoint data from our PEGASUS Phase 3 trial of APL-2 in patients with PNH and March 31, 2020, SFJ may fund an additional $50.0 million of our development costs which we refer to as the Additional SFJ Funding.

On March 11, 2019, we issued and sold 6,900,000 shares of our common stock in a follow-on offering at a public offering price of $17.00 per share for net proceeds of $109.6 million, after deducting underwriting discounts and commissions of $7.0 million and estimated offering expenses of $0.7 million.

To date, we have financed our operations primarily through $391.5 million in net proceeds from public offerings of our common stock, including our initial public offering, or IPO, $112.6 million in proceeds from the private placement of shares of our convertible preferred stock, $60.0 million from the SFJ agreement, $20.0 million in proceeds from borrowings under a term loan facility with Silicon Valley Bank, and $7.0 million in proceeds from our issuance and sale of a promissory note to Golda Darty Partners, S.A., or GDP, an affiliate of one of our stockholders.

We have not generated any revenue from product sales. We have incurred significant annual net operating losses in each year since our inception and expect to continue to incur net operating losses for the foreseeable future. Our net losses were $50.6 million and $21.7 million for the three months ended March 31, 2019 and March 31, 2018, respectively. As of March 31, 2019, we had an accumulated deficit of $327.3 million. We expect to continue to incur significant expenses and increasing operating losses for the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase significantly if and as we continue to develop and conduct clinical trials in our current and new indications with APL-2, including the Phase 3 clinical trials in GA and the ongoing and planned Phase 3 clinical trials in PNH; initiate and continue research and preclinical and clinical development efforts for any future product candidates; seek to identify and develop additional product candidates for complement-dependent diseases; seek regulatory and marketing approvals for our product candidates that successfully complete clinical trials, if any; establish sales, marketing, distribution and other commercial infrastructure in the future to commercialize any products for which we may obtain marketing approval; require the manufacture of larger quantities of product candidates for clinical development and, potentially, commercialization; maintain, expand and protect our intellectual property portfolio; hire and retain additional personnel, such as clinical, quality control and scientific personnel; add operational, financial and management information systems and personnel, including personnel to support our product development and help us comply with our obligations as a public company; and add equipment and physical infrastructure to support our research and development programs.

As of March 31, 2019, we had cash and cash equivalents of $288.2 million. We believe that our cash and cash equivalents as of March 31, 2019, which include the net proceeds of $109.6 million from our follow-on offering in March of 2019 and the $60.0 million in proceeds from the SFJ agreement, will be sufficient to fund our operating expenses and capital expenditures into the second quarter of 2020.

Financial Operations Overview

Revenue

We have not generated any revenue from product sales and do not expect to generate any revenue from the sale of products in the near future. In the future, we will seek to generate revenue primarily from a combination of product sales and collaborations with strategic partners.

Research and Development Expenses

Research and development expenses consist primarily of costs incurred for our research activities, including our drug discovery efforts, and the development of our product candidates, which include:

- employee-related expenses including salaries, bonuses, benefits and share-based compensation expense;

- expenses incurred under agreements with third parties, including contract research organizations, or CROs, that conduct clinical trials and research and development activities on our behalf, and contract manufacturing organizations that manufacture quantities of drug supplies for both our preclinical studies and clinical trials;
- the cost of consultants, including share-based compensation expense; and
- various other expenses incident to the management of our preclinical studies and clinical trials.

Research and development costs are expensed as incurred. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed. We have not provided program costs since inception because historically we have not tracked or recorded our research and development expenses on a program-by-program basis.

The following summarizes our most advanced research and development programs:

- *GA*. We are developing APL-2 as monotherapy for GA, administered by intravitreal injections. In our Phase 2 clinical trial of APL-2 in patients with GA, treatment with APL-2 resulted in a significant reduction in the rate of GA lesion growth at 12 months compared to sham. In October 2018, we voluntarily implemented a pause in dosing in our Phase 3 clinical program in patients with GA due to observed cases of non-infectious inflammation in patients treated from a single manufacturing lot of APL-2 intravitreal drug product. In March 2019, we restarted enrollment of our Phase 3 clinical program in GA and expect to have fully enrolled both trials in the GA program by the end of the first quarter of 2020, within the originally planned timeline for completion.
- *PNH*. We are developing APL-2 as monotherapy for patients with PNH, administered by subcutaneous injection. In our ongoing Phase 1b clinical trials of APL-2 in patients being treated with eculizumab and in treatment-naïve patients, APL-2 treatment has been associated with improvements in transfusion dependency, hemoglobin levels and other hematological indicators that we believe are clinically meaningful. We initiated a Phase 3 clinical trial in patients with PNH in June 2018. This Phase 3 clinical trial, which we refer to as our Pegasus trial, is a 70 patient randomized head-to-head study comparing APL-2 monotherapy to eculizumab monotherapy in patients with PNH currently on treatment with eculizumab. We also plan to initiate a 48 patient Phase 3 clinical trial in treatment-naïve patients in the first half of 2019.We initiated a Phase 2 clinical trial of APL-2 in patients with autoimmune hemolytic anemia and a Phase 2 clinical trial of APL-2 in patients with complement-dependent nephropathies in the first half of 2018.
- ***CAD***. We are developing APL-2 for patients with CAD, administered by subcutaneous injection. We initiated a Phase 2 clinical trial of APL-2 in patients with CAD in the first quarter of 2018, reported interim data in December 2018 and intend to provide additional data in the second quarter of 2019.
- ***wAIHA***. We are developing APL-2 for patients with wAIHA, administered by subcutaneous injection. We initiated a Phase 2 clinical trial of APL-2 in patients with wAIHA in the first quarter of 2018, reported interim data in December 2018 and intend to provide additional data in the second quarter of 2019.

We are also conducting a Phase 2 clinical trial of APL-2 in patients with glomerular diseases with complement involvement, which we began in the first quarter of 2018.

The successful development of our product candidates is highly uncertain. Accordingly, at this time, we cannot reasonably estimate the nature, timing and costs of the efforts that will be necessary to complete the remainder of the development of these product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from APL-2 or any other potential product candidates. This is due to the numerous risks and uncertainties associated with developing therapeutics, including the uncertainties of:

- establishing an appropriate safety profile in preclinical studies;
- successful enrollment in, and completion of clinical trials;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and regulatory exclusivity for our product candidates;
- launching commercial sales of the products, if and when approved, whether alone or in collaboration with others; and
- an acceptable safety profile of the products following approval.

A change in the outcome of any of these variables with respect to the development of any of our product candidates would significantly change the costs and timing associated with the development of that product candidate.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect research and development costs to increase significantly for the foreseeable future as our product candidate development programs progress. However, we do not believe that it is possible at this time to accurately project total program-specific expenses through commercialization. There are numerous factors associated with the successful commercialization of any of our product candidates, including future trial design and various regulatory requirements, many of which cannot be determined with accuracy at this time based on our stage of development. Additionally, future commercial and regulatory factors beyond our control will impact our clinical development programs and plans.

General and Administrative Expenses

General and administrative expenses consist primarily of employee-related expenses including salaries, bonuses, benefits and share-based compensation. Other significant costs include facility costs not otherwise included in research and development expenses, legal fees relating to patent and corporate matters, and fees for accounting and consulting services.

We anticipate that our general and administrative expenses will increase in the future to support continued research and development activities, potential commercialization of our product candidates and increased costs of operating as a public company. These increases will likely include increased costs related to the hiring of additional personnel and fees to outside consultants, attorneys and accountants, among other expenses. Additionally, we anticipate increased costs associated with being a public company including expenses related to services associated with maintaining compliance with exchange listing and SEC requirements, insurance costs and investor relations costs.

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The following critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our 2018 Annual Report on Form 10-K and the notes to the unaudited condensed financial statements included in Item 1, “Unaudited Financial Statements,” of this Quarterly Report on Form 10-Q. We believe that of our critical accounting policies, the following accounting policies are the most critical to fully understanding and evaluating our financial condition and results of operations:

- Accrued research and development expenses, and
- Share-based compensation

In addition, we identified the following policy as a new critical policy that reflects significant judgements or uncertainties, and potentially may result in materially different results under different assumptions and conditions.

Development Derivative Liability

On February 28, 2019, the Company entered into the SFJ Agreement under which SFJ agreed to provide funding to the Company to support the development of APL-2 for the treatment of patients with PNH. Pursuant to the agreement, SFJ paid the Company $60.0 million following the signing of the agreement, and agreed to pay the Company up to an additional $60.0 million in the aggregate in three equal installments upon the achievement of specified development milestones with respect to the Company’s Phase 3 program for APL-2 in PNH and subject to the Company having cash resources at the time sufficient to fund at least 10 months of the Company’s operations. The Company expects that those milestones will occur during 2019. In addition, upon the mutual agreement of the Company and SFJ, at any time after the earlier of the date that the Company has reviewed the primary endpoint data from its PEGASUS Phase 3 trial of APL-2 in patients with PNH and March 31, 2020, SFJ may fund an additional $50.0 million of the Company’s development costs (the “Additional SFJ Funding”).

Following regulatory approval by the FDA or the European Medicines Agency ("EMA") for the use of APL-2 as a treatment for PNH the Company will be obligated to pay SFJ an initial payment of $2.5 million (or a total of $5 million if regulatory approval is granted by the FDA and the EMA) and then an additional $192.5 million in the aggregate (or $385 million if regulatory approval is granted by the FDA and the EMA) in six additional annual payments with the majority of the payments being made from the third anniversary to the sixth anniversary of regulatory approval. Such payments will be proportionately adjusted in the event that the actual funding from SFJ is lower or greater than $120 million (including as a result of the payment of the Additional SFJ Funding). Additionally, the Company granted a security interest in all of its assets, excluding intellectual property and license agreements to which it is a party. In connection with the grant of the security interest, the Company agreed to certain affirmative and negative covenants, including restrictions on its ability to pay dividends, incur additional debt or enter into licensing transactions with respect to its intellectual property, other than specified types of licenses.

The SFJ Agreement is presented as a derivative liability on the balance sheet as of March 31, 2019. The liability was initially recorded at the value of the aggregate cash received pursuant to the contractual terms, which was determined to have been fair value, and subsequently remeasured at the end of the fiscal quarter as a level 3 derivative, with the change in fair value of $736,000 recorded in loss from remeasurement of development derivative liability on the income statement.

The derivative is valued using a scenario-based discounted cash flow method, whereby each scenario makes assumptions about the probability and timing of cash flows, and such cash flows are present valued using a risk-adjusted discount rate. The analysis is calibrated such that the value of the derivative as of the date of the SFJ Agreement was consistent with an arm's-length transaction. Key inputs to the level 3 fair value model include (i) the probability and timing of achieving stated development goals to receive the next tranche of funding, (ii) the probability and timing of achieving FDA and EMA approval, (iii) SFJ's cost of borrowing (8.00%), and (iv) the Company's cost of borrowing (16.16%).

SFJ's implied cost of borrowing was 8.00% and the Company's implied cost of borrowing was 16.16.% as of the reporting date. These implied costs of borrowing were determined assuming the SFJ Agreement was initially executed with arm's-length terms. If the SFJ Agreement was instead not determined to be an arm's-length transaction, then implied discount rates could differ.

If actual results or events differ materially from the estimates, judgments and assumptions used by us in applying these policies, our reported financial condition and results of operations could be materially affected.

Results of Operations

Comparison of Three Months Ended March 31, 2018 and 2019

The following table summarizes our results of operations for the three months ended March 31, 2018 and 2019, together with the dollar increase or decrease and percentage change in those items:

	For the Three Months Ended March 31,		Change	Change
	2018	2019	$	%
Operating expenses:				
Research and development	$ 17,402,890	$ 40,479,899	$ 23,077,009	132.6%
General and administrative	4,035,255	8,170,671	4,135,416	102.5
Net operating loss	(21,438,145)	(48,650,570)	(27,212,425)	126.9
Loss on extinguishment of debt	—	(1,208,132)	(1,208,132)	100.0
Loss from remeasurement of development derivative liability	—	(736,000)	(736,000)	100.0
Interest expense	(667,087)	(593,505)	73,582	(11.0)
Interest income	400,401	867,017	466,616	116.5
Other expense, net	(31,473)	(253,177)	(221,704)	704.4
Net loss	$ (21,736,304)	$ (50,574,367)	$ (28,838,063)	132.7

Research and Development Expenses

The following table summarizes our research and development expenses incurred during the three months ended March 31, 2018 and 2019, together with the dollar increase or decrease and percentage change in those items:

	For the Three Months Ended March 31,		Change	Change
	2018	2019	$	%
Clinical trial costs	$ 7,662,878	$ 17,405,194	$ 9,742,316	127.1%
Contract manufacturing	5,644,047	13,746,046	8,101,999	143.5
Compensation and related personnel costs	2,137,074	6,059,362	3,922,288	183.5
Pre-clinical study expenses	502,301	1,218,651	716,350	142.6
Device development expenses	465,017	346,566	(118,451)	(25.5)
Other research and development costs	991,573	1,704,080	712,507	71.9
Total research and development expenses	$ 17,402,890	$ 40,479,899	$ 23,077,009	132.6

Research and development expenses increased by $23.1 million to $40.5 million for the three months ended March 31, 2019 from $17.4 million for the three months ended March 31, 2018, an increase of 132.6%. The increase in research and development expenses was primarily attributable to an increase of $9.7 million in clinical trial costs, an increase of $8.1 million in manufacturing expenses, an increase of $3.9 million in employee related costs primarily due to the hiring of additional personnel, an increase of $0.7 million related to research and development supporting activities, and an increase of $0.7 million in pre-clinical study expenses, offset by a decrease of $0.1 million in device development expenses.

General and Administrative Expenses

General and administrative expenses increased by $4.1 million to $8.1 million for the three months ended March 31, 2019, from $4.0 for the three months ended March 31, 2018, an increase of 102.5%. The increase in general and administrative expenses was primarily attributable to an increase in employee related costs of $2.8 million due to the hiring of additional personnel, an increase in professional and consulting fees of $0.9 million, an increase in general office costs of $0.3 million and an increase of $0.1 million in insurance costs.

Loss on Extinguishment of Debt

On March 26, 2019, we repaid all outstanding amounts due and owed, including applicable termination fees, under our term loan facility with Silicon Valley Bank. The final payment included the outstanding balance of the term loan as well as (i) a prepayment fee contractually owed of $0.1 million and other fees of $1,292, (ii) a final payment equal to 8% of the original principal amount of the term loan, or $1.6 million, and (iii) per diem interest of $0.1 million, for a total payment of $21.8 million, which resulted in a loss on extinguishment of debt of $1.2 million.

Loss from Remeasurement of Development Derivative Liability

Loss from remeasurement of development derivative liability was $736,000 for the three months ended March 31, 2019. On February 28, 2019, we entered into the SFJ agreement under which SFJ agreed to provide funding to us to support the development of APL-2 for the treatment of patients with PNH. The liability was initially recorded at the value of the aggregate cash received pursuant to the contractual terms, which was determined to have been fair value, and subsequently remeasured at the end of the fiscal quarter as a level 3 derivative.

Interest Expense

Interest expense was $0.6 million for the three months ended March 31, 2019, a decrease of $0.1 million, compared to $0.7 million for the three months ended March 31, 2018. The interest expense was primarily attributable to interest expense incurred on our long-term debt.

Interest Income

Interest income was $0.9 million for the three months ended March 31, 2019, an increase of $.5 million, compared to $0.4 million for the three months ended March 31, 2018. The increase in interest income earned during the three months ended March 31,

2019 was due to the interest earned on our cash and cash equivalents, which increased as a result of the completion of our follow-on offering in March 2019 and the initial payment to us under the SFJ agreement.

Other Expense, Net

Other expense, net during the three months ended March 31, 2019, increased $0.2 million compared to the three months ended March 31, 2018 due primarily to an increase in business-related taxes.

Liquidity and Capital Resources

Sources of Liquidity

On November 13, 2017, we issued and sold 10,714,000 shares of common stock in our IPO at a public offering price of $14.00 per share for net proceeds of $137.2 million after deducting underwriting discounts and commissions of $10.5 million and other offering expenses of approximately $2.3 million. On November 13, 2017, upon the closing of the IPO, all shares of preferred stock then outstanding converted into an aggregate of 30,070,034 shares of common stock. In addition, on December 13, 2017, we issued and sold an additional 981,107 shares of common stock at the IPO price of $14.00 per share pursuant to the underwriters' partial exercise of their option to purchase additional shares of common stock, resulting in net proceeds of approximately $12.8 million, after underwriting discounts and commissions of $1.0 million.

On April 23, 2018, we issued and sold 5,500,000 shares of our common stock in a follow-on offering at a public offering price of $25.50 per share. We received net proceeds of $131.3 million, after deducting underwriting discounts and commissions of $8.4 million and estimated offering expenses of $0.5 million.

On March 11, 2019, we issued and sold 6,900,000 shares of our common stock in a follow-on offering at a public offering price of $17.00. We received net proceeds of $109.6 million after deducting underwriting discounts and commissions of $7.0 million and offering costs of $0.7 million.

Prior to our IPO, we financed our operations primarily through $112.6 million in proceeds from the private placement of shares of our convertible preferred stock, $20.0 million in proceeds from borrowings under our term loan facility with Silicon Valley Bank, and $7.0 million in proceeds from our issuance and sale of a promissory note to GDP.

Development Derivative Liability

On February 28, 2019, we entered into the SFJ agreement, under which SFJ agreed to provide funding to us to support the development of APL-2 for the treatment of patients with PNH. Pursuant to the agreement, SFJ paid us $60.0 million following the signing of the agreement, and has agreed to pay us up to an additional $60.0 million in the aggregate in three equal installments upon the achievement of specified development milestones with respect to our Phase 3 program for APL-2 in PNH and subject to our having cash resources at the time sufficient to fund at least 10 months of our operations. We expect that those milestones will occur during 2019. In addition, upon the mutual agreement of us and SFJ, at any time after the earlier of the date that we have reviewed the primary endpoint data from its PEGASUS Phase 3 trial of APL-2 in patients with PNH and March 31, 2020, SFJ may fund an additional $50.0 million of our development costs.

Following regulatory approval by the U.S. Food and Drug Administration, or the FDA, or the European Medicines Agency, or the EMA, for the use of APL-2 as a treatment for PNH we will be obligated to pay SFJ an initial payment of $2.5 million (or a total of $5.0 million if regulatory approval is granted by the FDA and the EMA) and then an additional $192.5 million in the aggregate (or $385.0 million if regulatory approval is granted by the FDA and the EMA) in six additional annual payments with the majority of the payments being made from the third anniversary to the sixth anniversary of regulatory approval. Such payments will be proportionately adjusted in the event that the actual funding from SFJ is lower or greater than $120.0 million (including as a result of the payment of the Additional SFJ Funding). Additionally, we granted a security interest in all of our assets, excluding intellectual property and license agreements to which we are a party. In connection with the grant of the security interest, we agreed to certain affirmative and negative covenants, including restrictions on our ability to pay dividends, incur additional debt or enter into licensing transactions with respect to its intellectual property, other than specified types of licenses.

Indebtedness

On October 20, 2017, we entered into a loan and security agreement with Silicon Valley Bank providing for a $20.0 million term loan facility, which we refer to as the term loan facility.

Borrowings under the term loan facility accrued interest at a floating rate per annum equal to the WSJ prime rate plus 1.50%. Under the agreement, we were required to make monthly interest-only payments through November 1, 2019 and were required to make 24 equal monthly payments of principal, plus accrued interest, from November 1, 2019 through October 1, 2021, when all unpaid principal and interest were to become due and payable.

On March 26, 2019, we repaid all outstanding amounts due and owed, including applicable termination fees, under the term loan facility. The final payment included the outstanding balance of the term loan as well as (i) a prepayment fee contractually owed of $0.1 million and other fees of $1,292, (ii) a final payment equal to 8% of the original principal amount of the term loan, or $1.6 million, and (iii) per diem interest of $0.1 million, for a total payment of $21.8 million, which resulted in a loss on extinguishment of debt of $1.2 million.

In connection with our entry into the term loan facility, we issued to Silicon Valley Bank a warrant to purchase 14,064 shares of our common stock, with an exercise price per share of $5.484. The warrant has a ten-year term and includes a put option pursuant to which, in the event of an acquisition, change in control or dissolution or winding up of our company, or the expiration of the warrant, Silicon Valley Bank may require us to repurchase the warrant for a total aggregate purchase price of $250,000.

On October 19, 2017, we issued and sold an unsecured promissory note in the principal amount of $7.0 million to GDP. The note accrues interest at a rate per annum of 8.0%, and is due and payable quarterly in arrears on the 19th day of each April, July, October and January beginning on January 19, 2018. The note has a maturity date of October 19, 2022. The promissory note is contractually subordinated to our obligations to SFJ under the SFJ agreement.

In connection with the issuance and sale of the $7.0 million promissory note, we issued to GDP a warrant to purchase 93,764 shares of our common stock at a price per share of $5.484, which was exercised in October 2017 prior to the IPO. The warrant was exercisable at any time but would have expired if unexercised by the closing date of our IPO. We recorded the fair value of the warrant in the aggregate amount of $430,160 as a discount to the promissory note. This amount is being accreted as additional interest expense over the term of the promissory note.

Cash Flows

The following table provides information regarding our cash flows for the three months ended March 31, 2019 and March 31, 2018:

	For the Three Months Ended March 31,	
	2018	**2019**
Net cash used in operating activities	$ (22,935,249)	$ (35,560,484)
Net cash used in investing activities	-	(875,111)
Net cash provided by financing activities	222,697	148,418,251
Effect of exchange rate changes on cash and cash equivalents		(3,616)
Net increase (decrease) in cash and cash equivalents	$ (22,712,552)	$ 111,979,040

Net Cash Used in Operating Activities

Net cash used in operating activities was $35.6 million for the three months ended March 31, 2019 and consisted primarily of a net loss of $50.6 million adjusted for $6.8 million of non-cash items, including share-based compensation expense of $4.6 million, a loss on early extinguishment of debt of $1.2 million, and a loss from remeasurement of development derivative liability of $0.7 million, a net increase in accounts payable, accrued expenses and other liabilities of $4.7 million and a net decrease in operating assets of $3.5 million. The net decrease in operating assets resulted primarily from a decrease in prepaid expenses of $3.8 million partially offset by an increase in refundable research and development credit of $0.3 million.

Net cash used in operating activities was $22.9 million for the three months ended March 31, 2018 and consisted primarily of a net loss of $21.7 million adjusted for non-cash items, including share-based compensation expense of $1.6 million, a net increase in accounts payable and accrued expenses of $0.7 million and a net increase in operating assets of $3.8 million. The net increase in operating assets resulted from an increase in prepaid expenses of $3.1 million, an increase in other current assets of $0.2 million and an increase in refundable research and development credit of $0.5 million..

Net Cash Used in Investing Activities

Net cash used in investing activities during the three months ended March 31, 2019 was $0.9 million due to the purchase of fixed assets for our offices. There was no cash used in investing activities during the three months ended March 31, 2018.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $148.4 million during the three months ended March 31, 2019 and consisted primarily of proceeds from the issuance of common stock in our March follow-on offering of $110.3 million, the receipt of $60.0 million from the SFJ Agreement and $0.2 million upon the exercise of stock options, offset by $21.7 million for the repayment of our term loan facility and the payment of deferred issuance costs associated with our follow-on offering of $0.3 million. Net cash provided by financing activities was $0.2 million for the three months ended March 31, 2018 and consisted primarily of proceeds from stock option exercises.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Furthermore, we will continue to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We believe that our cash and cash equivalents as of March 31, 2019, which include the net proceeds of our March 2019 follow-on offering and the initial payment from the SFJ agreement, will enable us to fund our operating expenses and capital expenditure requirements at least into the second quarter of 2020. We have based this estimate on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. We do not expect our cash and cash equivalents as of March 31, 2019 will be sufficient to enable us to complete our ongoing and planned Phase 3 clinical trials of APL-2 or to complete the development of APL-2 or any of our other product candidates. Because of the numerous risks and uncertainties associated with the development of APL-2 and other potential product candidates, and because the extent to which we may enter into collaborations with third parties for the development of these product candidates is unknown, we are unable to estimate the amounts of capital outlays and operating expenses associated with completing the research and development of our product candidates. Our future funding requirements will depend on many factors, including:

- the scope, progress, timing, costs and results of clinical trials of, and research and preclinical development efforts for, APL-2 and future product candidates;
- our ability to identify a collaborator for any of our product candidates and the terms and timing of any collaboration agreement that we may establish for the development and any commercialization of such product candidates;
- the number and characteristics of future product candidates that we pursue and their development requirements;
- the outcome, timing and costs of clinical trials and of seeking regulatory approvals;
- the costs of commercialization activities for any of our product candidates that receive marketing approval to the extent such costs are not the responsibility of any future collaborators, including the costs and timing of establishing product sales, marketing, distribution and manufacturing capabilities;
- subject to receipt of marketing approval, revenue, if any, received from commercial sales of our current and future product candidates;
- our headcount growth and associated costs as we expand our research and development and establish a commercial infrastructure;
- the costs of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims;
- the effect of competing technological and market developments;
- our ability to obtain adequate reimbursement for any product we commercialize; and
- the costs of operating as a public company.

Identifying potential product candidates and conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of medicines that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. We currently do not have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, our stockholders' ownership interests will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect our stockholders' rights. Debt financing, if available, would result in fixed payment obligations and may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely impact our ability to conduct our business.

If we raise funds through collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations

The disclosure of our contractual obligations and commitments is set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations" in our 2018 Annual Report on Form 10-K. See Note 4 and 5 to our unaudited condensed financial statements included in Item 1, "Unaudited Financial Statements," of this Quarterly Report on Form 10-Q for a discussion of obligations and commitments.

On February 28, 2019, we entered into the SFJ agreement. Under the agreement, following regulatory approval by the FDA or the EMA of the use of APL-2 as a treatment for PNH, we will be obligated to pay SFJ an initial payment of $2.5 million (or a total of $5.0 million if regulatory approval is granted by the FDA and the EMA) and then an additional $192.5 million in the aggregate (or $385.0 million if regulatory approval is granted by the FDA and the EMA) in six additional annual payments with the majority of the payments being made from the third anniversary to the sixth anniversary of regulatory approval. Such payments will be proportionately adjusted in the event that the actual funding from SFJ is lower or greater than $120.0 million (including as a result of the payment of the Additional SFJ Funding). The timing and likelihood of such payments are not currently known.

Other than the SFJ agreement, during the three months ended March 31, 2019, there were no material changes to our contractual obligations and commitments as of December 31, 2018 as described under Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2018 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable SEC rules.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. As of March 31, 2019 we had cash and cash equivalents of $288.2 million, consisting primarily of money market funds. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term duration of our investment portfolio and the low risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our investment portfolio. We have the ability to hold our marketable securities until maturity, and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a change in market interest rates on our investments.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934 as amended, or the Exchange Act, refers to controls and procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2019.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently subject to any material legal proceedings.

Item 1A. Risk Factors.

Careful consideration should be given to the following risk factors, in addition to the other information set forth in this Quarterly Report on Form 10-Q and in other documents that we file with the SEC, in evaluating our company and our business. Investing in our common stock involves a high degree of risk. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects could be materially and adversely affected.

Risks Related to Our Financial Position and Need for Additional Capital

We have incurred significant losses since inception, expect to incur significant and increasing losses for at least the next several years, and may never achieve or maintain profitability.

We have incurred significant annual net operating losses in every year since our inception. We expect to continue to incur significant and increasing net operating losses for at least the next several years. Our net losses were $50.6 million for the three months ended March 31, 2019 and $127.5 million for the year ended December 31, 2018. As of March 31, 2019, we had an accumulated deficit of $327.3 million. We have not generated any revenues from product sales, have not completed the development of any product candidate and may never have a product candidate approved for commercialization. We have financed our operations to date primarily through the sale of our common stock in our initial public offering and subsequent follow-on offerings, private placements of our preferred stock, our development funding agreement with SFJ, borrowings under a term loan facility and the issuance and sale of a promissory note to GDP. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and our clinical trials. Our net losses may fluctuate significantly from quarter to quarter and year to year. Net losses and negative cash flows have had, and will continue to have, an adverse effect on our stockholders' equity and working capital.

We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. We anticipate that our expenses will increase substantially if and as we:

- continue to develop and conduct clinical trials in our current and new indications with our lead product candidate, APL-2;
- initiate and continue research and preclinical and clinical development efforts for any future product candidates;
- seek to identify and develop additional product candidates for complement-dependent diseases;
- seek regulatory and marketing approvals for our product candidates that successfully complete clinical trials, if any;
- establish sales, marketing, distribution and other commercial infrastructure in the future to commercialize any products for which we may obtain marketing approval;
- require the manufacture of larger quantities of product candidates for clinical development and, potentially, commercialization;
- maintain, expand and protect our intellectual property portfolio;
- hire and retain additional personnel, such as clinical, quality control and scientific personnel;
- add operational, financial and management information systems and personnel, including personnel to support our product development and help us comply with our obligations as a public company; and
- add equipment and physical infrastructure to support our research and development programs.

Our ability to become and remain profitable depends on our ability to generate revenue. We do not expect to generate significant revenue unless and until we are, or any future collaborator is, able to obtain marketing approval for, and successfully commercialize, one or more of our product candidates. Successful commercialization will require achievement of key milestones, including completing clinical trials of our product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those products for which we, or any of our future collaborators, may obtain marketing approval, satisfying any post-marketing requirements and obtaining reimbursement for our products from private insurance or government payors. Because of the uncertainties and risks associated with these activities, we are unable to accurately predict the timing and amount of revenues, and

if or when we might achieve profitability. We and any future collaborators may never succeed in these activities and, even if we do, or any future collaborators do, we may never generate revenues that are large enough for us to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become and remain profitable would decrease the value of our company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our pipeline of product candidates or continue our operations. A decline in the value of our company could cause our stockholders to lose all or part of their investment.

We have not yet successfully completed any Phase 3 clinical trials nor commercialized pharmaceutical products, which may make it difficult to evaluate our future prospects.

Our operations to date have been limited to financing and staffing our company, developing our technology and conducting preclinical research and Phase 1, Phase 2 and Phase 3 clinical trials for our product candidates. However, although we have initiated Phase 3 clinical trials and have begun planning commercial activities, we have not yet demonstrated an ability to successfully complete Phase 3 clinical trials, obtain marketing approvals, manufacture a commercial-scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Accordingly, our stockholders should consider our prospects in light of the costs, uncertainties, delays and difficulties frequently encountered by clinical-stage biopharmaceutical companies such as ours. Any predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history or a history of successfully developing and commercializing pharmaceutical products.

We may encounter unforeseen expenses, difficulties, complications, delays and other known or unknown factors in achieving our business objectives. We will eventually need to transition from a company with a development focus to a company capable of supporting commercial activities. We may not be successful in such a transition. We expect our financial condition and operating results to continue to fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control. Accordingly, our stockholders should not rely upon the results of any quarterly or annual periods as indications of future operating performance.

We will need substantial additional funding, and if we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product development programs or commercialization efforts.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a very time-consuming, expensive and uncertain process that takes years to complete. We have consumed substantial amounts of cash since our inception. For example, in the three months ended March 31, 2019 and the years ended December 31, 2016, 2017 and 2018, we used net cash of $35.2 million, $26.0 million, $46.6 million and $131.2 million respectively, in our operating activities substantially all of which related to research and development activities. As of March 31, 2019, our cash and cash equivalents were $288.2 million. We expect our expenses to increase in connection with our ongoing activities, particularly as we initiate new clinical trials of, initiate new research and preclinical development efforts for and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we may incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution to the extent that such sales, marketing, manufacturing and distribution are not the responsibility of a future collaborator. Furthermore, we incur significant costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we may be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

We will be required to expend significant funds in order to advance the development of APL-2 in multiple disease areas, as well as other product candidates we may seek to develop. In addition, while we may seek one or more collaborators for future development of our product candidates for one or more indications, we may not be able to enter into a collaboration for any of our product candidates for such indications on suitable terms, on a timely basis or at all. In any event, our cash and cash equivalents as of March 31, 2019, will not be sufficient to complete our ongoing and planned Phase 3 clinical trials of APL-2 or to complete development of APL-2 or any of our other product candidates. Accordingly, we will be required to obtain further funding through public or private equity offerings, debt financings, collaborations and licensing arrangements or other sources to achieve our business objectives. We do not have any committed external source of funds. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed would have a negative impact on our financial condition and our ability to pursue our business strategy.

We believe that our cash and cash equivalents as of March 31, 2019, which include the net proceeds from our March 2019 follow-on offering and the initial payment from the SFJ agreement, will enable us to fund our operating expenses and capital expenditure requirements at least into the second quarter of 2020. Our estimate as to how long we expect our cash and cash

equivalents to be able to continue to fund our operations is based on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Further, changing circumstances, some of which may be beyond our control, could cause us to consume capital significantly faster than we currently anticipate, and we may need to seek additional funds sooner than planned. Our future funding requirements, both short-term and long-term, will depend on many factors, including:

- the scope, progress, timing, costs and results of clinical trials of, and research and preclinical development efforts for, APL-2 and future product candidates;
- our ability to identify a collaborator for any of our product candidates and the terms and timing of any collaboration agreement that we may establish for the development and any commercialization of such product candidates;
- the number and characteristics of future product candidates that we pursue and their development requirements;
- the outcome, timing and costs of clinical trials and of seeking regulatory approvals;
- the costs of commercialization activities for any of our product candidates that receive marketing approval to the extent such costs are not the responsibility of any future collaborators, including the costs and timing of establishing product sales, marketing, distribution and manufacturing capabilities;
- subject to receipt of marketing approval, revenue, if any, received from commercial sales of our current and future product candidates;
- our headcount growth and associated costs as we expand our research and development and establish a commercial infrastructure;
- the costs of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims;
- the effect of competing technological and market developments;
- our ability to obtain adequate reimbursement for any product we commercialize; and
- the costs of operating as a public company.

The report of our independent registered public accounting firm included a "going concern" explanatory paragraph.

The report of Ernst & Young, LLP on our financial statements as of and for the fiscal year ended December 31, 2018 included an explanatory paragraph that there was substantial doubt about our ability to continue as a going concern. See Note 1 to the consolidated financial statements included in our 2018 *Annual Report on Form 10-K* for additional information. Given our planned expenditures, our independent registered public accounting firm may conclude, in connection with the audit of our financial statements for the year ended December 31, 2019 or any other subsequent period, that there is substantial doubt regarding our ability to continue as a going concern. If we are unable to continue as a going concern, we might 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. The inclusion of a going concern explanatory paragraph by our independent registered public accounting firm may materially and adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

Raising additional capital may cause dilution to our stockholders restrict our operations or require us to relinquish rights to our technologies or product candidates.

We expect our expenses to increase in connection with our planned operations. To the extent that we raise additional capital through the sale of common stock, convertible securities or other equity securities, the ownership interest of our then-existing stockholders may be diluted, and the terms of these securities could include liquidation or other preferences and anti-dilution protections that could adversely affect the rights of our common stockholders. In addition, debt financing, if available, would result in fixed payment obligations and may involve agreements that include grants of security interests on our assets and restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures, creating liens, redeeming stock or declaring dividends, that could adversely impact our ability to conduct our business.

For example, in connection with our development funding agreement with SFJ, we agreed that following regulatory approval by the FDA or EMA for the use of APL-2 as a treatment for PNH we will pay to SFJ an initial payment of $2.5 million (or a total of $5 million if regulatory approval is granted by the FDA and the EMA) and then an additional $192.5 million in the aggregate (or $385 million if regulatory approval is granted by the FDA and the EMA) in six additional annual payments with the majority of the payments being made from the third anniversary to the sixth anniversary of regulatory approval. Such payments will be proportionately adjusted in the event that the actual funding from SFJ is lower or greater than $120 million (including as a result of the payment of the Additional SFJ Funding). Additionally, we granted a security interest in all of our assets, excluding our intellectual

property and license agreements to which we are a party. In connection with the grant of the security interest, we agreed to certain affirmative and negative covenants, including restrictions on our ability to pay dividends, incur additional debt or enter into licensing transactions with respect to our intellectual property other than specified types of licenses.

Future debt securities or other financing arrangements could contain similar or more restrictive negative covenants. In addition, securing financing could require a substantial amount of time and attention from our management and may divert a disproportionate amount of their attention away from day-to-day activities, which may adversely affect our management's ability to oversee the development of our product candidates.

If we raise additional funds through collaborations or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

If we receive regulatory approval for the use of APL-2 as a treatment for PNH or if our agreement with SFJ is terminated prior to receiving such approval in specified circumstances, we will be required to make substantial payments to SFJ pursuant to our development funding agreement. If we do not have sufficient funding or cash flow from our business to meet our payment obligations under the development funding agreement, SFJ could exercise its remedies as a holder of a first priority security interest in our assets and our business could be materially harmed.

If we receive regulatory approval for the use of APL-2 as a treatment for PNH, we will be required to make substantial payments to SFJ pursuant to our development funding agreement. In addition, if the agreement is terminated prior to obtaining regulatory approval for the treatment of PNH, under specified circumstances, we also will be required to make substantial payments to SFJ. Our ability to make these required payments depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may generate cash flow from operations in the future sufficient to meet our obligations under the development funding agreement. If we are unable to generate such cash flow or to obtain additional funding through public or private equity offerings, debt financings, collaborations and licensing arrangements or other sources on acceptable terms or at all, we could default on our payment obligations to SFJ. We have granted SFJ a first priority security interest in all of our assets other than our intellectual property and the license agreements to which we are a party. If we are unable to meet our payment obligations to SFJ, SFJ may exercise its remedies as a holder of a first priority security interest, which would result in a loss of our assets and our business would be materially harmed.

Risks Related to the Discovery, Development and Commercialization of Our Product Candidates

There are no approved therapies that act by inhibiting C3, and we may not be able to successfully develop and commercialize APL-2 or other product candidates.

APL-2 is a novel therapeutic compound and its potential benefit in controlling autoimmune and inflammatory diseases has not been established. APL-2 is designed to control disease through inhibition of C3. There are no approved therapies that act by inhibiting C3 and only one approved therapy that acts by inhibiting the complement system. As a result, APL-2 may not demonstrate in patients any or all of the pharmacological benefits we believe it may possess. We have not yet demonstrated efficacy and safety for APL-2 or any other product candidates in a pivotal trial or obtained marketing approval of any product candidate. We have evaluated APL-2 in preclinical studies and in clinical trials, and have advanced APL-2 into Phase 3 clinical development in geographic atrophy, or GA, and paroxysmal-nocturnal hemoglobinuria, or PNH, but we have not obtained regulatory approval to sell any product based on our therapeutic approaches.

If we are unsuccessful in our development efforts, we may not be able to advance the development of APL-2 or any other product candidate, commercialize products, raise capital, expand our business or continue our operations.

We are dependent on the successful development and commercialization of our lead product candidate, APL-2. If we are unable to develop, obtain marketing approval for or successfully commercialize this product candidate, either alone or through a collaboration, or if we experience significant delays in doing so, our business could be harmed.

We currently have no products approved for sale and are investing a significant portion of our efforts and financial resources to fund the development of APL-2. Our prospects are substantially dependent on our ability, or that of any future collaborator, to develop, obtain marketing approval for and successfully commercialize APL-2 in one or more disease indications.

The success of APL-2 will depend on several factors, including the following:

- successful recruitment of patients, enrollment in and completion of our ongoing and planned clinical trials;
- initiation and successful recruitment of patients, enrollment in and completion of additional clinical trials;
- safety, tolerability and efficacy profiles that are satisfactory to the U.S. Food and Drug Administration, or FDA, or any comparable foreign regulatory authority for marketing approval;
- our ability to identify success criteria and endpoints for our clinical trials and otherwise design our clinical trials such that the FDA, EMA, and other regulatory authorities will be able to determine the clinical efficacy and safety profile of any product candidates we may develop;
- timely receipt of marketing approvals from applicable regulatory authorities;
- the extent of any required post-marketing approval commitments to applicable regulatory authorities;
- establishment of supply arrangements with third-party suppliers and manufacturers of raw materials and drug intermediates;
- establishment of arrangements with third-party manufacturers to obtain finished products that are appropriately packaged for sale;
- developing, validating and maintaining a commercially viable manufacturing process that is compliant with current good manufacturing practices, or cGMPs;
- the performance of our future collaborators, if any;
- obtaining APL-2 drug product from third-party manufacturers of sufficient quality to be used in our clinical trials and for commercial sale;
- obtaining and maintaining patent, trade secret protection and regulatory exclusivity, both in the United States and internationally;
- protection of our rights in our intellectual property portfolio;
- successful launch of commercial sales following any marketing approval;
- an acceptable safety profile following any marketing approval;
- commercial acceptance of our products, if approved, by patients, the medical community and third-party payors;
- our ability to compete with other therapies; and
- obtaining and maintaining healthcare coverage and adequate reimbursement.

Many of these factors are beyond our control, including clinical development, the regulatory submission process, potential threats to our intellectual property rights and the manufacturing, marketing and sales efforts of any future collaborator. If we are unable to develop, receive marketing approval for and successfully commercialize APL-2 or another product candidate, on our own or with any future collaborator, or experience delays as a result of any of these factors or otherwise, our business could be substantially harmed.

If clinical trials of our product candidates fail to satisfactorily demonstrate safety and efficacy to the FDA and other regulators, we, or any future collaborators, may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of these product candidates.

We, and any future collaborators, are not permitted to commercialize, market, promote or sell any product candidate in the United States without obtaining marketing approval from the FDA. Foreign regulatory authorities, such as the EMA, impose similar requirements. We have not previously submitted a new drug application, or NDA, to the FDA or similar drug approval filings to comparable foreign regulatory authorities for any of our product candidates. We, and any future collaborators, may never receive such approvals. We, and any future collaborators, must complete extensive preclinical development and clinical trials to demonstrate the safety and efficacy of our product candidates in humans before we will be able to obtain these approvals.

Clinical testing is expensive, is difficult to design and implement, can take many years to complete and is inherently uncertain as to outcome. We cannot guarantee that any clinical trials will be conducted as planned or completed on schedule, if at all. The clinical development of our product candidates is susceptible to the risk of failure inherent at any stage of product development, including

failure to demonstrate efficacy in a clinical trial or across a broad population of patients, the occurrence of adverse events that are severe or medically or commercially unacceptable, failure to comply with protocols or applicable regulatory requirements and determination by the FDA or any comparable foreign regulatory authority that a product candidate may not continue development or is not approvable. It is possible that even if one or more of our product candidates has a beneficial effect, that effect will not be detected during clinical evaluation as a result of one or more of a variety of factors, including the size, duration, design, measurements, conduct or analysis of our clinical trials. Conversely, as a result of the same factors, our clinical trials may indicate an apparent positive effect of a product candidate that is greater than the actual positive effect, if any. Similarly, in our clinical trials we may fail to detect toxicity of or intolerability caused by our product candidates, or mistakenly believe that our product candidates are toxic or not well tolerated when that is not in fact the case. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in earlier development, and we cannot be certain that we will not face additional setbacks. It is possible that any of our development programs may be placed on full or partial clinical hold by regulatory authorities at any point, which would delay and possibly prevent further development of our product candidates.

In October 2018, we announced that we voluntarily implemented a pause in dosing in our Phase 3 clinical program in patients with GA due to observed cases of non-infectious inflammation in patients treated from a single manufacturing lot of APL-2 intravitreal drug product. We also voluntarily implemented a pause in our Phase 1b/2 trial of APL-2 in patients with wet AMD. A total of eight patients, four in the Phase 3 GA program and four in our Phase 1b/2 clinical trial of APL-2 in patients with wet AMD, were treated with APL-2 from this manufacturing lot and each patient developed non-infectious inflammation. Inflammation in all eight patients has completely resolved. We have reviewed these events with the data safety monitoring board for the ophthalmology program, conducted a series of non-human studies and introduced improvements to the manufacturing process. Based on these efforts, we believe that the likely source of inflammation resided in an impurity in the active pharmaceutical ingredient that was introduced by the scale-up of the manufacturing process to produce commercial lot sizes. We modified our manufacturing process in order to eliminate the impurity and have manufactured sufficient supply of APL-2 utilizing the modified manufacturing process to conduct the Phase 3 GA program. In March 2019, we announced that, with the agreement of the independent safety monitoring committee for our Phase 3 clinical program for APL-2 in patients with GA, we restarted enrollment of our Phase 3 clinical program in GA and expect to have fully enrolled both trials in the GA program by the end of the first quarter of 2020, within the originally planned timeline for completion.

Any inability to successfully complete preclinical and clinical development could result in additional costs to us, or any future collaborators, and impair our ability to generate revenues from product sales, regulatory and commercialization milestones and royalties. Moreover, if we, or any future collaborators, are required to conduct additional clinical trials or other testing of our product candidates beyond the trials and testing that we or they contemplate, if we or they are unable to successfully complete clinical trials of our product candidates or other testing or the results of these trials or tests are unfavorable, uncertain or are only modestly favorable, or there are unacceptable safety concerns associated with our product candidates, we, or any future collaborators may:

- incur additional unplanned costs;
- be delayed in obtaining marketing approval for our product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or significant safety warnings, including boxed warnings;
- be subject to additional post-marketing testing or other requirements; or
- be required to remove the product from the market after obtaining marketing approval.

In addition, investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive compensation in connection with such services, including equity awards and option grants, and may have other financial interests in our company. We are required to collect and provide financial disclosure notifications or certifications for our clinical investigators to the FDA. If the FDA concludes that a financial relationship between us and a clinical investigator has created a conflict of interest or otherwise affected interpretation of the trial, the FDA may question the integrity of the data generated at the applicable clinical trial site and the utility of the clinical trial itself may be jeopardized. This could result in a delay in approval, or rejection, of our marketing applications by the FDA and may ultimately lead to the denial of marketing approval of our current and future product candidates.

Our failure to successfully complete clinical trials of our product candidates and to demonstrate the efficacy and safety necessary to obtain regulatory approval to market any of our product candidates would significantly harm our business.

Adverse events or undesirable side effects caused by, or other unexpected properties of, any of our product candidates may be identified during development that could delay or prevent their marketing approval or limit their use.

Adverse events or undesirable side effects caused by, or other unexpected properties of, our product candidates could cause us, any future collaborators, an institutional review board or regulatory authorities to interrupt, delay or halt clinical trials of one or more of our product candidates and could result in a more restrictive label, or the delay or denial of marketing approval by the FDA or comparable foreign regulatory authorities. For example, by design APL-2 has immunosuppressive effects and, in some cases, may be administered to patients with underlying significantly compromised health. Administration of our product candidates could make patients more susceptible to infection. We vaccinate subjects against certain bacterial pathogens in all of our ongoing trials involving systemic administration of APL-2. However, there can be no assurance that these efforts will prevent serious adverse effects, including bacterial infection.

In addition, in preclinical studies of APL-2, we observed evidence of minimal to mild kidney toxicity when animals were administered relatively higher doses of APL-2 than the doses we intend to use in the treatment of patients. We believe this kidney toxicity is likely associated with the presence of polyethylene glycol, or PEG, which is a component of APL-2. If such kidney toxicity, or other adverse effects, were to arise in patients being treated with APL-2 or any other of our product candidates, it could require us to halt, delay or interrupt clinical trials of such product candidate or adversely affect our ability to obtain requisite approvals to advance the development and commercialization of such product candidate.

In our Phase 2 trial of APL-2 in patients with GA, the most frequently reported adverse events were associated with the injection procedure in the study eye. These adverse events included two cases of confirmed endophthalmitis, which is inflammation in the eye typically caused by infection, and one case of presumed endophthalmitis where the culture tested negative for bacterial growth. In addition, during the 12-month treatment period and the subsequent six-month period during which no treatment was administered, we observed a higher incidence of new onset exudation, or fluid leakage in the retinas of eyes in which exudation had not previously been reported, in the study eyes treated with APL-2, predominantly in patients with a history of wet AMD in the non-study eye, or fellow eye. Specifically, we observed that, after the 12 month treatment period and the six-month monitoring period, 21% of patients who received administration of APL-2 every month and 9% of patients who received administration of APL-2 every other month showed new onset exudation in the study eye as compared to 1% of the sham group. As we continue development of APL-2 for GA, if a significant number of patients develop new onset exudation, then we may need to limit development of intravitreal APL-2 to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective.

In our Phase 3 clinical trial of APL-2 in patients with GA and our Phase 1b/2 clinical trial of APL-2 in patients with wet AMD, several patients treated from a single manufacturing lot of APL-2 intravitreal drug product experienced non-infectious inflammation. A total of eight patients, four in our Phase 3 GA program and four in our Phase 1b/2 clinical trial of APL-2 in patients with wet AMD, were treated with this APL-2 from this manufacturing lot and each patient developed non-infectious inflammation. Inflammation in these patients has completely resolved.

Serious adverse events have also been reported in our Phase 1b trials of APL-2 for PNH. In our Phase 1b trial of APL-2 in patients receiving treatment with eculizumab, one serious adverse event was noted as possibly related to the administration of APL-2. The patient with this serious adverse event experienced liver pain and elevated liver enzyme levels. As a result, treatment with APL-2 was temporarily discontinued but treatment with eculizumab continued. This discontinuation was followed by a recurrence of anemia and required a blood transfusion, and treatment with APL-2 was reinitiated. Following resumption of treatment, the patient had surgery, which resulted in a lowering of liver enzyme levels. In late October 2017, in our Phase 1b trial of APL-2 in treatment-naïve patients, we learned that one patient with concomitant aplastic anemia developed bone marrow failure after one year of treatment with APL-2. Treatment with APL-2 was discontinued on November 14, 2017. The investigator determined that the bone marrow failure in this patient was not related to the administration of APL-2. Development of bone marrow failure is a known risk in patients with PNH. In third-party studies, bone marrow failure occurred in between 15% and 30% of PNH patients, regardless of treatment with eculizumab. However, there can be no assurance that the administration of APL-2 could not have contributed to the bone marrow failure experienced by this patient.

In addition, in our Phase 1b clinical trial of APL-2 treatment naïve patients with PNH, one patient, who had been temporarily discontinued from dosing with APL-2 due to an unrelated medical condition, experienced increased hemolysis and required a transfusion. This was classified as a serious adverse event unrelated to the administration of APL-2. This patient subsequently recovered and has resumed treatment with APL-2. We believe that a sudden discontinuation of APL-2 may cause increased hemolysis in some patients.

If any of our product candidates is associated with adverse events or undesirable side effects or has properties that are unexpected, we, or any future collaborators, may need to abandon development or limit development of that product candidate to

certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Many compounds that initially showed promise in clinical or earlier stage testing have later been found to cause undesirable or unexpected side effects that prevented further development of the compound.

In addition, clinical trials by their nature utilize a sample of the potential patient population. However, with a limited number of subjects and limited duration of exposure, rare and severe side effects of our product candidates may only be uncovered when a significantly larger number of patients are exposed to the product. If safety problems occur or are identified after one of our products reaches the market, the FDA or comparable non-U.S. regulatory authorities may require that we amend the labeling of our product, recall our product, or even withdraw approval for our product.

If we, or any future collaborators, experience any of a number of possible unforeseen events in connection with clinical trials of our product candidates, potential clinical development, marketing approval or commercialization of our product candidates could be delayed or prevented.

We, or any future collaborators, may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent clinical development, marketing approval or commercialization of our product candidates, including:

- clinical trials of our product candidates may produce unfavorable or inconclusive results;
- we, or any future collaborators, may decide, or regulators may require us or them, to conduct additional clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we, or any future collaborators, anticipate, patient enrollment in these clinical trials may be slower than we, or any future collaborators, anticipate or participants may drop out of these clinical trials at a higher rate than we, or any future collaborators, anticipate;
- the cost of planned clinical trials of our product candidates may be greater than we anticipate;
- our third-party contractors or those of any future collaborators, including those manufacturing our product candidates or components or ingredients thereof or conducting clinical trials on our behalf or on behalf of any future collaborators, may deviate from the trial protocol, fail to comply with regulatory requirements or fail to meet their contractual obligations to us or any future collaborators in a timely manner or at all;
- regulators or institutional review boards may not authorize us, any future collaborators or our or their investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we, or any future collaborators, may have delays in reaching or fail to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- patients that enroll in a clinical trial may misrepresent their eligibility to do so or may otherwise not comply with the clinical trial protocol, resulting in the need to drop the patients from the clinical trial, increase the needed enrollment size for the clinical trial or extend the clinical trial's duration;
- we, or any future collaborators, may have to delay, suspend or terminate clinical trials of our product candidates for various reasons, including a finding that the participants are being exposed to unacceptable health risks, undesirable side effects or other unexpected characteristics of the product candidate;
- regulators or institutional review boards may require that we, or any future collaborators, or our or their investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or their standards of conduct, a finding that the participants are being exposed to unacceptable health risks, undesirable side effects or other unexpected characteristics of the product candidate or findings of undesirable effects caused by a chemically or mechanistically similar product or product candidate;
- the FDA or comparable foreign regulatory authorities may disagree with our, or any future collaborators', clinical trial designs or our or their interpretation of data from preclinical studies and clinical trials;
- the FDA or comparable foreign regulatory authorities may fail to approve or subsequently find fault with the manufacturing processes or facilities of third-party manufacturers with which we, or any future collaborators, enter into agreements for clinical and commercial supplies;
- the supply or quality of raw materials, drug intermediates or manufactured product candidates, other products evaluated in our clinical trials or other materials necessary to conduct clinical trials of our product candidates may be insufficient, inadequate or not available at an acceptable cost, or we may experience interruptions in supply; and

- the approval policies or regulations of the FDA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient to obtain marketing approval.

Product development costs for us, or any future collaborators, will increase if we, or they, experience delays in testing or pursuing marketing approvals and we, or they, may be required to obtain additional funds to complete clinical trials and prepare for possible commercialization of our product candidates. We do not know whether any preclinical tests or clinical trials will begin as planned, will need to be restructured, or will be completed on schedule or at all. Significant preclinical study or clinical trial delays also could shorten any periods during which we, or any future collaborators, may have the exclusive right to commercialize our product candidates or allow our competitors, or the competitors of any future collaborators, to bring products to market before we, or any future collaborators, do and impair our ability, or the ability of any future collaborators, to successfully commercialize our product candidates and may harm our business and results of operations. In addition, many of the factors that lead to clinical trial delays may ultimately lead to the denial of marketing approval of any of our product candidates.

If we, or any future collaborators, experience delays or difficulties in the enrollment of patients in clinical trials, our or their receipt of necessary regulatory approvals could be delayed or prevented.

We, or any future collaborators, may not be able to initiate or continue clinical trials for any of our product candidates if we, or they, are unable to locate and enroll a sufficient number of eligible patients to participate in clinical trials as required by the FDA or comparable foreign regulatory authorities. Patient enrollment is a significant factor in the timing of clinical trials, and is affected by many factors, including:

- the size and nature of the patient population;
- the severity of the disease under investigation;
- the proximity of patients to clinical sites;
- the patient referral practices of physicians;
- the eligibility criteria for the trial;
- the design of the clinical trial;
- efforts to facilitate timely enrollment;
- competing clinical trials; and
- clinicians' and patients' perceptions as to the potential advantages and risks of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating.

In particular, the successful completion of our clinical development program for APL-2 for the treatment of PNH is dependent upon our ability to enroll a sufficient number of patients with PNH. PNH is a rare disease with a small patient population, and many of those patients are treated with eculizumab (Soliris) or ravulizumab (Ultomiris), both of which are marketed by Alexion Pharmaceuticals, Inc., or Alexion. Further, there are only a limited number of specialist physicians that regularly treat patients with PNH and major clinical centers that support PNH treatment are concentrated in a few geographic regions. In addition, other companies are conducting clinical trials and have announced plans for future clinical trials that are seeking, or are likely to seek, to enroll patients with PNH and patients are generally only able to enroll in a single trial at a time. Both patients and their physicians may be reluctant to forgo, discontinue or otherwise alter existing, approved life-saving therapeutic approaches such as eculizumab. Given the severe and life-threatening nature of PNH and the expectation that many patients will be on treatment with eculizumab, we may encounter difficulty in recruiting a sufficient number of patients for our trials including in particular our planned Phase 3 clinical trial in treatment-naive patients. The small population of patients, competition for these patients, the nature of the disease and limited trial sites may make it difficult for us to enroll enough patients to complete our clinical trials of APL-2 in PNH in a timely and cost-effective manner.

Our inability, or the inability of any future collaborators, to enroll a sufficient number of patients for our, or their, clinical trials could result in significant delays or may require us or them to abandon one or more clinical trials altogether. Enrollment delays in our, or their, clinical trials may result in increased development costs for our product candidates, delay or halt the development of and approval processes for our product candidates and jeopardize our, or any future collaborators', ability to commence sales of and generate revenues from our product candidates, which could cause the value of our company to decline and limit our ability to obtain additional financing, if needed.

Results of preclinical studies and Phase 1 and Phase 2 clinical trials may not be predictive of results of later clinical trials.

The outcome of preclinical studies and Phase 1 and Phase 2 clinical trials may not be predictive of the success of later clinical trials, and preliminary or interim results of clinical trials do not necessarily predict final results. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in earlier stages of clinical development, and we could face similar setbacks. Similarly, the design of a clinical trial can determine whether its results will support approval of a product and flaws in the design of a clinical trial may not become apparent until the clinical trial is well advanced.

We have limited experience in designing pivotal clinical trials and may be unable to design and execute a clinical trial to support marketing approval. In addition, preclinical and clinical data are often susceptible to varying interpretations and analyses. Many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval for the product candidates. Even if we, or any future collaborators, believe that the results of clinical trials for our product candidates warrant marketing approval, the FDA or comparable foreign regulatory authorities may disagree and may not grant marketing approval of our product candidates.

Some of the data we present on the use of APL-2 for the treatment of GA is drawn from *post hoc* analyses of data subsets from our Phase 2 clinical trial. While we believe these data may be useful in informing the design of future Phase 3 clinical trials for APL-2, *post hoc* analyses performed after unmasking trial results can result in the introduction of bias and may not be predictive of success in Phase 3 clinical trials.

In some instances, there can be significant variability in safety or efficacy results between different clinical trials of the same product candidate due to numerous factors, including changes in trial procedures set forth in protocols, differences in the size and type of the patient populations, changes in and adherence to the dosing regimen and other clinical trial protocols and the rate of dropout among clinical trial participants. For instance, the Phase 3 clinical trials in GA are similar in design to the Phase 2 clinical trial, except that patients will be treated with APL-2 for 24 months rather than 12 months and there will not be a six-month monitoring period following treatment. Additionally, unlike the Phase 2 clinical trial, GA lesion size will be measured by total area rather than mean change in the square root of GA lesion size. In our Phase 3 clinical trials in GA, statistical significance is set at a p-value of 0.05 or less, meaning that there is a 1-in-20 or less probability that the observed results occurred by chance rather than as a treatment effect. In our Phase 2 clinical trial, we set statistical significance as a p-value of 0.1 or less, meaning that there is a 1-in-10 or less probability that the observed results occurred by chance. If we fail to receive positive results in clinical trials of our product candidates, the development timeline and regulatory approval and commercialization prospects for our most advanced product candidates, and, correspondingly, our business and financial prospects would be negatively impacted.

If we fail to develop and commercialize other product candidates, we may be unable to grow our business.

Although the development and commercialization of APL-2 is our primary focus, as part of our growth strategy, we are developing a pipeline of product candidates for the treatment of complement-dependent diseases. These other product candidates will require additional, time-consuming and costly development efforts prior to commercial sale, including preclinical studies, clinical trials and approval by the FDA and/or applicable foreign regulatory authorities. All product candidates are prone to the risks of failure that are inherent in pharmaceutical product development, including the possibility that the product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities. In addition, there can be no assurance that any such products that are approved will be manufactured or produced economically, successfully commercialized or widely accepted in the marketplace or be more effective than other commercially available alternatives.

We have never obtained marketing approval for a product candidate and we may be unable to obtain, or may be delayed in obtaining, marketing approval for any of our product candidates.

We have never obtained marketing approval for a product candidate. It is possible that the FDA may refuse to accept for substantive review any NDAs that we submit for our product candidates or may conclude after review of our data that our application is insufficient to obtain marketing approval of our product candidates. If the FDA does not accept or approve our NDAs for any of our product candidates, including APL-2, it may require that we conduct additional clinical trials, preclinical studies or manufacturing validation studies and submit that data before it will reconsider our applications. Depending on the extent of these or any other FDA-required trials or studies, approval of any NDA or application that we submit may be delayed by several years, or may require us to expend more resources than we have available. It is also possible that additional trials or studies, if performed and completed, may not be considered sufficient by the FDA to approve our NDAs.

Any delay in obtaining, or an inability to obtain, marketing approvals would prevent us from commercializing our product candidates, generating revenues and achieving and sustaining profitability. If any of these outcomes occur, we may be forced to abandon our development efforts for our product candidates, which could significantly harm our business.

Even if any of our product candidates receives marketing approval, we or others may later discover that the product is less effective than previously believed or causes undesirable side effects that were not previously identified, which could compromise our ability, or that of any future collaborators, to market the product.

Clinical trials of our product candidates are conducted in carefully defined sets of patients who have agreed to enter into clinical trials. Consequently, it is possible that our clinical trials, or those of any future collaborator, may indicate an apparent positive effect of a product candidate that is greater than the actual positive effect, if any, or alternatively fail to identify undesirable side effects. If, following approval of a product candidate, we, or others, discover that the product is less effective than previously believed or causes undesirable side effects that were not previously identified, any of the following adverse events could occur:

- regulatory authorities may withdraw their approval of the product or seize the product;
- we, or any future collaborators, may be required to recall the product, change the way the product is administered or conduct additional clinical trials;
- additional restrictions may be imposed on the marketing of, or the manufacturing processes for, the particular product;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- we, or any future collaborators, may be required to create a Medication Guide outlining the risks of the previously unidentified side effects for distribution to patients;
- we, or any future collaborators, could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

Any of these events could harm our business and operations, and could negatively impact our stock price.

Even if one of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success, in which case we may not generate significant revenues or become profitable.

We have never commercialized a product, and even if one of our product candidates is approved by the appropriate regulatory authorities for marketing and sale, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. Physicians are often reluctant to switch their patients from existing therapies even when new and potentially more effective or convenient treatments enter the market. Further, patients often acclimate to the therapy that they are currently taking and do not want to switch unless their physicians recommend switching products or they are required to switch therapies due to lack of reimbursement for existing therapies. Eculizumab and ravulizumab are the only therapies that have been approved for the treatment of PNH, and even if we are able to obtain marketing approval of APL-2 for the treatment of PNH, we may not be able to successfully convince physicians or patients to switch from eculizumab or ravulizumab to APL-2. This may be particularly true with respect to eculizumab as many in the medical community believe that patients with PNH on eculizumab may experience sudden and excessive blood cell lysis, or rupture, leading to anemia, blood clots and other medical problems, when they stop receiving eculizumab. In addition, even if we are able to demonstrate our product candidates’ safety and efficacy to the FDA and other regulators, safety concerns in the medical community may hinder market acceptance.

Efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may not be successful. If any of our product candidates is approved but does not achieve an adequate level of market acceptance, we may not generate significant revenues and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and safety of the product;
- the potential advantages of the product compared to competitive therapies;
- the prevalence and severity of any side effects;

- the clinical indications for which the product is approved;
- whether the product is designated under physician treatment guidelines as a first-, second- or third-line therapy;
- our ability, or the ability of any future collaborators, to offer the product for sale at competitive prices;
- the product's convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try, and of physicians to prescribe, the product;
- limitations or warnings, including distribution or use restrictions contained in the product's approved labeling;
- the strength of sales, marketing and distribution support;
- the approval of other new products for the same indications;
- the timing of market introduction of our approved products as well as competitive products;
- adverse publicity about the product or favorable publicity about competitive products;
- potential product liability claims;
- changes in the standard of care for the targeted indications for the product; and
- availability and amount of coverage and reimbursement from government payors, managed care plans and other third-party payors.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we intend to focus on developing product candidates for specific indications that we identify as most likely to succeed, in terms of both their potential for marketing approval and commercialization. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that may prove to have greater commercial potential.

Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to the product candidate.

If we are unable to establish sales, marketing and distribution capabilities or enter into sales, marketing and distribution arrangements with third parties, we may not be successful in commercializing any product candidates if approved.

We do not have a sales, marketing or distribution infrastructure and have no experience in the sale, marketing or distribution of pharmaceutical products. To achieve commercial success for any approved product, we must either develop a sales and marketing organization or outsource these functions to third parties.

We plan to build focused capabilities to commercialize development programs for certain indications where we believe that the medical specialists for the indications are sufficiently concentrated to allow us to effectively promote the product with a targeted sales team. The development of sales, marketing and distribution capabilities will require substantial resources, will be time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing and distribution capabilities is delayed or does not occur for any reason, we could have prematurely or unnecessarily incurred these commercialization costs. This may be costly, and our investment could be lost if we cannot retain or reposition our sales and marketing personnel. In addition, we may not be able to hire or retain a sales force in the United States that is sufficient in size or has adequate expertise in the medical markets that we plan to target. If we are unable to establish or retain a sales force and marketing and distribution capabilities, our operating results may be adversely affected. If a potential partner has development or commercialization expertise that we believe is particularly relevant to one of our products, then we may seek to collaborate with that potential partner even if we believe we could otherwise develop and commercialize the product independently.

In certain indications, we may seek to enter into collaborations that we believe may contribute to our ability to advance development and ultimately commercialize our product candidates. We may also seek to enter into collaborations where we believe that realizing the full commercial value of our development programs will require access to broader geographic markets or the pursuit of broader patient populations or indications. As a result of entering into arrangements with third parties to perform sales, marketing and distribution services, our product revenues or the profitability of these product revenues may be lower, perhaps substantially lower, than if we were to directly market and sell products in those markets. Furthermore, we may be unsuccessful in entering into the

necessary arrangements with third parties or may be unable to do so on terms that are favorable to us. In addition, we may have little or no control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively.

If we do not establish sales, marketing and distribution capabilities, either on our own or in collaboration with third parties, we will not be successful in commercializing any of our product candidates that receive marketing approval.

We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.

The development and commercialization of new products is highly competitive. We expect that we, and any future collaborators, will face significant competition from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide with respect to any of our product candidates that we, or any future collaborators, may seek to develop or commercialize in the future, including from therapies that act through the complement system and therapies that use different approaches.

There are currently no approved treatments for GA. We are aware that there are a number of companies that are actively developing product candidates for the treatment of GA, including the following product candidates that are in clinical development: CLG561, an anti-properdin monoclonal antibody being developed as a monotherapy or adjunctive therapy with LFG316, an anti-C5 monoclonal antibody being developed by Novartis AG that is in Phase 2 clinical trials; Zimura, a C5 inhibitor being developed by Ophthotech Corporation that is in Phase 2 clinical trials; and other product candidates that do not target the complement system that are in Phase 2 clinical trials, including therapies being developed by Allergan PLC, Ionis Pharmaceuticals, Inc., Janssen Research & Development, LLC, Regenerative Patch Technologies and Stealth BioTherapeutics Corp..

The principal competitors for PNH, and possibly other indications in our hematology and nephrology programs are eculizumab (marked as Soliris) and ravulizumab (marketed as Ultomiris), which are C5 inhibitors marketed by Alexion and are the only drugs approved for the treatment of PNH. Ravulizumab is designed to have a longer half-life and greater inhibition of C5 than eculizumab.

We are aware of a number of other companies that are actively developing product candidates for the treatment of PNH, including AMY-101, a product candidate directed at C3 complement inhibition that is currently in early clinical development by Amyndas Pharmaceuticals SA; product candidates directed at C5 complement inhibition such as ALN-CC5, an RNAi therapeutic targeting C5 being developed by Alnylam Pharmaceuticals, Inc. that is in early clinical trials; Coversin, a small protein inhibitor of C5 being developed by Akari Therapeutics, Plc. that is in Phase 2 clinical trials; Ra101495, a cyclic peptide inhibitor of C5 that is currently in Phase 2 clinical trials by Ra Pharmaceuticals, Inc., and LFG316, an anti-C5 monoclonal antibody that is currently in Phase 2 clinical trials by Novartis; and other product candidates directed at other mechanisms of complement inhibition such as NM-9405, an anti-properdin antibody in preclinical development by NovelMed Therapeutics, Inc., and ACH-4471 (previously ACH-CFDIS), an orally available small molecule inhibitor of complement factor D, that is currently in early clinical development by Achillion Pharmaceuticals, Inc. Amgen is developing ABP959, a biosimilar for eculizumab that is in Phase 3 development. The approval of a biosimilar or a generic to one of our products or a product with which we compete could have a material impact on our business because it may be significantly less costly to bring to market and may be priced significantly lower than our products or the other products with which we compete.

There are no currently marketed drug treatments for cold agglutinin disease, or CAD, or warm antibody autoimmune hemolytic anemia, or wAIHA, but there are currently treatments in development, including fostamatinib, a spleen tyrosine kinase inhibitor being developed by Rigel Pharmaceuticals, Inc., which is in Phase 2 clinical trials, for CAD and wAIHA, TNT-009/BIVV009, a C1s monoclonal antibody inhibitor, which is being developed by Bioverativ Inc., and is in Phase 3 clinical trials for CAD, and ALXN1830, a humanized monoclonal antibody, which is being developed by Alexion Pharmaceuticals, Inc. and is in Phase 1b/2a clinical trials for wAIHA. There are no currently marketed drug treatments for glomerular diseases with complement involvement, but OMS721, a human monoclonal antibody to mannose-binding lectin-associated serine protease-2 (MASP-2) that blocks the lectin pathway, is being developed by Omeros Corp. as a treatment for IgA nephropathy and is in Phase 3 clinical trials. Furthermore, voclosporin developed by Aurininia Pharmaceuticals for lupus nephritis is in Phase 3 clinical trials, and avacopan, an oral C5aR-inhibitor developed by ChemoCentryx, Inc. for C3 glomerulopathy is in Phase 2 clinical trials.

Our competitors may succeed in developing, acquiring or licensing technologies and products that are more effective, have fewer side effects or more tolerable side effects or are less costly than any product candidates that we are currently developing or that we may develop, which could render our product candidates obsolete and noncompetitive.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we, or any future collaborators, may develop. Our competitors also may obtain FDA or other marketing approval for their products before we, or any future collaborators, are able to obtain approval for ours, which could result in our competitors establishing a strong market position before we, or any future collaborators, are able to enter the market.

Many of our existing and potential future competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining marketing approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, the development of our product candidates.

If the FDA or comparable foreign regulatory authorities approve generic versions of any of our products that receive marketing approval, or such authorities do not grant our products appropriate periods of data exclusivity before approving generic versions of our products, the sales of our products could be adversely affected.

Once an NDA is approved, the product covered thereby becomes a "reference-listed drug" in the FDA's publication, "Approved Drug Products with Therapeutic Equivalence Evaluations," or the Orange Book. Manufacturers may seek approval of generic versions of reference-listed drugs through submission of abbreviated new drug applications, or ANDAs, in the United States. In support of an ANDA, a generic manufacturer need not conduct clinical trials. Rather, the applicant generally must show that its product has the same active ingredient(s), dosage form, strength, route of administration and conditions of use or labeling as the reference-listed drug and that the generic version is bioequivalent to the reference-listed drug, meaning it is absorbed in the body at the same rate and to the same extent. Generic products may be significantly less costly to bring to market than the reference-listed drug and companies that produce generic products are generally able to offer them at lower prices. Thus, following the introduction of a generic drug, a significant percentage of the sales of any branded product or reference-listed drug may be typically lost to the generic product.

The FDA may not approve an ANDA for a generic product until any applicable period of non-patent exclusivity for the reference-listed drug has expired. The Federal Food, Drug, and Cosmetic Act, or FDCA, provides a period of five years of non-patent exclusivity for a new drug containing a new chemical entity, or NCE. Specifically, in cases where such exclusivity has been granted, an ANDA may not be filed with the FDA until the expiration of five years unless the submission is accompanied by a Paragraph IV certification that a patent covering the reference-listed drug is either invalid or will not be infringed by the generic product, in which case the applicant may submit its application four years following approval of the reference-listed drug. It is unclear whether the FDA will treat the active ingredients in our product candidates as NCEs and, therefore, afford them five years of NCE data exclusivity if they are approved. If any product we develop does not receive five years of NCE exclusivity, the FDA may approve generic versions of such product three years after its date of approval, subject to the requirement that the ANDA applicant certifies to any patents listed for our products in the Orange Book. Manufacturers may seek to launch these generic products following the expiration of the applicable marketing exclusivity period, even if we still have patent protection for our product.

Competition that our products may face from generic versions of our products could negatively impact our future revenue, profitability and cash flows and substantially limit our ability to obtain a return on our investments in those product candidates.

Even if we, or any future collaborators, are able to commercialize any product candidate that we, or they, develop, the product may become subject to unfavorable pricing regulations, third-party payor reimbursement practices or healthcare reform initiatives, any of which could harm our business.

The commercial success of our product candidates will depend substantially, both domestically and abroad, on the extent to which the costs of our product candidates will be paid by third-party payors, including government health administration authorities and private health coverage insurers. If coverage and reimbursement is not available, or reimbursement is available only to limited levels, we, or any future collaborators, may not be able to successfully commercialize our product candidates. Even if coverage is provided, the approved reimbursement amount may not be high enough to allow us, or any future collaborators, to establish or maintain pricing sufficient to realize a sufficient return on our or their investments. In the United States, no uniform policy of coverage and reimbursement for products exists among third-party payors and coverage and reimbursement for products can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that

will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be applied consistently or obtained in the first instance.

There is significant uncertainty related to third-party payor coverage and reimbursement of newly approved drugs. Marketing approvals, pricing and reimbursement for new drug products vary widely from country to country. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we, or any future collaborators, might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay commercial launch of the product, possibly for lengthy time periods, which may negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability or the ability of any future collaborators to recoup our or their investment in one or more product candidates, even if our product candidates obtain marketing approval.

Patients who are provided medical treatment for their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their treatment. Therefore, our ability, and the ability of any future collaborators, to commercialize any of our product candidates will depend in part on the extent to which coverage and reimbursement for these products and related treatments will be available from third-party payors. Third-party payors decide which medications they will cover and establish reimbursement levels. The healthcare industry is acutely focused on cost containment, both in the United States and abroad. Government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications, which could affect our ability or that of any future collaborators to sell our product candidates profitably. These payors may not view our products, if any, as cost-effective, and coverage and reimbursement may not be available to our customers, or those of any future collaborators, or may not be sufficient to allow our products, if any, to be marketed on a competitive basis. Cost-control initiatives could cause us, or any future collaborators, to decrease the price we, or they, might establish for products, which could result in lower than anticipated product revenues. If the prices for our products, if any, decrease or if governmental and other third-party payors do not provide coverage or adequate reimbursement, our prospects for revenue and profitability will suffer.

The commercial potential of our products depends in part on reimbursement by government health administration authorities, private health insurers and other organizations. If we are unable to obtain coverage or reimbursement for our products, as monotherapy or in combination with other therapies, including possible combinations with eculizumab, at the levels anticipated, our financial condition could be harmed. Additionally, if new compounds currently in development by potential competitors, including biosimilars of eculizumab, obtain marketing approval, there may be downward pressure on reimbursement levels for therapies in our target disease areas, which could have a negative impact on our ability to achieve and maintain profitability.

There may also be delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the indications for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, eligibility for reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Reimbursement rates may vary, by way of example, according to the use of the product and the clinical setting in which it is used. Reimbursement rates may also be based on reimbursement levels already set for lower cost drugs or may be incorporated into existing payments for other services.

In addition, increasingly, third-party payors are requiring higher levels of evidence of the benefits and clinical outcomes of new technologies and are challenging the prices charged. We cannot be sure that coverage will be available for any product candidate that we, or any future collaborator, commercialize and, if available, that the reimbursement rates will be adequate. Further, the net reimbursement for drug products may be subject to additional reductions if there are changes to laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. An inability to promptly obtain coverage and adequate payment rates from both government-funded and private payors for any of our product candidates for which we, or any future collaborator, obtain marketing approval could significantly harm our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

Product liability lawsuits against us could divert our resources, cause us to incur substantial liabilities and limit commercialization of any products that we may develop.

We face an inherent risk of product liability claims as a result of the clinical testing of our product candidates despite obtaining appropriate informed consents from our clinical trial participants. We will face an even greater risk if we or any future collaborators commercially sell any product that we may or they may develop. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or a breach of warranties. Claims could also be asserted under state consumer protection acts. If we

cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for our product candidates or products that we may develop;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend resulting litigation;
- substantial monetary awards to trial participants or patients;
- loss of revenue;
- reduced resources of our management to pursue our business strategy; and
- the inability to commercialize any products that we may develop.

Although we maintain product liability insurance coverage in the amount of up to $20.0 million in the aggregate and clinical trial liability insurance of up to $20.0 million in the aggregate, this insurance may not fully cover potential liabilities that we may incur. The cost of any litigation or other proceeding, even if resolved in our favor, could be substantial. We will need to increase our insurance coverage if we commercialize any product that receives marketing approval. In addition, insurance coverage is becoming increasingly expensive. If we are unable to maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against potential product liability claims, it could prevent or inhibit the development and commercial production and sale of our product candidates, which could harm our business, financial condition, results of operations and prospects.

Risks Related to Our Dependence on Third Parties

We rely on third parties to conduct our clinical trials. If they do not perform satisfactorily, our business could be harmed.

We do not independently conduct clinical trials of our product candidates. We rely, and expect to continue to rely, on third parties, such as contract research organizations, clinical data management organizations, medical institutions and clinical investigators, to conduct our clinical trials of APL-2 and any other product candidate that we develop. Any of these third parties may terminate their engagements with us under certain circumstances. We may not be able to enter into alternative arrangements or do so on commercially reasonable terms. In addition, there is a natural transition period when a new contract research organization begins work. As a result, delays would likely occur, which could negatively impact our ability to meet our expected clinical development timelines and harm our business, financial condition and prospects.

Further, although our reliance on these third parties for clinical development activities limits our control over these activities, we remain responsible for ensuring that each of our trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards. For example, notwithstanding the obligations of a contract research organization for a trial of one of our product candidates, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA requires us to comply with standards, commonly referred to as current Good Clinical Practices, or cGCPs, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. The FDA enforces these cGCPs through periodic inspections of trial sponsors, principal investigators, clinical trial sites and institutional review boards. If we or our third-party contractors fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our product candidates, which would delay the marketing approval process. We cannot be certain that, upon inspection, the FDA will determine that any of our clinical trials comply with cGCPs. Similar regulatory requirements apply outside the United States, including the International Council for Harmonisation of Technical Requirements for the Registration of Pharmaceuticals for Human Use, or ICH. We are also required to register clinical trials and post the results of completed clinical trials on a government-sponsored database, ClinicalTrials.gov, within certain timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, the third parties conducting clinical trials on our behalf are not our employees, and except for remedies available to us under our agreements with such contractors, we cannot control whether or not they devote sufficient time, skill and resources to our ongoing development programs. These contractors may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical trials or other drug development activities, which could impede their ability to devote appropriate time to our clinical programs. If these third parties do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we may not

be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates. If that occurs, we will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates. In such an event, our financial results and the commercial prospects for any product candidates that we seek to develop could be harmed, our costs could increase and our ability to generate revenues could be delayed, impaired or foreclosed.

We contract with third parties for the manufacture, storage and distribution of our product candidates for clinical trials and expect to continue to do so in connection with our future development and commercialization efforts. This reliance on third parties increases the risk that we will not have sufficient quantities of our product candidates or such quantities at an acceptable cost, which could delay, prevent or impair our development or commercialization efforts.

We currently have no manufacturing facilities, and a relatively small number of personnel with manufacturing experience who can oversee the manufacturing process. We rely on contract manufacturers to manufacture, store and distribute both drug substance and drug product required for our clinical trials. We plan to continue to rely upon contract manufacturers, and, potentially collaboration partners, to manufacture commercial quantities of our products, if approved. We may be unable to establish any agreements with contract manufacturers or to do so on acceptable terms. Even if we are able to establish agreements with contract manufacturers, reliance on contract manufacturers entails additional risks, including:

- manufacturing delays if our third-party contractors give greater priority to the supply of other products over our product candidates or otherwise do not satisfactorily perform according to the terms of the agreements between us and them, or if unforeseen events in the manufacturing process arise;
- the possible termination or nonrenewal of agreements by our third-party contractors at a time that is costly or inconvenient for us;
- the possible breach by the third-party contractors of our agreements with them;
- the failure of third-party contractors to comply with applicable regulatory requirements;
- the possible mislabeling of clinical supplies, potentially resulting in the wrong dose amounts being supplied or active drug or placebo not being properly identified;
- the possibility of clinical supplies not being delivered to clinical sites on time, leading to clinical trial interruptions, or of drug supplies not being distributed to commercial vendors in a timely manner, resulting in lost sales; and
- the possible misappropriation of our proprietary information, including our trade secrets and know-how.

We currently rely, and expect to continue to rely, on a small number of third-party contract manufacturers to supply most of our supply of active pharmaceutical ingredients and required finished product for our preclinical studies and clinical trials. We do not have long-term supply agreements with any of these third parties. If any of our existing manufacturers should become unavailable to us for any reason, we may incur delays in identifying or qualifying replacements. We also rely on other third parties to store and distribute drug supplies for our clinical trials. Any performance failure on the part of our contract manufacturers or distributors could delay clinical development or marketing approval of our product candidates or commercialization of any resulting products, producing additional losses and depriving us of potential product revenue. For example, in the past we experienced issues associated with the manufacturing process for APL-2 that resulted in delays in the supply of APL-2. These delays resulted in us incurring additional costs and delays in our PNH development program. Additionally, in October 2018, we announced that we voluntarily implemented a pause in dosing in our Phase 3 clinical program in patients with GA due to observed cases of non-infectious inflammation in patients treated from a single manufacturing lot of APL-2 intravitreal drug product that we believe occurred due to an impurity in the active pharmaceutical ingredient. We have also voluntarily implemented a pause in our Phase 1b/2 trial of APL-2 in patients with wet AMD. If we experience other issues or delays in the future, our development of APL-2 may be materially delayed and our business adversely affected.

Any manufacturing problem, the loss of a contract manufacturer or any loss of storage could be disruptive to our operations, delay our clinical trials and, if our products are approved for sale, result in lost sales. Additionally, we rely on third parties to supply the raw materials needed to manufacture our product candidates. For example, one company currently produces most of the PEG that is used in pharmaceutical and drug development globally. PEG is a component of APL-2. If this supplier of PEG experiences manufacturing and supply problems with respect to PEG, then the manufacturers with whom we contract may have difficulty in procuring PEG for the supply and manufacture of APL-2. Any reliance on suppliers may involve several risks, including a potential inability to obtain critical materials and reduced control over production costs, delivery schedules, reliability and quality. Any

unanticipated disruption to our contract manufacturing caused by problems at suppliers could delay shipment of our product candidates, increase our cost of goods sold and result in lost sales with respect to any approved products.

If any of our product candidates are approved by any regulatory agency, we will need to enter into agreements with third-party contract manufacturers for the commercial production and distribution of those products. It may be difficult for us to reach agreement with a contract manufacturer on satisfactory terms or in a timely manner. In addition, we may face competition for access to manufacturing facilities as there are a limited number of contract manufacturers operating under cGMPs that can manufacture our product candidates. Consequently, we may not be able to reach agreement with third-party manufacturers on satisfactory terms, which could delay our commercialization efforts.

Third-party manufacturers are required to comply with cGMPs and similar regulatory requirements outside the United States, such as the ICH. Facilities used by our third-party manufacturers must be approved by the FDA after we submit an NDA and before potential approval of the product candidate. Similar regulations apply to manufacturers of our product candidates for use or sale in foreign countries. We do not control the manufacturing process and are completely dependent on our third-party manufacturers for compliance with the applicable regulatory requirements for the manufacture of our product candidates. If our manufacturers cannot successfully manufacture material that conforms to our specifications or the strict regulatory requirements of the FDA and any applicable foreign regulatory authority, they may not be able to meet our supply requirements for clinical and commercial operations and to secure the applicable approval for their manufacturing facilities. If these facilities are not approved for commercial manufacture, we may need to find alternative manufacturing facilities, which could result in delays in obtaining approval for the applicable product candidate.

In addition, our manufacturers are subject to ongoing periodic inspections by the FDA and corresponding state and foreign agencies for compliance with cGMPs and similar regulatory requirements both prior to and following the receipt of marketing approval for any of our product candidates. Some of these inspections may be unannounced. Failure by any of our manufacturers to comply with applicable cGMPs or other regulatory requirements could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspensions or withdrawals of approvals, operating restrictions, interruptions in supply and criminal prosecutions, any of which could significantly impact the available supplies of our product candidates and harm our business, financial condition and results of operations.

We are developing a custom, on-body drug delivery system that would enable patients to self-administer APL-2 through subcutaneous infusion. While this device is in development, we plan to use one or more commercially available ambulatory infusion pumps in our ongoing and planned clinical trials. The development of a custom drug delivery system may be delayed or we may not be successful in developing a custom drug delivery system and may need to continue to rely on commercially available ambulatory infusion pumps. Any reliance on third-party infusion pumps may involve several risks, including reduced control over costs, delivery schedules, reliability and quality.

Our current and anticipated future dependence upon others for the manufacture of our product candidates may harm our future profit margins and our ability to commercialize any products that receive marketing approval on a timely and competitive basis.

We may seek to establish collaborations and, if we are not able to establish them on commercially reasonable terms, we may have to alter our development and commercialization plans.

We may seek to establish one or more collaborators for the development and commercialization of one or more of our product candidates. Likely collaborators may include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies. In addition, if we are able to obtain marketing approval for product candidates from foreign regulatory authorities, we intend to enter into strategic relationships with international biotechnology or pharmaceutical companies for the commercialization of such product candidates outside of the United States.

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the potential differentiation of our product candidates from competing product candidates, design or results of clinical trials, the likelihood of approval by the FDA or comparable foreign regulatory authorities and the regulatory pathway for any such approval, the potential market for the product candidate, the costs and complexities of manufacturing and delivering the product to patients and the potential of competing products. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available for collaboration and whether such a collaboration could be more attractive than the one with us for our product candidate. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenue.

Collaborations are complex and time-consuming to negotiate and document. Further, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

Any collaboration agreements that we enter into in the future may contain restrictions on our ability to enter into potential collaborations or to otherwise develop specified product candidates. We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of the product candidate for which we are seeking to collaborate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense.

If we enter into collaborations with third parties for the development and commercialization of our product candidates, our prospects with respect to those product candidates will depend in significant part on the success of those collaborations.

We may seek to enter into collaborations for the development and commercialization of certain of our product candidates. Other than our development funding agreement with SFJ, we have not entered into any collaborations to date. If we enter into such collaborations, we will have limited control over the amount and timing of resources that our collaborators will dedicate to the development or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on any future collaborators' abilities to successfully perform the functions assigned to them in these arrangements. In addition, any future collaborators may have the right to abandon research or development projects and terminate applicable agreements, including funding obligations, prior to or upon the expiration of the agreed upon terms.

Collaborations involving our product candidates pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs, based on clinical trial results, changes in the collaborators' strategic focus or available funding or external factors, such as an acquisition, that divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidates;
- a collaborator with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- disputes may arise between the collaborators and us regarding ownership of or other rights in the intellectual property generated in the course of the collaborations; and
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates.

Collaboration agreements may not lead to development or commercialization of product candidates in the most efficient manner or at all. If any future collaborator of ours is involved in a business combination, it could decide to delay, diminish or terminate the development or commercialization of any product candidate licensed to it by us.

Risks Related to Our Intellectual Property

If we fail to comply with our obligations under our existing and any future intellectual property licenses with third parties, we could lose license rights that are important to our business.

We are a party to patent license agreements with Penn under which we license patent rights relating to a family of compounds for use in all fields. The licensed patent rights include issued U.S. and foreign patents with claims that recite a class of compounds generically covering our lead product candidate, APL-2, and that specifically recite APL-1. We may enter into additional license agreements in the future. Our license agreements with Penn impose, and we expect that future license agreements will impose, various diligence, milestone payment, royalty, insurance and other obligations on us. If we fail to comply with our obligations under these licenses, our licensors may have the right to terminate these license agreements, in which event we might not be able to market any product that is covered by these agreements, or our licensors may convert the license to a non-exclusive license, which could negatively impact the value of the product candidate being developed under the license agreement. Termination of these license agreements or reduction or elimination of our licensed rights may also result in our having to negotiate new or reinstated licenses with less favorable terms.

If we are unable to obtain and maintain sufficient patent protection for our product candidates, or if the scope of the patent protection is not sufficiently broad, our competitors could develop and commercialize products similar or identical to ours, and our ability to successfully commercialize our product candidates may be adversely affected.

Our success depends in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary product candidates. If we do not adequately protect our intellectual property rights, competitors may be able to erode or negate any competitive advantage we may have, which could harm our business and ability to achieve profitability. To protect our proprietary position, we file patent applications in the United States and abroad related to our novel product candidates that are important to our business; we also license or purchase patent applications filed by others. The patent application and approval process is expensive and time-consuming. We may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner.

Agreements through which we license patent rights may not give us control over patent prosecution or maintenance, so that we may not be able to control which claims or arguments are presented and may not be able to secure, maintain, or successfully enforce necessary or desirable patent protection from those patent rights. We have not had and do not have primary control over patent prosecution and maintenance for certain of the patents and patent applications we license, and therefore cannot guarantee that these patents and applications will be prosecuted in a manner consistent with the best interests of our business. We cannot be certain that patent prosecution and maintenance activities by our licensors have been or will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents.

We, or any future partners, collaborators, or licensees, may fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Therefore, we may miss potential opportunities to strengthen our patent position. Moreover, in some circumstances, we might not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering any technology that we may license from third parties in the future. These patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. Our license agreements with Penn provide that Penn has the right under certain circumstances to control the preparation, prosecution and maintenance of the underlying patent rights.

It is possible that defects of form in the preparation or filing of our patents or patent applications may exist, or may arise in the future, for example with respect to proper priority claims, inventorship, claim scope, or patent term adjustments. If we or our partners, collaborators, licensees, or licensors, whether current or future, fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our partners, collaborators, licensees, or licensors are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised. If there are material defects in the form, preparation, prosecution, or enforcement of our patents or patent applications, such patents may be invalid and/or unenforceable, and such applications may never result in valid, enforceable patents. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain. No consistent policy regarding the breadth of claims allowed in biotechnology and pharmaceutical patents has emerged to date in the United States or in many foreign jurisdictions. In addition, the determination of patent rights with respect to pharmaceutical compounds commonly involves complex legal and factual questions, which has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are highly uncertain.

Pending patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications. Assuming the other requirements for patentability are met, currently, the first to file a patent application is generally entitled to the patent. However, prior to March 16, 2013, in the United States, the first to invent was entitled to the patent. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. Similarly, we cannot be certain that parties from whom we do or may license or purchase patent rights were the first to make relevant claimed inventions, or were the first to file for patent protection for them. If third parties have filed patent applications on inventions claimed in our patents or applications on or before March 15, 2013, an interference proceeding in the United States can be initiated by such third parties to determine who was the first to invent any of the subject matter covered by the patent claims of our applications. If third parties have filed such applications after March 15, 2013, a derivation proceeding in the United States can be initiated by such third parties to determine whether our invention was derived from theirs.

Moreover, because the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, our patents or pending patent applications may be challenged in the courts or patent offices in the United States and abroad. There is no assurance that all of the potentially relevant prior art relating to our patents and patent applications has been found. If such prior art exists, it may be used to invalidate a patent, or may prevent a patent from issuing from a pending patent application. For example, such patent filings may be subject to a third-party preissuance submission of prior art to the U.S. Patent and Trademark Office, or USPTO, or to other patent offices around the world. Alternately or additionally, we may become involved in post-grant review procedures, oppositions, derivations, proceedings, reexaminations, inter partes review or interference proceedings, in the United States or elsewhere, challenging patents or patent applications in which we have rights, including patents on which we rely to protect our business. An adverse determination in any such challenges may result in loss of exclusivity or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. In addition, given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. Furthermore, while it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that we regard as our own. As a result, the inventorship or ownership of our intellectual property may be challenged in the future.

Pending and future patent applications may not result in patents being issued which protect our business, in whole or in part, or which effectively prevent others from commercializing competitive products. Our issued patents or any patents that may issue in the future may be invalidated or interpreted narrowly, such that they fail to provide us with any significant competitive advantage. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. In addition, the laws of foreign countries may not protect our rights to the same extent or in the same manner as the laws of the United States. For example, patent laws in various jurisdictions, including significant commercial markets such as Europe, restrict the patentability of methods of treatment of the human body more than United States law does.

Issued patents that we have or may obtain or license may not provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. Our competitors may also seek approval to market their own products similar to or otherwise competitive with our products. Alternatively, our competitors may seek to market generic versions of any approved products by submitting ANDAs to the FDA in which they claim that patents owned or licensed by us are invalid, unenforceable or not infringed. In these circumstances, we may need to defend or assert our patents, or both, including by filing lawsuits alleging patent infringement. In any of these types of proceedings, a court or other agency with jurisdiction may find our patents invalid or unenforceable, or find that our competitors are competing in a non-infringing manner. Thus, even if we have valid and enforceable patents, these patents still may not provide protection against competing products or processes sufficient to achieve our business objectives.

Pursuant to the terms of some of our license agreements with third parties, some of our third-party licensors have the right, but not the obligation in certain circumstances to control enforcement of our licensed patents or defense of any claims asserting the invalidity of these patents. Even if we are permitted to pursue such enforcement or defense, we will require the cooperation of our licensors, and cannot guarantee that we would receive it and on what terms. We cannot be certain that our licensors will allocate sufficient resources or prioritize their or our enforcement of such patents or defense of such claims to protect our interests in the licensed patents. If we cannot obtain patent protection, or enforce existing or future patents against third parties, our competitive position and our financial condition could suffer.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be negatively impacted and our business would be harmed.

In addition to the protection afforded by patents, we also rely on trade secret protection for certain aspects of our intellectual property. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, consultants, independent contractors, advisors, contract manufacturers, suppliers and other third parties. We also enter into confidentiality and invention or patent assignment agreements with employees and certain consultants. Any party with whom we have executed such an agreement may breach that agreement and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret. Further, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent such third party, or those to whom they communicate such technology or information, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our business and competitive position could be harmed.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe our patents, trademarks, copyrights or other intellectual property. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming and divert the time and attention of our management and scientific personnel. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents, in addition to counterclaims asserting that our patents are invalid or unenforceable, or both. In any patent infringement proceeding, there is a risk that a court will decide that a patent of ours is invalid or unenforceable, in whole or in part, and that we do not have the right to stop the other party from using the invention at issue. There is also a risk that, even if the validity of such patents is upheld, the court will construe the patent's claims narrowly or decide that we do not have the right to stop the other party from using the invention at issue on the grounds that our patent claims do not cover the invention. An adverse outcome in a litigation or proceeding involving one or more of our patents could limit our ability to assert those patents against those parties or other competitors, and may curtail or preclude our ability to exclude third parties from making and selling similar or competitive products. Similarly, if we assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable, or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In this case, we could ultimately be forced to cease use of such trademarks.

Even if we establish infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may or may not be an adequate remedy. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could adversely affect the price of shares of our common stock. Moreover, there can be no assurance that we will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are concluded. Even if we ultimately prevail in such claims, the monetary cost of such litigation and the diversion of the attention of our management and scientific personnel could outweigh any benefit we receive as a result of the proceedings.

If we are sued for infringing intellectual property rights of third parties, such litigation could be costly and time consuming and could prevent or delay us from developing or commercializing our product candidates.

Our commercial success depends, in part, on our ability to develop, manufacture, market and sell our product candidates without infringing the intellectual property and other proprietary rights of third parties. Third parties may have U.S. and non-U.S. issued patents and pending patent applications relating to compounds and methods of use for the treatment of the disease indications for which we are developing our product candidates or relating to the use of complement inhibition that may cover our product candidates or approach to complement inhibition. For example, we are aware of a U.S. patent with claims that could be construed to cover APL-2. Although we believe that these claims, if construed to cover APL-2, would be invalid due to various prior art disclosures available more than a year before the priority date of the U.S. patent, there are no assurances that a court would agree. If any third-party patents or patent applications are found to cover our product candidates or their methods of use or our approach to complement inhibition, we may not be free to manufacture or market our product candidates as planned without obtaining a license, which may not be available on commercially reasonable terms, or at all.

There is a substantial amount of intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding intellectual property rights with respect to our products candidates, including interference proceedings before the USPTO. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of our product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may be accused of infringing. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. Accordingly, third parties may assert infringement claims against us based on existing or future intellectual property rights. The outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance. The pharmaceutical and biotechnology industries have produced a significant number of patents, and it may not always be clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we were sued for patent infringement, we would need to demonstrate that our product candidates, products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be able to do this. Proving invalidity is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we are successful in these proceedings, we may incur substantial costs and the time and attention of our management and scientific personnel could be diverted in pursuing these proceedings, which could significantly harm our business and operating results. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.

If we are found to infringe a third party's intellectual property rights, we could be forced, including by court order, to cease developing, manufacturing or commercializing the infringing product candidate or product. Alternatively, we may be required to obtain a license from such third party in order to use the infringing technology and continue developing, manufacturing or marketing the infringing product candidate or product. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us; alternatively or additionally it could include terms that impede or destroy our ability to compete successfully in the commercial marketplace. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could harm our business. Claims that we have misappropriated the confidential information or trade secrets of third parties could have a similar negative impact on our business.

Some of our intellectual property that was discovered through government-funded programs may be subject to federal regulation such as "march-in" rights, certain reporting requirements, and a preference for U.S. industry. Compliance with such regulations may limit our exclusive rights, subject us to expenditure of resources with respect to reporting requirements and limit our ability to contract with foreign manufacturers.

Some of our in-licensed intellectual property with respect to our product candidates has been funded in part by the U.S. government and, therefore, would be subject to certain federal regulations pursuant to the Bayh-Dole Act of 1980, or the Bayh-Dole Act. As a result, the U.S. government may have certain rights to intellectual property embodied in our current or future product candidates pursuant to the Bayh-Dole Act. For example, under the "march-in" provisions of the Bayh-Dole Act, the U.S. government may have the right under limited circumstances to require the patent owners to grant exclusive, partially exclusive or non-exclusive rights to third parties for intellectual property discovered through the government-funded program. The U.S. government can exercise its march-in rights if it determines that action is necessary because the patent owner fails to achieve practical application of the new invention or because action is necessary to alleviate health concerns or address the safety needs of the public. Intellectual property discovered under the government-funded program is also subject to certain reporting requirements, compliance with which may require us or our licensors to expend substantial resources. Such intellectual property is also subject to a preference for U.S. industry, which may limit our ability to contract with foreign product manufacturers for products covered by such intellectual property. Intellectual property under such discoveries would be subject to the applicable provisions of the Bayh-Dole Act. Similarly, intellectual property that we license in the future may have been made using government funding and may be subject to the provisions of the Bayh-Dole Act.

Changes to the patent law in the United States and other jurisdictions could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involves both technological and legal complexity and is therefore costly, time consuming and inherently uncertain. Recent patent reform legislation in the United States, including the Leahy-Smith America Invents Act, or the America Invents Act, could increase those uncertainties and costs. The America Invents Act was signed into law on September 16, 2011, and many of the substantive changes became effective on March 16, 2013. The America Invents Act reformed United States patent law in part by changing the U.S. patent system from a "first to invent" system to a "first inventor to file" system, expanding the definition of prior art, and developing a post-grant review system. This legislation changes United States patent law in a way that may weaken our ability to obtain patent protection in the United States for those applications filed after March 16, 2013.

Further, the America Invents Act created new procedures to challenge the validity of issued patents in the United States, including post-grant review and inter partes review proceedings, which some third parties have been using to cause the cancellation of selected or all claims of issued patents of competitors. For a patent with an effective filing date of March 16, 2013 or later, a petition for post-grant review can be filed by a third party in a nine-month window from issuance of the patent. A petition for inter partes review can be filed immediately following the issuance of a patent if the patent has an effective filing date prior to March 16, 2013. A petition for inter partes review can be filed after the nine-month period for filing a post-grant review petition has expired for a patent with an effective filing date of March 16, 2013 or later. Post-grant review proceedings can be brought on any ground of invalidity, whereas inter partes review proceedings can only raise an invalidity challenge based on published prior art and patents. These adversarial actions at the USPTO review patent claims without the presumption of validity afforded to U.S. patents in lawsuits in U.S. federal courts, and use a lower burden of proof than used in litigation in U.S. federal courts. Therefore, it is generally considered easier for a competitor or third party to have a U.S. patent invalidated in a USPTO post-grant review or inter partes review proceeding than invalidated in a litigation in a U.S. federal court. If any of our patents are challenged by a third party in such a USPTO proceeding, there is no guarantee that we or our licensors or collaborators will be successful in defending the patent, which would result in a loss of the challenged patent right to us.

The U.S. Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. Additionally, there have been recent proposals for additional changes to the patent laws of the United States and other countries that, if adopted, could impact our ability to enforce our patents. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents once obtained. Depending on future actions by the U.S. Congress, the U.S. courts, the USPTO and the relevant law-making bodies in other countries, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

We may not be able to enforce our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States are less extensive than those in the United States. The requirements for patentability may differ in certain countries, particularly in developing countries; thus, even in countries where we do pursue patent protection, there can be no assurance that any patents will issue with claims that cover our products. Competitors may use our technologies in jurisdictions where we have not pursued and obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we may obtain patent protection, but where patent enforcement is not as strong as that in the United States. These products may compete with our products in jurisdictions where we do not have any issued or licensed patents and any future patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Moreover, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in foreign intellectual property laws. Additionally, laws of some countries outside of the United States and Europe do not afford intellectual property protection to the same extent as the laws of the United States and Europe. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, including India, China and other developing countries, do not favor the enforcement of patents and other intellectual property rights. This could make it difficult for us to stop the infringement of our patents or the misappropriation of our other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. Consequently, we may not be able to prevent third parties from practicing our inventions in certain countries outside the United States and Europe. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop and market their own products and, further, may export otherwise infringing products to territories where we have patent protection, if our ability to enforce our patents to stop infringing activities is inadequate. These products may compete with our products, and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Agreements through which we license patent rights may not give us sufficient rights to permit us to pursue enforcement of our licensed patents or defense of any claims asserting the invalidity of these patents (or control of enforcement or defense) of such patent rights in all relevant jurisdictions as requirements may vary.

Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and resources from other aspects of our business. Moreover, such proceedings could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Furthermore, while we intend to protect our intellectual property rights in major markets for our products, we cannot ensure that we will be able to initiate or maintain similar efforts in all jurisdictions in which we may wish to market our products. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate.

If we do not obtain patent term extension and data exclusivity for any product candidates we may develop, our business may be materially harmed.

Depending upon the timing, duration and specifics of any FDA marketing approval of any product candidates we may develop, one or more of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Action of 1984, or Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent term extension of up to five years as compensation for patent term lost during the FDA regulatory review process. A patent term extension cannot extend the remaining term of a patent beyond 14 years from the date of product approval, only one patent may be extended and the extension only applies to those claims covering the approved drug, a method for using it, or a method for manufacturing it. However, we may not be granted an extension because of, for example, failing to exercise due diligence during the testing phase or regulatory review process, failing to apply within applicable deadlines, failing to apply prior to expiration of relevant patents, or otherwise failing to satisfy applicable requirements. Moreover, the applicable time period or the scope of patent protection afforded could be less than we request. If we are unable to obtain patent term extension or the term of any such extension is less than we request, our competitors may obtain approval of competing products following our patent expiration, and our business, financial condition, results of operations and prospects could be materially harmed.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees and our licensors' employees, including our senior management, were previously employed at universities or at other biotechnology or pharmaceutical companies, including some which may be competitors or potential competitors. Some of these employees, including each member of our senior management, executed proprietary rights, non-disclosure, non-competition and non-solicitation agreements, or similar agreements, in connection with such previous employment. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such third party. Litigation may be necessary to defend against such claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products. Such a license may not be available on commercially reasonable terms or at all. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while we typically require our employees, consultants and contractors who may be involved in the development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own, which may result in claims by or against us related to the ownership of such intellectual property. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to our senior management and scientific personnel.

Obtaining and maintaining patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and applications are required to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and applications. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process and after a patent has issued. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, the failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our product candidates, our competitive position would be adversely affected.

If we are unable to obtain licenses from third parties on commercially reasonable terms or fail to comply with our obligations under such agreements, our business could be harmed.

It may be necessary for us to use the patented or proprietary technology of third parties to commercialize our products, in which case we would be required to obtain a license from these third parties. If we are unable to license such technology, or if we are forced to license such technology on unfavorable terms, our business could be materially harmed. If we are unable to obtain a necessary license, we may be unable to develop or commercialize the affected product candidates, which could materially harm our business and the third parties owning such intellectual property rights could seek either an injunction prohibiting our sales, or, with respect to our sales, an obligation on our part to pay royalties and/or other forms of compensation. Even if we are able to obtain a license, it may be non-exclusive, which could enable our competitors to obtain access to the same technologies licensed to us.

If we fail to comply with our obligations under license agreements, our counterparties may have the right to terminate these agreements, in which event we might not be able to develop, manufacture or market, or may be forced to cease developing, manufacturing or marketing, any product that is covered by these agreements or may face other penalties under such agreements. Such an occurrence could materially adversely affect the value of the product candidate being developed under any such agreement. Termination of these agreements or reduction or elimination of our rights under these agreements may result in our having to negotiate new or reinstated agreements with less favorable terms, cause us to lose our rights under these agreements, including our rights to important intellectual property or technology, or impede, delay or prohibit the further development or commercialization of one or more product candidates that rely on such agreements.

Risks Related to Regulatory Approval and Marketing of Our Product Candidates and Other Legal Compliance Matters

Even if we complete the necessary preclinical studies and clinical trials, the regulatory approval process is expensive, time consuming and uncertain and may prevent us or any future collaborators from obtaining approvals for the commercialization of some or all of our product candidates. As a result, we cannot predict when or if, and in which territories, we, or any future collaborators, will obtain marketing approval to commercialize a product candidate.

The research, testing, manufacturing, labeling, approval, selling, marketing, promotion and distribution of products are subject to extensive regulation by the FDA and comparable foreign regulatory authorities. We, and any future collaborators, are not permitted to market our product candidates in the United States or in other countries until we, or they, receive approval of an NDA from the FDA or marketing approval from applicable regulatory authorities outside the United States. Our product candidates are in various stages of development and are subject to the risks of failure inherent in drug development. We have not submitted an application for or received marketing approval for any of our product candidates in the United States or in any other jurisdiction. We have limited experience in conducting and managing the clinical trials necessary to obtain marketing approvals, including FDA approval of an NDA.

The process of obtaining marketing approvals, both in the United States and abroad, is lengthy, expensive and uncertain. It may take many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate's safety and efficacy. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. The FDA or other regulatory authorities may determine that our product candidates are not safe and effective, only moderately effective or have undesirable or unintended side effects, toxicities or other characteristics that preclude our obtaining marketing approval or prevent or limit commercial use. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable.

In addition, changes in marketing approval policies during the development period, changes in or the enactment or promulgation of additional statutes, regulations or guidance or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. Regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent marketing approval of a product candidate. Any marketing approval we, or any future collaborators, ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not commercially viable. In addition, to the extent that we seek to develop a combination drug-device product for delivery of a product candidate or we rely on a previously cleared device to deliver a product candidate, we will also be dependent on FDA clearance or approval of such products.

Any delay in obtaining or failure to obtain required approvals and clearances could negatively impact our ability or that of any future collaborators to generate revenue from the particular product candidate, which likely would result in significant harm to our financial position and adversely impact our stock price.

Failure to obtain marketing approval in foreign jurisdictions would prevent our product candidates from being marketed abroad. Any approval we are granted for our product candidates in the United States would not assure approval of our product candidates in foreign jurisdictions.

In order to market and sell our products in the European Union and other foreign jurisdictions, we, and any future collaborators, must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The marketing approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, a product must be approved for reimbursement before the product can be approved for sale in that country. We, and any future collaborators, may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. We may file for marketing approvals but not receive necessary approvals to commercialize our products in any market.

Additionally, on June 23, 2016, the electorate in the United Kingdom voted in favor of leaving the European Union, commonly referred to as Brexit. On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. The United Kingdom had a period of a maximum of two years from the date of its formal notification to negotiate the terms of its withdrawal from, and future relationship with, the European Union. If no formal withdrawal agreement can be reached between the United Kingdom and the European Union, then it is expected that the United Kingdom's membership of the European Union would automatically terminate on the deadline, which was initially March 29, 2019. That deadline has been extended to October 31, 2019 to allow the parties to negotiate a withdrawal agreement, which has proven to be extremely difficult to date. Discussions between the United Kingdom and the European Union will continue to focus on withdrawal issues and transition agreements. However, limited progress to date in these negotiations and ongoing uncertainty within the government of the United Kingdom sustains the possibility of the United Kingdom leaving the European Union without a withdrawal agreement and associated transition period in place, which is likely to cause significant market and economic disruption.

Since a significant proportion of the regulatory framework in the United Kingdom is derived from European Union directives and regulations, Brexit could materially impact the regulatory regime with respect to the approval of our product candidates in the United Kingdom or the European Union. Any delay in obtaining, or an inability to obtain, any marketing approvals, as a result of Brexit or otherwise, would prevent us from commercializing our product candidates in the United Kingdom and/or the European Union and restrict our ability to generate revenue and achieve and sustain profitability. If any of these outcomes occur, we may be

forced to restrict or delay efforts to seek regulatory approval in the United Kingdom and/or European Union for our product candidates, which could significantly and materially harm our business.

We, or any future collaborators, may not be able to obtain orphan drug designation or orphan drug exclusivity for our product candidates and, even if we do, that exclusivity many not prevent the FDA or the EMA from approving other competing products.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a product as an orphan drug if it is a drug intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States. The FDA has granted orphan drug designation to APL-2 for the treatment of PNH and for the treatment of C3 glomerulopathy. We, or any future collaborators, may seek orphan drug designations for other product candidates and may be unable to obtain such designations.

Even if we, or any future collaborators, obtain orphan drug designation for a product candidate, such as is the case for APL-2 for the treatment of PNH, we, or they, may not be able to obtain orphan drug exclusivity for that product candidate. Generally, a product with orphan drug designation only becomes entitled to orphan drug exclusivity if it receives the first marketing approval for the indication for which it has such designation, in which case the FDA or the EMA will be precluded from approving another marketing application for the same drug for that indication for the applicable exclusivity period. The applicable exclusivity period is seven years in the United States and ten years in Europe. The European exclusivity period can be reduced to six years if a drug no longer meets the criteria for orphan drug designation or if the drug is sufficiently profitable so that market exclusivity is no longer justified. Orphan drug exclusivity may be lost if the FDA or the EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition.

Even if we, or any future collaborators, obtain orphan drug exclusivity for a product, that exclusivity may not effectively protect the product from competition because different drugs can be approved for the same condition. Even after an orphan drug is approved, the FDA can subsequently approve the same drug for the same condition if the FDA concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care.

On August 3, 2017, the Congress passed the FDA Reauthorization Act of 2017, or FDARA. FDARA, among other things, codified the FDA's pre-existing regulatory interpretation to require that a drug sponsor demonstrate the clinical superiority of an orphan drug that is otherwise the same as a previously approved drug for the same rare disease in order to receive orphan drug exclusivity. The new legislation reverses prior precedent holding that the Orphan Drug Act unambiguously requires that the FDA recognize the orphan exclusivity period regardless of a showing of clinical superiority. The FDA may further reevaluate the Orphan Drug Act and its regulations and policies. We do not know if, when, or how the FDA may change the orphan drug regulations and policies in the future, and it is uncertain how any changes might affect our business. Depending on what changes the FDA may make to its orphan drug regulations and policies, our business could be adversely impacted.

Fast track designation for one or more of our product candidates may not actually lead to a faster development or regulatory review or approval process.

We have received fast track designations for APL-2 for the treatment of PNH and GA. If a product is intended for the treatment of a serious condition and nonclinical or clinical data demonstrate the potential to address unmet medical need for this condition, a product sponsor may apply for FDA fast track designation. Even though we have received fast track designation for APL-2 for the treatment of PNH and GA, fast track designation does not ensure that we will receive marketing approval or that approval will be granted within any particular timeframe. We may not experience a faster development or regulatory review or approval process with fast rack designation compared to conventional FDA procedures. In addition, the FDA may withdraw fast track designation if it believes that the designation is no longer supported by data from our clinical development program. Fast track designation alone does not guarantee qualification for the FDA's priority review procedures.

Even if we, or any future collaborators, obtain marketing approvals for our product candidates, the terms of approvals and ongoing regulation of our products may limit how we manufacture and market our products, which could impair our ability to generate revenue.

Once marketing approval has been granted, an approved product and its manufacturer and marketer are subject to ongoing review and extensive regulation. We, and any future collaborators, must therefore comply with requirements concerning advertising and promotion for any of our product candidates for which we or they obtain marketing approval. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved labeling. Thus, we and any future collaborators will not be able to promote any products we develop for indications or uses for which they are not approved.

In addition, manufacturers of approved products and those manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to cGMPs, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records and documentation and reporting requirements. We, our contract manufacturers, any future collaborators and their contract manufacturers could be subject to periodic unannounced inspections by the FDA to monitor and ensure compliance with cGMPs.

Accordingly, assuming we, or any future collaborators, receive marketing approval for one or more of our product candidates, we, and any future collaborators, and our and their contract manufacturers will continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production, product surveillance and quality control.

If we, and any future collaborators, are not able to comply with post-approval regulatory requirements, we, and any future collaborators, could have the marketing approvals for our products withdrawn by regulatory authorities and our, or any future collaborators', ability to market any future products could be limited, which could adversely affect our ability to achieve or sustain profitability. Further, the cost of compliance with post-approval regulations may have a negative effect on our operating results and financial condition.

Any of our product candidates for which we, or any future collaborators, obtain marketing approval in the future could be subject to post-marketing restrictions or withdrawal from the market and we, or any future collaborators, may be subject to substantial penalties if we, or they, fail to comply with regulatory requirements or if we, or they, experience unanticipated problems with our products following approval.

Any of our product candidates for which we, or any future collaborators, obtain marketing approval, as well as the manufacturing processes, post-approval studies and measures, labeling, advertising and promotional activities for such product, among other things, will be subject to ongoing requirements of and review by the FDA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. Even if marketing approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, including the requirement to implement a Risk Evaluation and Mitigation Strategy.

The FDA may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of a product. The FDA and other agencies, including the Department of Justice, closely regulate and monitor the post-approval marketing and promotion of products to ensure that they are manufactured, marketed and distributed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use and if we, or any future collaborators, do not market any of our product candidates for which we, or they, receive marketing approval for only their approved indications, we, or they, may be subject to warnings or enforcement action for off-label marketing. Violation of the FDCA and other statutes, including the False Claims Act, relating to the promotion and advertising of prescription drugs may lead to investigations or allegations of violations of federal and state health care fraud and abuse laws and state consumer protection laws.

In addition, later discovery of previously unknown adverse events or other problems with our products or their manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

- restrictions on such products, manufacturers or manufacturing processes;
- restrictions on the labeling or marketing of a product;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- restrictions on coverage by third-party payors;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;

- refusal to permit the import or export of products;
- product seizure; or
- injunctions or the imposition of civil or criminal penalties.

Current and future legislation may increase the difficulty and cost for us and any future collaborators to obtain marketing approval of and commercialize our product candidates and affect the prices we, or they, may obtain.

In the United States and some foreign jurisdictions, there have been and continue to be a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could, among other things, prevent or delay marketing approval of our product candidates, restrict or regulate post-approval activities and affect our ability, or the ability of any future collaborators, to profitably sell any products for which we, or they, obtain marketing approval. We expect that current laws, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we, or any future collaborators, may receive for any approved products.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or collectively the ACA. Among the provisions of the ACA of potential importance to our business and our product candidates are the following:

- an annual, non-deductible fee on any entity that manufactures or imports specified branded prescription drugs and biologic agents;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- expansion of healthcare fraud and abuse laws, including the civil False Claims Act and the federal Anti-Kickback Statute, new government investigative powers and enhanced penalties for noncompliance;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices;
- extension of manufacturers' Medicaid rebate liability;
- expansion of eligibility criteria for Medicaid programs;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- new requirements to report certain financial arrangements with physicians and teaching hospitals;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes include the Budget Control Act of 2011, which, among other things, led to aggregate reductions to Medicare payments to providers of up to 2% per fiscal year that started in 2013 and, due to subsequent legislative amendments to the statute, will stay in effect through 2027 unless additional congressional action is taken, and the American Taxpayer Relief Act of 2012, which, among other things, reduced Medicare payments to several types of providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding and otherwise affect the prices we may obtain for any of our product candidates for which we may obtain regulatory approval or the frequency with which any such product candidate is prescribed or used. Further, there have been several recent U.S. congressional inquiries and proposed state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products.

Since enactment of the ACA, there have been numerous legal challenges and Congressional actions to repeal and replace provisions of the law. For example, with enactment of the Tax Cuts and Jobs Act of 2017, which was signed by the President on December 22, 2017, Congress repealed the "individual mandate." The repeal of this provision, which requires most Americans to carry a minimal level of health insurance, will become effective in 2019. According to the Congressional Budget Office, the repeal of the individual mandate will cause 13 million fewer Americans to be insured in 2027 and premiums in insurance markets may rise. Further, each chamber of the Congress has put forth multiple bills designed to repeal or repeal and replace portions of the ACA. Although none of these measures has been enacted by Congress to date, Congress may consider other legislation to repeal and replace elements of the ACA. The Congress will likely consider other legislation to replace elements of the ACA, during the next

Congressional session. It is possible that repeal and replacement initiatives, if enacted into law, could ultimately result in fewer individuals having health insurance coverage or in individuals having insurance coverage with less generous benefits. While the timing and scope of any potential future legislation to repeal and replace ACA provisions is highly uncertain in many respects, it is also possible that some of the ACA provisions that generally are not favorable for the research-based pharmaceutical industry could also be repealed along with ACA coverage expansion provision. We will continue to evaluate the effect that the ACA and its possible repeal and replacement could have on our business.

The Trump Administration has also taken executive actions to undermine or delay implementation of the ACA. Since January 2017, President Trump has signed two Executive Orders designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. One Executive Order directs federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. The second Executive Order terminates the cost-sharing subsidies that reimburse insurers under the ACA. Several state Attorneys General filed suit to stop the administration from terminating the subsidies, but their request for a restraining order was denied by a federal judge in California on October 25, 2017. In addition, CMS has recently proposed regulations that would give states greater flexibility in setting benchmarks for insurers in the individual and small group marketplaces, which may have the effect of relaxing the essential health benefits required under the ACA for plans sold through such marketplaces. Further, on June 14, 2018, U.S. Court of Appeals for the Federal Circuit ruled that the federal government was not required to pay more than $12 billion in ACA risk corridor payments to third-party payors who argued were owed to them. The effects of this gap in reimbursement on third-party payors, the viability of the ACA marketplace, providers, and potentially our business, are not yet known.

In addition, the Centers for Medicare & Medicaid Services, or CMS, has proposed regulations that would give states greater flexibility in setting benchmarks for insurers in the individual and small group marketplaces, which may have the effect of relaxing the essential health benefits required under the ACA for plans sold through such marketplaces. On November 30, 2018, CMS announced a proposed rule that would amend the Medicare Advantage and Medicare Part D prescription drug benefit regulations to reduce out of pocket costs for plan enrollees and allow Medicare plans to negotiate lower rates for certain drugs. Among other things, the proposed rule changes would allow Medicare Advantage plans to use pre authorization (PA) and step therapy (ST) for six protected classes of drugs, with certain exceptions, permit plans to implement PA and ST in Medicare Part B drugs; and change the definition of “negotiated prices” while a definition of “price concession” in the regulations. It is unclear whether these proposed changes we be accepted, and if so, what effect such changes will have on our business. Litigation and legislation over the ACA are likely to continue, with unpredictable and uncertain results.

Further, on December 14, 2018, a U.S. District Court judge in the Northern District of Texas ruled that the individual mandate portion of the ACA is an essential and inseverable feature of the ACA, and therefore because the mandate was repealed as part of the Tax Cuts and Jobs Act, the remaining provisions of the ACA are invalid as well. The Trump administration and CMS have both stated that the ruling will have no immediate effect, and on December 30, 2018 the same judge issued an order staying the judgment pending appeal. The Trump Administration has recently represented to the Court of Appeals considering this judgment that it does not oppose the lower court’s ruling. It is unclear how this decision and any subsequent appeals and other efforts to repeal and replace the ACA will impact the ACA and our business. Litigation and legislation over the ACA are likely to continue, with unpredictable and uncertain results.

The costs of prescription pharmaceuticals have also been the subject of considerable discussion in the United States, and members of Congress and the Administration have stated that they will address such costs through new legislative and administrative measures. To date, there have been several recent U.S. congressional inquiries and proposed and enacted state and federal legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products. At the federal level, the Trump administration’s budget proposal for fiscal year 2019 contains further drug price control measures that could be enacted during the 2019 budget process or in other future legislation, including, for example, measures to permit Medicare Part D plans to negotiate the price of certain drugs under Medicare Part B, to allow some states to negotiate drug prices under Medicaid, and to eliminate cost sharing for generic drugs for low-income patients. While any proposed measures will require authorization through additional legislation to become effective, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. At the state level, legislatures are increasingly passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing.

Specifically, there have been several recent U.S. congressional inquiries and proposed federal and proposed and enacted state legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and

manufacturer patient programs, reduce the costs of drugs under Medicare and reform government program reimbursement methodologies for drug products. At the federal level, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. For example, on May 11, 2018, the Administration issued a plan to lower drug prices. Under this blueprint for action, the Administration indicated that the Department of Health and Human Services (HHS) will: take steps to end the gaming of regulatory and patent processes by drug makers to unfairly protect monopolies; advance biosimilars and generics to boost price competition; evaluate the inclusion of prices in drug makers' ads to enhance price competition; speed access to and lower the cost of new drugs by clarifying policies for sharing information between insurers and drug makers; avoid excessive pricing by relying more on value-based pricing by expanding outcome-based payments in Medicare and Medicaid; work to give Part D plan sponsors more negotiation power with drug makers; examine which Medicare Part B drugs could be negotiated for a lower price by Part D plans, and improving the design of the Part B Competitive Acquisition Program; update Medicare's drug-pricing dashboard to increase transparency; prohibit Part D contracts that include "gag rules" that prevent pharmacists from informing patients when they could pay less out-of-pocket by not using insurance; and require that Part D plan members be provided with an annual statement of plan payments, out-of-pocket spending, and drug price increases. More recently, on January 31, 2019, the HHS Office of Inspector General proposed modifications to the federal Anti-Kickback Statute discount safe harbor for the purpose of reducing the cost of drug products to consumers which, among other things, if finalized, will affect discounts paid by manufacturers to Medicare Part D plans, Medicaid managed care organizations and pharmacy benefit managers working with these organizations.

At the state level, individual states are increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. In addition, regional health care authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other health care programs. These measures could reduce the ultimate demand for our products, once approved, or put pressure on our product pricing. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or additional pricing pressures.

Legislative and regulatory proposals have also been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us and any future collaborators to more stringent product labeling and post-marketing testing and other requirements.

Our relationships with customers and third-party payors, among others, will be subject to applicable anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to penalties, including criminal sanctions, civil penalties, contractual damages, reputational harm, fines, disgorgement, exclusion from participation in government healthcare programs, curtailment or restricting of our operations, and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors will play a primary role in the recommendation and prescription of any products for which we obtain marketing approval. Our current and future arrangements with healthcare providers, and third-party payors and customers, if any, will subject us to broadly applicable fraud and abuse and other healthcare laws and regulations. The laws and regulations may constrain the business or financial arrangements and relationships through which we conduct clinical research, market, sell and distribute any products for which we obtain marketing approval. These include the following:

Anti-Kickback Statute. The federal Anti-Kickback Statute prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration (including any kickback, bribe or rebate), directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, lease or order of a good, facility, item or service for which payment may be made under a federal healthcare program such as Medicare and Medicaid;

False Claims Laws. The federal false claims and civil monetary penalties laws, including the federal civil False Claims Act, impose criminal and civil penalties, including through civil whistleblower or *qui tam* actions against individuals or entities for, among other things, knowingly presenting or causing to be presented false or fraudulent claims for payment by a federal healthcare program or making a false statement or record material to payment of a false claim or avoiding, decreasing or concealing an obligation to pay money to the federal government, with potential liability including mandatory treble damages and significant per-claim penalties;

HIPAA. The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal and civil liability for, among other things, executing a scheme, or making materially false statements in connection with the delivery of or payment for health care benefits, items, or services. Additionally, HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, also imposes obligations on covered entities and their business associates that perform certain functions or activities that involve the use or disclosure of protected health information on their behalf, including mandatory contractual terms and technical safeguards, with respect to maintaining the privacy, security and transmission of individually identifiable health information;

Transparency Requirements. The federal Physician Payments Sunshine Act requires certain manufacturers of drugs, devices, biologics, and medical supplies for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or transfers of value made to physicians and teaching hospitals, as well as information regarding ownership and investment interests held by physicians and their immediate family members; and

Analogous State and Foreign Laws. Analogous state and foreign fraud and abuse laws and regulations, such as state anti-kickback and false claims laws, can apply to sales or marketing arrangements, and claims involving healthcare items or services reimbursed by non-governmental third-party payors, and are generally broad and are enforced by many different federal and state agencies as well as through private actions. Some state laws require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government and require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures. Additionally, some state and local laws require the registration of pharmaceutical sales representatives in the jurisdiction. State and foreign laws also govern the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not pre-empted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties, and our business generally, will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines, individual imprisonment, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, exclusion of products from government funded healthcare programs, such as Medicare and Medicaid, disgorgement, contractual damages, reputational harm, and the curtailment or restructuring of our operations. Defending against any such actions can be costly, time-consuming and may require significant financial and personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired. Further, if any of the physicians or other healthcare providers or entities with whom we expect to do business is found to be not in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs.

Laws and regulations governing any international operations we may have in the future may preclude us from developing, manufacturing and selling certain products outside of the United States and require us to develop and implement costly compliance programs.

As we expand our operations outside of the United States, we must dedicate additional resources to comply with numerous laws and regulations in each jurisdiction in which we plan to operate. The Foreign Corrupt Practices Act, or FCPA, prohibits any U.S. individual or business from paying, offering, authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with certain accounting provisions requiring the company to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations.

Compliance with the FCPA is expensive and difficult, particularly in countries in which corruption is a recognized problem. In addition, the FCPA presents particular challenges in the pharmaceutical industry, because, in many countries, hospitals are operated by the government, and doctors and other hospital employees are considered foreign officials. Certain payments to hospitals in connection with clinical trials and other work have been deemed to be improper payments to government officials and have led to FCPA enforcement actions.

Various laws, regulations and executive orders also restrict the use and dissemination outside of the United States, or the sharing with certain non-U.S. nationals, of information classified for national security purposes, as well as certain products and technical data

relating to those products. As we expand our presence outside of the United States, it will require us to dedicate additional resources to comply with these laws, and these laws may preclude us from developing, manufacturing, or selling certain products and product candidates outside of the United States, which could limit our growth potential and increase our development costs.

The failure to comply with laws governing international business practices may result in substantial civil and criminal penalties and suspension or debarment from government contracting. The Securities and Exchange Commission, or SEC, also may suspend or bar issuers from trading securities on U.S. exchanges for violations of the FCPA's accounting provisions.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. From time to time and in the future, our operations may involve the use of hazardous and flammable materials, including chemicals and biological materials, and may also produce hazardous waste products. Even if we contract with third parties for the disposal of these materials and waste products, we cannot completely eliminate the risk of contamination or injury resulting from these materials. In the event of contamination or injury resulting from the use or disposal of our hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

We maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, but this insurance may not provide adequate coverage against potential liabilities. However, we do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. Current or future environmental laws and regulations may impair our research, development or production efforts. In addition, failure to comply with these laws and regulations may result in substantial fines, penalties or other sanctions.

Governments outside the United States tend to impose strict price controls, which may adversely affect our revenues, if any.

In some countries, such as the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we, or any future collaborators, may be required to conduct a clinical trial that compares the cost-effectiveness of our product to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed.

Risks Related to Employee Matters and Managing Growth

Our future success depends on our ability to retain our executive team and to attract, retain and motivate qualified personnel.

We are highly dependent on the pharmaceutical research and development and business development expertise of our executive team, including Cedric Francois, M.D., Ph.D., our President and Chief Executive Officer, and Pascal Deschatelets, Ph.D., our Chief Operating Officer. The members of our executive team are employed "at will," meaning any of them may terminate his employment with us at any time with or without notice and for any reason or no reason. In the future, we may be dependent on other members of our management, scientific and development team.

Our ability to compete in the biotechnology and pharmaceuticals industries depends upon our ability to attract and retain highly qualified managerial, scientific and medical personnel. Our industry has experienced a high rate of turnover of management personnel in recent years. If we lose one or more of our executive officers or other key employees, our ability to implement our business strategy successfully could be seriously harmed. Furthermore, replacing executive officers or other key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop, gain marketing approval of and commercialize products successfully. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these additional key employees on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions.

We rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by other entities and may have commitments under consulting or advisory contracts with those entities that may limit their availability to us. If we are unable to continue to attract and retain highly qualified personnel, our ability to develop and commercialize our product candidates will be limited.

Our employees, independent contractors, consultants, collaborators and contract research organizations may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.

We are exposed to the risk that our employees, independent contractors, consultants, collaborators and contract research organizations may engage in fraud or other misconduct, including intentional failures to comply with FDA regulations or similar regulations of comparable non-U.S. regulatory authorities, to provide accurate information to the FDA or comparable non-U.S. regulatory authorities, to comply with manufacturing standards we have established, to comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable non-U.S. regulatory authorities, to report financial information or data accurately or to disclose unauthorized activities to us. Such misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws, standards or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business and results of operations, including the imposition of significant criminal, civil and administrative sanctions including monetary penalties, damages, fines, disgorgement, individual imprisonment, and exclusion from participation in government funded healthcare programs, such as Medicare and Medicaid, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, reputational harm, and we may be required to curtail or restructure our operations.

We expect to expand our organization, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug manufacturing, clinical, regulatory affairs and sales, marketing and distribution. During 2018, the number of our employees increased from 39 on December 31, 2017 to 80 on December 31, 2018. Our headquarters are located in Kentucky and we maintain additional offices in Massachusetts and California. To manage these growth activities and separation of offices, we must continue to implement and improve our managerial, operational and financial systems and continue to recruit and train additional qualified personnel. Our management may need to devote a significant amount of its attention to managing these growth activities. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations, retain key employees, or identify, recruit and train additional qualified personnel. Our inability to manage the expansion of our operations effectively may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. Our expected growth could also require significant capital expenditures and may divert financial resources from other projects, such as the development of additional product candidates. If we are unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate revenues could be reduced and we may not be able to implement our business strategy, including the successful commercialization of our product candidates.

We may engage in acquisitions that could disrupt our business, cause dilution to our stockholders or reduce our financial resources.

In the future, we may enter into transactions to acquire other businesses, products or technologies. Because we have not made any acquisitions to date, our ability to do so successfully is unproven. If we do identify suitable candidates, we may not be able to make such acquisitions on favorable terms, or at all. Any acquisitions we make may not strengthen our competitive position, and these transactions may be viewed negatively by customers or investors. We may decide to incur debt in connection with an acquisition or issue our common stock or other equity securities to the stockholders of the acquired company, which would reduce the percentage ownership of our existing stockholders. We could incur losses resulting from undiscovered liabilities of the acquired business that are not covered by the indemnification we may obtain from the seller. In addition, we may not be able to successfully integrate the acquired personnel, technologies and operations into our existing business in an effective, timely and non-disruptive manner. Acquisitions may also divert management attention from day-to-day responsibilities, increase our expenses and reduce our cash

available for operations and other uses. We cannot predict the number, timing or size of future acquisitions or the effect that any such transactions might have on our operating results.

Risks Related to Ownership of Our Common Stock

An active trading market for our common stock may not be sustainable. If an active trading market is not sustained, our ability to raise capital in the future may be impaired.

Our shares began trading on the Nasdaq Global Select Market on November 9, 2017. Given the limited trading history of our common stock, there is a risk that an active trading market for our shares may not be sustained, which could put downward pressure on the market price of our common stock and thereby affect the ability of stockholders to sell their shares. An inactive trading market for our common stock may also impair our ability to raise capital to continue to fund our operations by selling shares and impair our ability to acquire other companies or technologies by using our shares as consideration.

The trading price of our common stock is highly volatile, which could result in substantial losses for our stockholders.

The trading price of our common stock has been, and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. The stock market in general and the market for smaller pharmaceutical and biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, our stockholders may not be able to sell their common stock at or above the price they paid for their common stock. The market price for our common stock may be influenced by many factors, including:

- the timing and results of clinical trials of APL-2 and any other product candidates;
- the success of existing or new competitive products or technologies;
- regulatory actions with respect to our product candidates or our competitors' products and product candidates;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- commencement or termination of collaborations for our development programs;
- failure or discontinuation of any of our product candidates or development programs;
- results of clinical trials of product candidates of our competitors;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- the results of our efforts to develop additional product candidates or products;
- actual or anticipated changes in estimates as to financial results or development timelines;
- recommendations by securities analysts;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or other stockholders;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in estimates or recommendations by securities analysts, if any, that cover our stock;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this "Risk Factors" section.

We could be subject to securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and our resources, which could harm our business.

We have broad discretion in the use of our funds and may not use them effectively.

Our management will have broad discretion in the application of our cash and cash equivalents and could spend our funds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could harm our business, cause the price of our common stock to decline and delay the development of our product candidates. Pending their use, we may invest our funds in a manner that does not produce income or that loses value.

We incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives and corporate governance practices.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies, including establishment and maintenance of effective disclosure and financial controls and corporate governance practices. We expect that we will need to hire additional accounting, finance and other personnel in connection with our efforts to comply with the requirements of being a public company and our management and other personnel will need to devote a substantial amount of time towards maintaining compliance with these requirements. These requirements will increase our legal and financial compliance costs and will make some activities more time-consuming and costly, especially as we are no longer an "emerging growth company", as defined in the Jumpstart Our Business Startups Act of 2012, and are no longer able to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are "emerging growth companies" and were applicable to us prior to January 1, 2019.

Pursuant to SOX Section 404, as of January 1, 2019, we are required to furnish with our periodic Exchange Act reports a report by our management on our internal control over financial reporting. As of December 31, 2018, because we are no longer an emerging growth company, we are required to include with our annual report an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To achieve compliance with SOX Section 404 within the prescribed period, we have been engaged in a process to document and evaluate our internal control over financial reporting, which has been, and will continued to be, both costly and challenging. In this regard, we will need to continue to dedicate internal resources, engage outside consultants and adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that we will not be able to conclude, from time to time, that our internal control over financial reporting is effective. If we identify one or more material weaknesses, it could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of our financial statements.

If we identify a material weakness in our internal control over financial reporting, it could have an adverse effect on our business and financial results and our ability to meet our reporting obligations could be negatively affected, each of which could negatively affect the trading price of our common stock.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Accordingly, a material weakness increases the risk that the financial information we report contains material errors.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies. In addition, we are required under the Sarbanes-Oxley Act of 2002 to report annually on our internal control over financial reporting. Our system of internal controls, however well-designed and operated, is based in part on certain assumptions and includes elements that rely on information from third parties. Our system can provide only reasonable, not absolute, assurances that the objectives of the system are met. If we, or our independent registered public accounting firm, determine that our internal controls over financial

reporting are not effective, or we discover areas that need improvement in the future, these shortcomings could have an adverse effect on our business and financial results, and the price of our common stock could be negatively affected.

If we cannot conclude that we have effective internal control over our financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified opinion regarding the effectiveness of our internal control over financial reporting, investors could lose confidence in the reliability of our financial statements, which could lead to a decline in our stock price. Failure to comply with reporting requirements could also subject us to sanctions and/or investigations by the SEC, The Nasdaq Stock Market or other regulatory authorities.

A significant portion of our total outstanding shares is restricted from immediate resale but may be sold into the market in the near future, which could cause the market price of our common stock to decline significantly, even if our business is doing well.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares of common stock intend to sell shares, could reduce the market price of our common stock. As of March 31, 2019, we had 63,218,476 shares of common stock outstanding. All of these shares may be freely sold in the public market at any time to the extent permitted by Rules 144 and 701 under the Securities Act of 1933, as amended, or the Securities Act and subject to the volume limitations applicable to affiliates.

We have registered all shares of common stock that we may issue under our equity compensation plans. As of March 31, 2019, we had options to purchase an aggregate of 9,191,033 shares of our common stock outstanding, of which options to purchase 4,493,865 shares were vested. These shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates. Moreover, holders of an aggregate of 11,178,984 shares of our common stock have rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

The recently passed comprehensive tax reform bill could adversely affect our business and financial condition.

On December 22, 2017, President Trump signed into law new legislation, commonly referred to as the Tax Cuts and Jobs Act, or the TCJA, that significantly revised the Internal Revenue Code of 1986, as amended. The TCJA, among other things, contains significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the federal tax law remains uncertain and our business and financial condition could be adversely affected. In addition, how various states will respond to the TCJA continues to be uncertain. The impact of this tax reform on holders of our common stock is also uncertain and could be adverse. We urge our stockholders to consult with their legal and tax advisors with respect to this legislation and the potential tax consequences of investing in or holding our common stock.

We might not be able to utilize a significant portion of our net operating loss carryforwards and research and development tax credit carryforwards.

As of December 31, 2018, we had both federal and state net operating loss carryforwards of $251.4 million and $254.6 million, respectively, and federal research and development tax credit carryforwards of $14.4 million, all of which if not utilized will begin to expire in 2024. These net operating loss and tax credit carryforwards could expire unused and be unavailable to offset future income tax liabilities. Under the newly enacted federal income tax law, federal net operating losses incurred in 2018 and in future years may be carried forward indefinitely, but the deductibility of such federal net operating losses is limited. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, and corresponding provisions of state law, if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. We experienced a Section 382 ownership change in September 2015, which imposes annual limitations on our use of pre-change net operating loss carryforwards and other pre-change tax attributes. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership, some of which may be outside of our control. We have determined that our research and development credit carryforwards are also limited. These limitations upon our historical net operating loss and tax credit carryforwards may harm our future operating results by effectively increasing our future tax obligations.

We do not anticipate paying any cash dividends on our capital stock in the foreseeable future. Accordingly, stockholders must rely on capital appreciation, if any, for any return on their investment.

We have never declared nor paid cash dividends on our capital stock. We currently plan to retain all of our future earnings, if any, to finance the operation, development and growth of our business. In addition, the terms of our development funding agreement with SFJ preclude us from paying dividends, and any future debt or credit agreements may also preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be our stockholders' sole source of gain for the foreseeable future.

Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions.

As of March 31, 2019, our executive officers and directors, and entities associated or affiliated with our executive officers and directors, in the aggregate, beneficially owned shares representing approximately 30.44% of our outstanding common stock, including our largest stockholder, Morningside Venture Investments, Ltd., which beneficially owned approximately 19.0% of our outstanding common stock. As a result, if these stockholders were to choose to act together, they may have the ability to significantly influence all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, could substantially influence the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of ownership may:

- delay, defer or prevent a change in control;
- entrench our management or the board of directors; or
- impede a merger, consolidation, takeover or other business combination involving us that other stockholders may desire.

Some of these persons or entities may have interests different than those of our other investors. For example, because many of these stockholders purchased their shares at prices substantially below the price at which other investors purchased shares and have held their shares for a longer period, they may be more interested in selling our company to an acquirer than other investors or they may want us to pursue strategies that deviate from the interests of other stockholders.

Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management or hinder efforts to acquire a controlling interest in us.

Provisions in our corporate charter and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- establish a classified board of directors such that all members of the board are not elected at one time;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from the board;
- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on at stockholder meetings;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;
- limit who may call a special meeting of stockholders;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a "poison pill" that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 75% of the votes that all our stockholders would be entitled to cast to amend or repeal certain provisions of our charter or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, which prohibits a person who owns in excess of 15% of our outstanding voting stock from

merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. This could discourage, delay or prevent someone from acquiring us or merging with us, whether or not it is desired by, or beneficial to, our stockholders. This could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in the best interests of our stockholders. These provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common stock will likely depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. There can be no assurance that analysts will continue to cover us or provide favorable coverage. Securities or industry analysts may elect not to provide research coverage of our common stock, and such lack of research coverage may negatively impact the market price of our common stock. In the event we do have analyst coverage, if one or more analysts downgrade our stock or change their opinion of our stock, our share price would likely decline. In addition, if one or more analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our restated certificate of incorporation designates the state courts in the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the federal court for the District of Delaware, as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could discourage lawsuits against our company and our directors, officers and employees.

Our restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware) will be the sole and exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to our company or our stockholders, any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or our certificate of incorporation or bylaws, or any action asserting a claim against us governed by the internal affairs doctrine. This exclusive forum provision may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers and employees.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Use of Proceeds from Initial Public Offering of Common Stock

On November 13, 2017, we closed our initial public offering, or IPO of 10,714,000 shares of our common stock at a public offering price of $14.00 per share resulting in gross proceeds of approximately $150.0 million. In addition, on December 13, 2017, we issued and sold an additional 981,107 shares of common stock at the IPO price of $14.00 per share pursuant to the underwriters' partial exercise of their option to purchase additional shares of common stock, resulting in gross proceeds of approximately $13.8 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to registration statement on Form S-1 (File No. 333-220941), which was declared effective by the SEC on November 8, 2017. Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Evercore Group L.L.C. acted as joint book-running managers for the offering and as representatives of the underwriters. The offering commenced on November 8, 2017 and did not terminate until the sale of all of the shares offered.

We received aggregate net proceeds from the offering of approximately $150.0 million, after deducting underwriting discounts and commissions of $11.5 million and estimated offering expenses of $2.3 million payable by us. None of the underwriting discounts and commissions or offering expenses were incurred or paid to directors or officers of ours or their associates or to persons owning 10% or more of our common stock or to any affiliates of ours.

As of March 31, 2019, we have used approximately all of the net proceeds from the IPO to fund clinical trials of APL-2, as well as for working capital and general corporate purposes. We have not used any of the net proceeds from the IPO to make payments, directly or indirectly, to any director or officer of ours or any of their associates, to any person owning 10% or more of our common

stock, or to any affiliate of ours. There has been no material change in our planned use of the net proceeds from the IPO as described in our final prospectus dated November 9, 2017, filed with the SEC pursuant to Rule 424(b) under the Securities Act.

Item 6. Exhibits.

Exhibit Number	Description
10.1*†	Development Funding Agreement, dated as of February 28, 2019 by and between the Registrant and SFJ Pharmaceuticals XI, L.P
10.2*	Standard Office Lease, dated as of March 29, 2019, by and between the Registrant and Geary-Market Investment Company, Ltd.
10.3*	Offer Letter, dated as of April 13, 2018, by and between the Registrant and Lukas Scheibler.
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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

* Filed herewith.
† Certain portions of this exhibit are subject to confidential treatment

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.

Apellis Pharmaceuticals, Inc.

Date: May 7, 2019

By: /s/ Cedric Francois
Cedric Francois
President and Chief Executive Officer
(principal executive officer)

Date: May 7, 2019

By: /s/ Timothy Sullivan
Timothy Sullivan
Chief Financial Officer and Treasurer
(principal financial officer)

Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) would likely cause competitive harm to the Company, if publicly disclosed. Double asterisks denote

DEVELOPMENT FUNDING AGREEMENT

This Development Funding Agreement ("Agreement"), made effective as of February 28, 2019 (the "Effective Date"), is by and between Apellis Pharmaceuticals Inc., a Delaware corporation, with a principal place of business at 6400 Westwind Way, Suite A, Crestwood, KY 40014, USA ("Apellis"), and SFJ Pharmaceuticals XI, L.P. ("SFJ"), an SFJ Pharmaceuticals Group company and limited partnership organized and existing under the laws of Delaware, having its principal place of business at 5000 Hopyard Road, Suite 330, Pleasanton, CA 94588, US (each, a "Party" and collectively, the "Parties").

WHEREAS, SFJ is in the business of facilitating, among other things, the development and approval of pharmaceutical products and desires to provide financing for the development of the Product as a treatment of patients with paroxysmal nocturnal hemoglobinuria ("PNH"); and

WHEREAS, Apellis has rights to the Product, is conducting clinical trials of the Product in patients with PNH and would like to enter into an agreement with SFJ to enable SFJ to provide financing for the continued development of the Product.

NOW THEREFORE, in consideration of the mutual agreements contained herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE 1

DEFINITIONS

1.1 Defined Terms. Initially capitalized terms will have the meaning ascribed to such terms in this Agreement, including the following terms which will have the following respective meanings:

1.1.1 "Account" is any "account" as defined in the UCC with such additions as such term may hereafter be made and includes, without limitation, all accounts receivable and other sums owing to Apellis.

1.1.2 "Additional SFJ Funding" has the meaning ascribed to such term in Section 4.3.

1.1.3 "Affiliate" means, with respect to a Person, a business entity under common control with, or controlling or controlled by, such Person, with "control" meaning direct or indirect ownership of 50% or more of the voting interest in the applicable Person, and in the case of a partnership, control of the general partner.

1.1.4 "Alliance Manager" has the meaning ascribed to such term in Section 5.1.5.

1.1.5 "Apellis" has the meaning ascribed to such term in the Preamble.

1.1.6 "Apellis Confidential Information" means all Confidential Information provided and/or disclosed by or on behalf of Apellis or its Affiliates, agents or representatives to SFJ or its Affiliates, agents or representatives hereunder. For clarity, Apellis Confidential Information will include any and all CMC Information.

1.1.7 "Apellis Development Costs" means all costs incurred by Apellis in connection with the Development Program.

1.1.8 "Apellis Disclosure Materials" means the financial statements and reports listed on Exhibit J.

1.1.9 "Apellis Indemnified Parties" has the meaning ascribed to such term in Section 12.1.1.

1.1.10 "APL Intellectual Property" means all Intellectual Property owned or Controlled by Apellis.

1.1.11 "APL Restricted Intellectual Property" means APL Intellectual Property that is necessary or useful for the manufacture, use, marketing, sale or import of APL 2.

1.1.12 "Applicable Law" means the applicable laws, rules and regulations, including any rules, regulations, guidelines, or other requirements of any Governmental Authorities (including any Regulatory Authorities), to the extent legally binding, that may be in effect from time to time in any country or regulatory jurisdiction of the Territory. For clarity, Applicable Laws will include all laws, regulations and legally binding guidelines, including legally binding GCP, GLP, GMP and ICH guidelines applicable to the Trial.

1.1.13 "Approval Payments" has the meaning ascribed to such term in Section 6.1.

1.1.14 "Background Materials" has the meaning ascribed to such term in Section 2.5.

1.1.15 "BLA" means a biologics license application or similar application, including any applications for Regulatory Approval, submitted to any Regulatory Authority for the purpose of obtaining Regulatory Approval to market and sell a pharmaceutical product in such jurisdiction.

1.1.16 "Business Day" means a day that is not a Saturday, Sunday or a US federal holiday.

1.1.17 "Calendar Quarter" means each successive period of three (3) consecutive calendar months ending on March 31, June 30, September 30 and December 31; provided, that, the (a) the first Calendar Quarter shall begin on the Effective Date and end on the last day of the Calendar Quarter in which the Effective Date falls, and (b) the final Calendar Quarter shall end on the last day of the Term.

1.1.18 "Calendar Year" means each successive period of twelve (12) months commencing on January 1 and ending on December 31; provided, that, (a) the first Calendar Year shall begin on the Effective Date and end on December 31 of the Calendar Year in which the Effective Date falls, and (b) the final Calendar Year shall end on the last day of the Term.

1.1.19 "CFC" means a "controlled foreign corporation" as defined in the IRC.

1.1.20 "Change of Control" means, with respect to either Party, at any time prior to the date of the first Regulatory Approval of the Product for PNH (a) a merger, reorganization or consolidation of such Party with a Third Party which results in the voting securities of such Party outstanding immediately prior thereto ceasing to represent, or being converted into or exchanged for voting securities that do not represent, at least fifty percent (50%) of the combined voting power of the voting securities of the surviving entity or the parent corporation of the surviving entity immediately after such merger, reorganization or consolidation, (b) a transaction in which a Third Party becomes the beneficial owner of fifty percent (50%) or more of the combined voting power of the outstanding securities of such Party or (c) the sale or other transfer of all or substantially all of such Party's business or assets relating to the Product for use in the treatment of PNH, provided that a Licensing Transaction shall not constitute a Change of Control and a Change of Control will not be deemed to have occurred in the event that the Third Party in any of the foregoing transactions is a venture capital fund, pension fund, investment fund, commercial or investment bank, insurance company, or similar financial institution, in each case that is not then a controlled Affiliate of a company engaged in the development and/or commercialization of pharmaceutical or biotechnology products.

1.1.21 "Claim" means any Third Party claim, demand, suit and/or cause of action.

1.1.22 "Clinical Investigator" means the principal investigator at each Site.

1.1.23 "Clinical Trial Registries" has the meaning ascribed to such term in Section 3.11.

1.1.24 "CMC Information" means the chemistry, manufacturing and control information intended or required for the submission of a CTA.

1.1.25 "Commercial Launch" means, with respect to the Product and a country in the Territory, the first sale to a Third Party of such Product in such country after Regulatory Approval in such country.

1.1.26 "Commercialization" or "Commercialize" means the commercial manufacture, marketing, promotion, sale and/or distribution of the Product. For clarity, Commercialization excludes all activities associated with development and seeking Regulatory Approval for the Product.

1.1.27 "Commercially Reasonable Efforts" means with respect to the performance of activities under this Agreement by Apellis: reasonable, diligent, good-faith efforts to accomplish such objective as Apellis would normally use (and which are consistent with industry standards for companies of comparable size as that of Apellis) to accomplish a similar objective under similar circumstances for compounds or products owned by Apellis, or to which it has rights at similar stages in development or product life, and having similar commercial potential. "Commercially Reasonable Efforts" requires, with respect to a particular task or activity in making, using, selling, offering for sale, importing, exporting, developing (including seeking regulatory approvals or applicable pricing or reimbursement approvals) or otherwise commercializing the product, that Apellis: (i) promptly assign responsibility for such task or activity to specific employee(s) who are held accountable for progress and monitor such progress on an on-going basis; (ii) set and consistently seek to achieve specific and meaningful objectives for carrying out such task or activity; and (iii) make and implement decisions and allocate resources designed to advance progress with respect to such objectives in accordance with established timelines; provided however that, to the extent that the performance of Apellis' obligations hereunder is adversely affected by SFJ's failure to perform its obligations hereunder, the impact on Apellis of such performance failure will be taken into account in determining whether Apellis has used its Commercially Reasonable Efforts to perform any such affected obligations.

1.1.28 "Comparator" means Soliris® (eculizumab) in the case of the PEGASUS Trial and "standard of care" in the case of the PRINCE Trial.

1.1.29 "Completion Date" means, as to the PEGASUS Trial or the PRINCE Trial, the earlier of the date upon which (i) the applicable final CSR has been prepared or (ii) such clinical trial or this Agreement has been terminated.

1.1.30 "Confidential Information" means all information and materials provided and/or disclosed (including in written form, electronic form or otherwise) by, or on behalf of, either Party or its Affiliates, agents or representatives to the other Party, its Affiliates, agents or representatives in connection with this Agreement, including, technical, scientific, regulatory and other information, results, knowledge, techniques, data, analyses, inventions, invention disclosures, plans, processes, methods, know-how, ideas, concepts, test data (including pharmacological, toxicological and clinical test data), analytical and quality control data, formulae, specifications, marketing, pricing, distribution, cost, sales, and manufacturing data and descriptions, as well as the terms and conditions of this Agreement which terms and conditions shall be deemed to be both SFJ

Confidential Information and Apellis Confidential Information. For clarity, Confidential Information includes SFJ Confidential Information and Apellis Confidential Information.

1.1.31 "Control" or "Controlled" means (a) for Intellectual Property, a Party's ability to grant applicable licenses, sublicenses and/or other rights thereunder and (b) for materials and documents, a Party's ability to provide, or provide access to, such materials and/or documents, each without violating any contractual obligations to a Third Party. For clarity, if a Party only can grant a license or sublicense and/or provide rights and/or access of limited scope, for a specific purpose or under certain conditions due to an encumbrance, "Control" or "Controlled" will be construed to so limit such license, sublicense, provision of rights and/or access.

1.1.32 "Copyrights" means, collectively, all works of authorship, mask works and any and all other registered and unregistered copyrights and copyrightable works, and all applications, registrations, extensions, and renewals thereof.

1.1.33 "CMC" means chemistry, manufacturing and controls.

1.1.34 "CMO" means contract manufacturing organization.

1.1.35 "CRO" means contract research organization.

1.1.36 "CSR" means clinical study report, or other equivalent document or series of materials, constituting a summary report of the clinical and medical data resulting from a clinical trial comprised by the Trial and prepared for incorporation into submissions seeking Regulatory Approval for the Product, and includes all statistical analyses per Apellis' statistical analysis plan. Supplements to the CSR, including safety updates, may be prepared at a later stage, following Apellis' instructions.

1.1.37 "CTA" means a clinical trial application submitted to a Regulatory Authority, including an investigational new drug applications submitted to FDA, the submission of which is necessary to initiate or conduct clinical testing of a pharmaceutical product in humans in an applicable jurisdiction.

1.1.38 "Data Room" means that certain electronic data room established by Apellis and to which SFJ and/or its advisors were granted access.

1.1.39 "Designated European Countries" means [**].

1.1.40 "Development Program" means a CMC, clinical and regulatory development program to be undertaken by Apellis to develop the Product for PNH, carry out the Trial and seek Regulatory Approval for the Product as set forth on Exhibit D.

1.1.41 "Development Term" means the period commencing on the Effective Date and ending on the latest of (a) the Completion Date of the PEGASUS Trial, (b) the Completion Date of the PRINCE Trial, or (c) the date on which all efforts in pursuit of Regulatory Approval of the Product for PNH have been concluded.

1.1.42 "Disclosing Party" has the meaning ascribed to such term in Section 10.1.

1.1.43 "Dispute" has the meaning ascribed to such term in Section 15.10.

1.1.44 "Effective Date" has the meaning ascribed to such term in the Preamble.

1.1.45 "EMA" means the European Medicines Agency; provided that, if Apellis in its sole discretion elects to seek Regulatory Approval from a local Regulatory Authority in any Designated European Country, references in this Agreement to "EMA" shall be deemed to include references to such local Regulatory Authority, it being acknowledged that Apellis does not as of the Effective Date intend, and Apellis does not have any obligation under this Agreement, to seek Regulatory Approval in any Designated European Country from any Regulatory Authority other than the European Medicines Agency.

1.1.46 "EU Approval Payments" has the meaning ascribed to such term in Section 6.1.

1.1.47 "Excluded Licensing Transaction" means (i) a license or sublicense granted to an academic collaborator, service provider, contract research organization, contract manufacturer or similar Third Party that does not grant to such Third Party commercialization rights with respect to the Product, (ii) a license or sublicense not involving a grant of rights to the Product and that, prior to such time as Apellis has filed applications for Regulatory Approval with both FDA and EMA, does not grant a Third Party licensee commercialization rights for a product for PNH or (iii) a Licensing Transaction involving the grant of rights to the Product solely for use in the treatment of ophthalmic indications and where such Licensing Transaction under this clause (iii) will be structured to provide for (a) at least a [**]% profit split for Apellis or an effective royalty rate (disregarding customary contingencies for reductions to royalties due to royalties owed to Third Parties, patent expiration and generic competition) payable to Apellis of at least [**]% of net product sales or (b) payments to Apellis, including upfront payments, research and development funding, payments for equity and development and regulatory milestone payments, of at least $[**], which (in the case of (a) or (b)) would provide payments to Apellis that, together with the cash Apellis in good faith projects as of the execution date of such Licensing Transaction will otherwise have available to contribute to such development costs, would total an amount which equals or exceeds the then-remaining aggregate development costs anticipated to be incurred by Apellis as of the execution date of such Licensing Transaction for the completion of Apellis' DERBY and OAKS clinical trials and CMC activities in order to obtain regulatory approval of Apellis' product for the treatment of geographic atrophy by the FDA in the US and by the EMA in Europe, which good faith financial projections at the time of such Licensing Transaction are consistent with the latest of either (A) Apellis' then-most-recent financial projections presented to the Board of Directors of Apellis or (B) Apellis' then-most-recent publicly announced financial projections.

1.1.48 "Executive Officers" means the executive officers of each of Apellis and SFJ identified on Exhibit E.

1.1.49 "FDA" means the US Food and Drug Administration and any successor agency thereto.

1.1.50 "Fundamental Breach by Apellis" shall mean Apellis' (a) failure to use Commercially Reasonable Efforts to conduct its obligations under the Development Program and to complete the Trial, (b) failure to bear all Apellis Development Costs in excess of the Maximum SFJ Development Costs (and, if applicable, the Additional SFJ Funding), provided that Apellis' ability to bear such Apellis Development Costs has not been materially adversely affected by SFJ's failure to perform its obligations as set forth herein, (c) failure, following Trial Success, to use Commercially Reasonable Efforts (i) to file an application for Regulatory Approval with the FDA within [**] after the later of the date of the final database lock for the PEGASUS Trial or the date of the final database lock for the PRINCE Trial, and to file an application for Regulatory Approval with the EMA within [**] after the later of the date of the final database lock for the PEGASUS Trial or the date of the final database lock for the PRINCE Trial or (ii) following any such filing, to seek Regulatory Approval from FDA or EMA, as applicable (provided that Apellis' failure to achieve the events listed in (a) and (c) shall not be deemed to be a Fundamental Breach by Apellis in the event that such failure is due to Program Failure, unless such Program Failure is due to gross negligence on the part of Apellis), or (d) material breach or default under the Penn Other Fields License that is not cured in a timely manner as set forth in the Penn Other Fields License and that has a material adverse effect on Apellis' ability to satisfy its obligations under this Agreement.

1.1.51 "Funding Date" has the meaning ascribed to such term in Section 4.2.

1.1.52 "GAAP" means generally accepted accounting principles in the US, as consistently applied by the applicable Party.

1.1.53 "GDP Note" means that certain $7,000,000 Promissory Note of Apellis dated as of October 19, 2017 in favor of Golda Darty Partners Société Anonyme.

1.1.54 "Good Clinical Practices" or "GCP" means all applicable good clinical practice standards for the design, conduct, performance, monitoring, auditing, recording, analyses and reporting of clinical trials, including, as applicable, (a) the International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use ("ICH") Harmonised Tripartite Guideline for Good Clinical Practice (CPMP/ICH/135/95) and any other guidelines for good clinical practice for clinical trials on medicinal products in the EU; (b) the Declaration of Helsinki (2004) as last amended at the 52nd World Medical Association in October 2000 and any further amendments or clarifications thereto; and (c) the equivalent Applicable Laws in any relevant country, each as may be amended and applicable from time to time and in each case, that provide for, among other things, assurance that the clinical data and reported

results are credible and accurate and protect the rights, integrity, and confidentiality of trial Subjects.

1.1.55 "Good Manufacturing Practices" or "GMP" means all applicable good manufacturing practices including, as applicable, (a) the applicable part of quality assurance to ensure that products are consistently produced and controlled in accordance with the quality standards appropriate for their intended use, as defined in European Commission Directive 2003/94/EC laying down the principals and guidelines of good manufacturing practice; (b) the principles detailed in the US Current Good Manufacturing Practices, 21 CFR Sections 210, 211, 601 and 610; (c) the Rules Governing Medicinal Product in the European Community, Volume IV Good Manufacturing Practice for Medicinal Product; (d) the principles detailed in the ICH Q7A guidelines; and (e) the equivalent Applicable Laws in any relevant country, each as may be amended and applicable from time to time.

1.1.56 "Government Official" is broadly defined as and includes: (a) any elected or appointed government official (e.g., a member of a ministry of health); (b) any employee or person acting for or on behalf of a government official, agency, or enterprise performing a governmental function; (c) any non-US political party officer, employee, or person acting for or on behalf of a non-US political party or candidate for public office; (d) any employee or person acting for or on behalf of a public international organization; (e) all government employees and employees of state-owned enterprises; or (f) any person otherwise categorized as a government official under local law; where "government" is meant to include all levels and subdivisions of non-US governments (i.e., local, regional, or national and administrative, legislative, or executive).

1.1.57 "Governmental Authority" means any supranational, federal, national, state or local court, agency, authority, department, regulatory body or other governmental instrumentality.

1.1.58 "ICH" has the meaning ascribed to such term in Section 1.1.54.

1.1.59 "Indemnification Claim Notice" has the meaning ascribed to such term in Section 12.2.1.

1.1.60 "Indemnified Party" has the meaning ascribed to such term in Section 12.2.1.

1.1.61 "Indemnifying Party" has the meaning ascribed to such term in Section 12.2.1.

1.1.62 "Initial EU Payment" has the meaning ascribed to such term in Section 6.1.

1.1.63 "Initial Funding Date" has the meaning ascribed to such term in Section 4.2.

1.1.64 "Initial US Payment" has the meaning ascribed to such term in Section 6.1.

1.1.65 "Intellectual Property" means all intellectual property and industrial property rights of any kind or nature throughout the world, including all US and foreign, (a) Patents; (b) Trademarks; (c) Copyrights; (d) rights in computer programs (whether in source code, object code, or other form), algorithms, databases, compilations and data, technology supporting the foregoing, and all documentation, including user manuals and training materials, related to any of the foregoing; (e) trade secrets and all other confidential information, know-how, inventions, proprietary processes, formulae, models, and methodologies; (f) rights of publicity, privacy, and rights to personal information; (g) all rights in the foregoing and in other similar intangible assets; and (h) all applications and registrations for the foregoing.

1.1.66 "IRB" means institutional review board, or its equivalent.

1.1.67 "IRC" means the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder.

1.1.68 "JSC Chairperson" has the meaning ascribed to such term in Section 5.1.2.

1.1.69 "JSC Representative(s)" has the meaning ascribed to such term in Section 5.1.1.

1.1.70 "JSC" has the meaning ascribed to such term in Section 5.1.1.

1.1.71 "Licensing Transaction" means (a) a license to a Third Party of any of the APL Restricted Intellectual Property in the US or Europe, (b) a sublicense to a Third Party of any of the APL Restricted Intellectual Property in the US or Europe or (c) a sale or transfer to a Third Party of any of the APL Restricted Intellectual Property in the US or Europe or an assignment of either of the Penn Licenses to a Third Party.

1.1.72 "Losses" means liabilities, losses, costs, damages, fees and/or expenses (including reasonable legal expenses and attorneys' fees) payable to a Third Party.

1.1.73 "Manufacturing Dossier" has the meaning ascribed to such term in Section 3.9.

1.1.74 "Material Adverse Event" means a change that has a material adverse effect on (i) the business, operations, or financial condition of Apellis, (ii) prospect of payment of the Approval Payments by Apellis, or (iii) the development of the Product for PNH or prospects for Regulatory Approval of the Product for PNH; provided, however, that none of the following shall constitute, or shall be considered in determining whether there has occurred, a Material Adverse Event: (a) changes in laws or regulations or in the interpretations or methods of enforcement thereof; (b) changes in the

pharmaceutical or biotechnology industries in general; (c) any earthquakes, hurricanes, tsunamis, tornadoes, floods, mudslides, wildfires or other natural disasters, weather conditions, sabotage, terrorism, military action or war (whether or not declared) or other force majeure events in the US or any other country or region in the world; or (d) any changes with respect to any product or product candidate of any Third Party or with respect to any product candidate of Apellis for any indication other than the Product for PNH and ophthalmology, which, in each case, does not have a materially disproportionate impact on Apellis compared to similarly situated competitors operating in the pharmaceutical or biotechnology industries.

1.1.75 "Maximum SFJ Development Costs" has the meaning ascribed to such term in Section 4.1.1.

1.1.76 "NDA" means a new drug application or similar application submitted to FDA for the purpose of obtaining Regulatory Approval to market and sell a pharmaceutical product in the US.

1.1.77 "Party" or "Parties" has the meaning ascribed to such term in the Preamble.

1.1.78 "Patent" will mean patents, patent applications, patent disclosures, and all related continuations, continuations-in-part, divisionals, reissues, re-examinations, substitutions, and extensions thereof.

1.1.79 "PEGASUS Trial" means Apellis' Phase 3 clinical trial of the Product for PNH as set forth on Exhibit N.

1.1.80 "Penn Licenses" means, collectively, the Amended and Restated Patent License Agreement between Apellis (as successor to Potentia Pharmaceuticals, Inc.) and the University of Pennsylvania dated March 28, 2008, as amended on October 14, 2009 (the "Penn Ophthalmic License"), and the Patent License Agreement dated as of March 28, 2008 by and between The Trustees of the University of Pennsylvania and Apellis (as successor to Apellis AG), as amended on September 11, 2009 (the "Penn Other Fields License").

1.1.81 "Permitted Third Party" means any Affiliate, CRO, Site, Clinical Investigator and/or Vendor to whom Apellis has delegated responsibility or engaged in connection with the Trial. For clarity, Third Parties that have been delegated responsibility by or engaged by a Permitted Third Party will be considered Permitted Third Parties.

1.1.82 "Person" means any individual, corporation, general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Authority.

1.1.83 "Personally Identifiable Information" means any information relating to an identified or, in combination with other information, identifiable person or

persons captured in an electronic or hardcopy format, including such information as it relates to clinical trial subjects (including key-coded patient data), physicians, clinicians, healthcare professionals, consultants, or other persons participating in the Trial, and any equivalent definition in the Applicable Laws to the extent that such definition is broader than that provided here.

1.1.84 "Phase 3 Milestone" shall mean that the pre-specified primary endpoint for the PEGASUS Trial has been achieved with statistical significance. The achievement of the Phase 3 Milestone shall be determined after the preparation of the final CSR for the PEGASUS Trial.

1.1.85 "Pre-Approval Commercialization Activities" has the meaning ascribed to such term in Section 4.4.

1.1.86 "PRINCE-Only Royalty" has the meaning ascribed to such term in Section 6.2.

1.1.87 "PRINCE Trial" means Apellis' Phase 3 clinical trial of the Product for PNH as set forth on Exhibit O.

1.1.88 "Product" means the product as described on Exhibit A, also known as APL-2.

1.1.89 "Program Failure" means any of the following events: (a) the applicable Regulatory Authorities in both the US and the Designated European Countries (i) impose a clinical hold on further development of the Product, which clinical hold is not lifted or removed within [**] or (ii) recommend termination of the Trial and such recommendation is not lifted within [**]; or (b) the mutual agreement of the Parties that, based on data from the Trial, the Product has failed to achieve the Phase 3 Milestone and will not be able to achieve Regulatory Approval by either the FDA or the EMA.

1.1.90 "Protocol" means the clinical trial protocols for a clinical trial comprised by the Trial, as may be modified from time to time as permitted hereunder.

1.1.91 "Receiving Party" has the meaning ascribed to such term in Section 10.1.

1.1.92 "Regulatory Approval" means the approval (a) of an NDA or BLA by FDA in the US or (b) of a marketing approval application (MAA) by EMA, in each case ((a) and (b)) for the Product for the treatment of PNH.

1.1.93 "Regulatory Authority" means, in a particular country or regulatory jurisdiction in the Territory, any applicable Governmental Authority involved in granting approval to initiate or conduct clinical testing in humans, for Regulatory Approval, including (a) FDA and (b) EMA and for each of (a) and (b), including any successor thereto.

1.1.94 "Research Results" means all data, results, information, analyses, discoveries, inventions and know-how arising, or resulting from, the Trial and/or the CMC activities contemplated by the Development Program and/or the exercise by, or on behalf of, Apellis of its rights and obligations hereunder.

1.1.95 "Serious Safety Issue" means any SUSAR or series of SUSARs directly related to or caused by the administration of the Product in the conduct of the Trial where such SUSAR or series of SUSARs substantially diminishes the probability of receiving Regulatory Approval for the Product, or results in a Regulatory Authority imposing a clinical hold on further development of the Product which clinical hold is not lifted or removed within [**].

1.1.96 "SFJ" has the meaning ascribed to such term in the Preamble.

1.1.97 "SFJ Confidential Information" means all Confidential Information provided and/or disclosed by, or on behalf of, SFJ or its Affiliates, agents or representatives to Apellis or its Affiliates, agents or representatives hereunder.

1.1.98 "SFJ Development Costs" means the amount of funding paid to Apellis by SFJ hereunder.

1.1.99 "SFJ Indemnified Parties" has the meaning ascribed to such term in Section 12.1.2.

1.1.100 "Site" means each clinical trial site for the Trial.

1.1.101 "Subject" means a human subject participating in the Trial.

1.1.102 "SUSAR" means a suspected unexpected serious adverse reaction, without regard to causality, that is life-threatening (i.e., causes an immediate risk of death) or that results in any of the following outcomes: death; in-patient hospitalization or prolongation of existing hospitalization; persistent or significant disability or incapacity (i.e., substantial disruption of the ability to conduct normal life functions); or a congenital anomaly or birth defect. For clarity, a planned medical or surgical procedure is not, in itself, a SUSAR.

1.1.103 "SVB Collateral" means "Collateral" as defined in the SVB Loan Agreement.

1.1.104 "SVB Loan Agreement" means that certain Loan and Security Agreement dated as of October 20, 2017 between Silicon Valley Bank and Apellis.

1.1.105 "SVB Loan" means the $20,000,000 term loan evidenced by the SVB Loan Agreement.

1.1.106 "Term" has the meaning ascribed to such term in Section 14.1.

1.1.107 "Territory" means [**].

1.1.108 "Third Party" means any Person other than Apellis, SFJ and their Affiliates.

1.1.109 "Third Party Infringement" means any actual or threatened infringement, misappropriation, or other violation by a Third Party of any Intellectual Property Controlled by Apellis that relates to this Agreement and/or the Product, including the Trial Inventions.

1.1.110 "Trademarks" means, collectively, all registered and unregistered marks, trade dress rights, logos, taglines, slogans, Internet domain names, web addresses, and other indicia of origin, together with the goodwill associated with any of the foregoing, and all applications, registrations, extensions and renewals thereof, selected for use on the Product.

1.1.111 "Trial" means, collectively, the PEGASUS Trial and the PRINCE Trial.

1.1.112 "Trial Inventions" has the meaning ascribed to such term in Section 11.1.1.2.

1.1.113 "Trial Success" shall mean (a) the achievement of the Phase 3 Milestone in the PEGASUS Trial and (b) the absence of any Serious Safety Issue in either of the PEGASUS Trial or the PRINCE Trial that substantially diminishes the probability of receiving Regulatory Approval in both the US and the Designated European Countries.

1.1.114 "UCC" means the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of Delaware; provided, that, to the extent that the UCC is used to define any term herein and such term is defined differently in different Articles or Divisions of the UCC, the definition of such term contained in Article or Division 9 shall govern; and provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, the SFJ Security Interest on any SFJ Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of Delaware, the term "UCC" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions relating to such provisions.

1.1.115 "US Approval Payments" has the meaning ascribed to such term in Section 6.1.

1.1.116 "US" or "USA" means the US of America, its territories and possessions, including Puerto Rico.

1.1.117 "Vendor" has the meaning ascribed to such term in Section 2.4.2.

1.2 Construction. For purposes of this Agreement: (1) words in the singular will be held to include the plural and vice versa as the context requires; (2) the words "including" and "include" will mean "including, without limitation," unless otherwise specified; (3) the terms "hereof," "herein," "herewith," and "hereunder," and words of similar import will, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement; and (4) all references to "Section" and "Exhibit," unless otherwise specified, are intended to refer to a Section or Exhibit of or to this Agreement.

1.3 Conflicts. In the event of any conflict between the terms of this Agreement, the Protocol and/or any other Exhibit, the Protocol will control (as applicable), followed by the terms of this Agreement, and followed by any applicable other Exhibit.

ARTICLE 2

THE DEVELOPMENT PROGRAM

2.1 The Development Program.

2.1.1 Efforts. Apellis will use Commercially Reasonable Efforts to conduct and complete the Development Program in the Territory at its expense in accordance with this Agreement (subject to SFJ performing its obligations as set forth herein).

2.1.2 Compliance with Laws. Apellis shall perform its development obligations in material compliance with all Applicable Laws.

2.2 Changes to the Development Program. The Development Program may be updated from time-to-time as reasonably determined by Apellis to be necessary or desirable, provided that in no event may Apellis amend or change the Protocol Specifications set forth on Exhibit K without the written consent of SFJ in its sole discretion. Apellis will give reasonable consideration to SFJ's suggestions relating to the development of the Product, including suggestions for changes to the Development Program. Apellis will provide the JSC with summaries of material changes to the Development Program at JSC meetings as described in Article 5. Notwithstanding the foregoing, any changes to the Development Program requiring the approval of the JSC pursuant to Section 5.2.2 shall be subject to approval by the JSC pursuant to such Section.

2.3 Compliance. Apellis represents and warrants that, prior to the Effective Date, (a) it has conducted all preclinical and clinical activities related to the development of the Product for PNH in material compliance with Applicable Laws, and (b) to Apellis' knowledge, all Third Parties utilized by Apellis to perform any portion of the preclinical and clinical activities have conducted such portion of such preclinical activities in material compliance with Applicable

Laws. Apellis will conduct the Development Program and perform all other responsibilities hereunder in material compliance with all Applicable Laws.

2.4 CROs and Vendors.

2.4.1 CROs. Apellis may delegate any of its responsibilities to its Affiliates (subject to Section 15.1) and/or one (1) or more CROs. CROs performing any material aspect of the Trial as of the Effective Date are listed in Exhibit B.

2.4.2 Vendors. Apellis may use any of its Affiliates, CMOs or other Third Party providers to provide the services, equipment, tools, materials and supplies required for the Trial or to obtain Regulatory Approval (each, a "Vendor"). Vendors providing material services, equipment, tools, materials and supplies for the Trial as of the Effective Date are listed in Exhibit C.

2.4.3 Responsibility. Apellis shall use Commercially Reasonable Efforts to oversee the activities of its Vendors. For clarity, Apellis will remain primarily responsible for all its obligations under this Agreement, notwithstanding any delegation to an Affiliate or a CRO and/or contracting with a Vendor, as if Apellis had not so delegated and/or contracted with respect to such responsibilities.

2.5 Background Materials. During the Development Term, Apellis will reasonably promptly provide SFJ with copies of material documents, data and information Controlled by Apellis which are reasonably requested by SFJ and reasonably useful or necessary for SFJ to evaluate the Product and Development Program (the "Background Materials"). For clarity, Apellis will remain the sole owner of, and will retain all right, title and interest in, to and under all Background Materials, including all Intellectual Property related thereto, and subject to Article 11, the Background Materials will be Apellis Confidential Information. For the avoidance of doubt, Background Materials shall be Confidential Information of Apellis and subject to the restrictions set forth in Article 11.

ARTICLE 3

DEVELOPMENT PROGRAM RESPONSIBILITIES

3.1 Oversight of Third Parties. During the Development Term, Apellis will use Commercially Reasonable Efforts to oversee the manufacture of the Product and other services of the Permitted Third Parties.

3.2 IRBs and Ethics Committees.

3.2.1 Apellis will use Commercially Reasonable Efforts to obtain required approvals of Protocol amendments and informed consent document revisions from the applicable IRBs and ethics committees during the Trial.

3.2.2 Apellis will provide all ethics committees, including all IRBs, and Regulatory Authorities, with all necessary documentation during the course of the Trial as required by Applicable Law.

3.2.3 Apellis will be solely responsible for responding to all queries from the IRBs and other ethics committees. Apellis will prepare the applicable response and provide the JSC with a copy thereof if it has a material impact on the conduct of the Trial.

3.2.4 Trial Oversight and Committees. Apellis, with the support of the designated CRO(s), will use Commercially Reasonable Efforts to manage and oversee the Trial.

3.3 Final Clinical Study Report. Apellis will use Commercially Reasonable Efforts to prepare the final CSRs for the Trial. The final CSRs will be prepared by Apellis in material compliance with Applicable Laws, including ICH E3 guidelines, to ensure that the final CSRs meet, in all material respects, applicable standards to enable submission of applications for Regulatory Approval of the Product to FDA and EMA. The final CSRs will be promptly provided to the JSC.

3.4 Completion of the Trial. Apellis will use Commercially Reasonable Efforts to keep the Sites operational, as reasonably necessary or desirable in order to complete the Development Program.

3.5 Apellis Efforts to Obtain Regulatory Approval. Apellis will inform the JSC at JSC meetings of substantial matters pertaining to the Development Program, including summaries of Research Results and material communications with Regulatory Authorities. Apellis will use Commercially Reasonable Efforts (a) to file an application for Regulatory Approval with the FDA within [**] after the later of the date of the final database lock for the PEGASUS Trial or the date of the final database lock for the PRINCE Trial and to file an application for Regulatory Approval with the EMA within [**] after the later of the date of the final database lock for the PEGASUS Trial or the date of the final database lock for the PRINCE Trial and (b) following any such filing, to seek Regulatory Approval from FDA or EMA.

3.6 Safety Information Exchange. Apellis will report to the JSC any Serious Safety Issue for which reporting is required under this provision. Such Serious Safety Issues are to be reported for (i) Subjects who receive the Product or (ii) individuals otherwise exposed to the Product. Apellis shall promptly report Serious Safety Issues to the JSC.

3.7 Product.

3.7.1 Supply of the Product. Apellis will use Commercially Reasonable Efforts to supply or have supplied such quantities of the Product that conform in all material respects to the applicable release specifications that are necessary to conduct the Trial. The current manufacturer of the Product is set forth on Exhibit L (the "Manufacturer").

3.7.2 Supply of Comparator. Apellis will use Commercially Reasonable Efforts to obtain, in a timely manner, all quantities of Comparator required to conduct the Trial in accordance with Section 2.1.1.

3.7.3 Complaints Related to the Product. Apellis will use Commercially Reasonable Efforts to investigate and resolve complaints that it receives related to the Product.

3.7.4 Recall of the Product in Connection with Trial Prior to Approval. If the Product is recalled after commencement of the Trial and prior to the first Regulatory Approval from FDA and EMA, Apellis will be responsible for the operational execution of such recall in connection with the Trial. The costs for such a recall will be at Apellis' expense.

3.8 Compliance with Laws. For clarity, with respect to the Product and/or Comparator (as applicable), Apellis will materially comply, and Apellis will require that all Permitted Third Parties materially comply, with all Applicable Laws with respect to the analysis, storage, handling, disposal and transfer of the Product and/or Comparator (as applicable).

3.9 CTAs and Manufacturing Dossiers. Apellis will be responsible for preparing and submitting any CTA and amendment thereto to Regulatory Authorities as required by Applicable Laws in the countries for which Sites have been selected. Apellis will prepare the CMC Information (the "Manufacturing Dossier") and any updates to this information and submit it to the applicable Regulatory Authority as required by Applicable Laws.

3.10 Communications with Regulatory Authorities. Apellis will have sole responsibility for all communications with Regulatory Authorities with respect to the Trial and SFJ will not communicate with Regulatory Authorities. Notwithstanding the foregoing, or anything else contained herein to the contrary, Apellis agrees that the CEO or the CMO of SFJ shall be entitled to participate on a silent basis in all meetings with the FDA and the EMA during the Term and, to the extent practicable, SFJ shall be given the opportunity to review pre-meeting briefing materials. Apellis will provide the JSC and SFJ with copies of the minutes of all of the aforementioned meetings within [**] after Apellis receives the final minutes from the applicable Regulatory Authority.

3.11 Clinical Trial Registries. Apellis will be responsible for registering, maintaining and updating any registries pertaining to the Trial to the extent required by any Applicable Laws, including www.clinicaltrials.gov, www.clinicalstudyresults.org, and the PhRMA Website Synopsis (collectively, the "Clinical Trial Registries").

3.12 Disclosures by Apellis. During the Development Term, Apellis shall provide SFJ at meetings of the JSC (or in advance of such meetings as part of the information that may be distributed to JSC members prior to such meetings or, if no such meeting is held in a [**], directly to SFJ) at least [**] with summaries of all data known to Apellis material to obtaining Regulatory Approval, and material Product safety data in all indications (including but not limited to Serious Safety Issues), including such material data relating to efficacy, clinical sites, patient enrollment and drop-out rates, CMC and other material manufacturing data, material

communications with regulatory authorities, and summaries of APL Intellectual Property with regard to the Product for the treatment of PNH ("APL-2 Data"). In addition, Apellis shall (a) provide SFJ with the Apellis Disclosure Materials as set forth in Exhibit J, (b) promptly notify SFJ of Trial Success following achievement thereof and (c) on or prior to the date that is [**] before each Funding Date subsequent to the Initial Funding Date, certify to SFJ in writing that, except as may otherwise be set forth in such writing, Apellis does not have data or information that Apellis reasonably believes evidences the occurrence of a Material Adverse Event since the immediately prior Funding Date. At least [**] during the Term, upon SFJ's request, Executive Officers of Apellis shall meet with Executive Officers of SFJ to review and discuss Apellis' financial condition and operations.

ARTICLE 4

APELLIS DEVELOPMENT COSTS

4.1 Development Costs.

4.1.1 SFJ will be obligated to pay One Hundred Twenty Million U.S. Dollars ($120,000,000.00) ("Maximum SFJ Development Costs") to Apellis in accordance with the funding schedule set forth in Section 4.2. Subject to Section 4.3, any Apellis Development Costs in excess of the Maximum SFJ Development Costs will be borne by Apellis.

4.1.2 Notwithstanding anything else in this Agreement to the contrary, in no event shall SFJ be obligated to make any payment (other than the initial payment of Sixty Million U.S. Dollars ($60,000,000.00)) to Apellis until such time (and without including the amount of such payment) as Apellis shall have cash balances (excluding restricted cash balances that are not available for such use) that equal or exceed the cash requirements of Apellis to conduct normal operations and fund on-going clinical trials (including its obligations to conduct clinical trials hereunder) from the time such funding will be paid for the following ten (10) months in accordance with Apellis' cash flow financial projections prepared at such time in good faith and consistent with Apellis' then-most-recent financial projections presented to the Board of Directors of Apellis.

4.2 Funding Schedule. SFJ will pay to Apellis the amounts of Apellis Development Costs set forth in the table below on or before (but not earlier than [**] before) the corresponding funding dates (each, a "Funding Date") set forth in the table below. Notwithstanding the foregoing, in no event shall SFJ be obligated to pay to Apellis the Apellis Development Costs for a Funding Date as set forth below until [**] after the date Apellis shall have notified SFJ that Apellis has achieved the corresponding milestone listed on Exhibit M (if any) for such Funding Date and all preceding Funding Dates.

Funding Schedule:

To be paid on or before the Initial Funding Date	**To be paid on or before [**]**	**To be paid on or before [**]**	**To be paid on or before [**]**	**Total**
$60 Million	$20 Million	$20 Million	$20 Million	$120 Million

The initial payment of Sixty Million U.S. Dollars ($60,000,000.00) set forth in the table above shall be payable on or before the date (the "Initial Funding Date") that is the latest of (i) [**], (ii) [**] after the date on which Apellis shall have notified SFJ of the date on which Apellis will, subject to SFJ's concurrent payment of such funding payment, satisfy Apellis' obligations in Section 7.4 or (iii) the date on which all of Apellis' obligations in Section 7.4 are satisfied.

For avoidance of doubt, if any of the amounts set forth in the table above is not paid as scheduled for the reason set forth in Section 4.1.2, SFJ shall pay such amount to Apellis within [**] after Apellis notifies SFJ in writing that Apellis has met the condition for funding set forth in such provision.

4.3 Additional SFJ Funding. Apellis may request, at any time after the earlier of (a) the earliest date as of which Apellis has reviewed the database containing the sixteen (16)-week interim data from the PEGASUS Trial and confirmed that no further changes will be made prior to conducting analyses of such Research Results and (b) March 31, 2020, that SFJ fund an additional Fifty Million Dollars ($50,000,000) of Apellis Development Costs ("Additional SFJ Funding"), which SFJ may agree to fund or not in its sole discretion.

4.4 Pre-Commercialization Costs. During the Term, Apellis will be solely responsible at its own cost for performing those activities reasonably necessary to prepare for Commercial Launch of the Product in the Territory (the "Pre-Approval Commercialization Activities"). Such Pre-Approval Commercialization Activities may include at Apellis' sole discretion creating educational or marketing materials, establishing distribution channels and designing packaging and labeling, in each case for as reasonably necessary to Commercialize the Product in the Territory.

ARTICLE 5

GOVERNANCE

5.1 Joint Steering Committee.

5.1.1 Representatives. Within [**] after the Effective Date, the Parties will establish a joint steering committee to oversee and manage the collaboration (the "JSC"). Each Party initially will appoint [**] representatives to serve as representatives to the JSC (the "JSC Representatives"), with each JSC Representative having knowledge and expertise regarding developing products similar to the Product and sufficient

decision-making authority within the applicable Party to make decisions on behalf of such Party within the scope of the JSC's decision-making authority and, if any such representative is not an employee of the appointing Party, such representative shall execute a confidentiality agreement in form and substance acceptable to the other Party (and, for the avoidance of doubt, the appointing Party shall remain responsible to the other Party for any noncompliance by such representative with such confidentiality obligations). Each Party may replace its JSC Representatives at any time upon written notice to the other Party.

5.1.2 Chairperson. The JSC chairperson ("JSC Chairperson") shall be designated from the Parties' JSC Representatives and shall serve for a term of one (1) year. [**] shall appoint the first JSC Chairperson and subsequent appointments will rotate on an annual basis between Apellis and SFJ. The JSC Chairperson will be responsible for drafting and circulating its Party's draft agenda and ensuring minutes are prepared by its respective Party.

5.1.3 Meetings. From the Effective Date, through the date of the Regulatory Approval in both the US and the EU, the JSC will meet at least [**] (and for clarity, such meetings are intended to be conducted via teleconference) unless the Parties mutually agree otherwise. Either Party may call a special meeting of the JSC (by videoconference or teleconference) during the Development Term by providing at least [**] prior written notice to the other Party, which notice shall include a reasonably detailed description of the matter, in the event such Party reasonably believes that a significant matter must be addressed prior to the next scheduled meeting.

5.1.4 Participants. The JSC may invite individuals who are not JSC Representatives to participate in JSC meetings; provided that (a) all [**] JSC Representatives of both Parties consent to such non-member's participation; and (b) such non-member has executed a confidentiality agreement in form and substance acceptable to the non-inviting Party (and, for the avoidance of doubt, the inviting Party shall remain responsible to the non-inviting Party for any noncompliance by such individual with such confidentiality obligations). For clarity, such non-members will have no voting rights at the JSC.

5.1.5 Alliance Managers. Each Party shall appoint an individual to act as an alliance manager for such Party (each, an "Alliance Manager") by providing the name and contact information for the Alliance Manager to the JSC. Each Party may change its Alliance Manager from time to time in its sole discretion upon written notice to the JSC. The Alliance Managers shall be the primary point of contact for the Parties regarding the activities contemplated by the Agreement, and the Parties shall use reasonable efforts to ensure that any requests for information and data made outside of the JSC are made through the Alliance Mangers. The Alliance Managers shall attend all meetings of the JSC. For clarity, the Alliance Managers may also be members of the JSC.

5.1.6 Costs. Each Party will bear its own expenses relating to the meetings and activities of the JSC.

5.2 JSC Responsibilities and Decision-Making.

5.2.1 Responsibilities (Review and Discuss). The JSC's responsibilities will include reviewing and discussing (but not approving) the following:

5.2.1.1 Oversight of the Parties' collaboration for PNH including (i) overall strategic direction, (ii) developing strategies to maximize the value of the Product for the treatment of PNH, and (iii) reviewing and commenting on the Development Program and Regulatory Approval strategies;

5.2.1.2 material changes in the Development Program, including changes required by, or made to respond to comments from, a Regulatory Authority, that do not require approval pursuant to Section 5.2.2;

5.2.1.3 the activities related to, the progress of, and the costs incurred in connection with, the Development Program;

5.2.1.4 summaries of the Research Results;

5.2.1.5 Apellis' forecast of the estimated timeline (on at least a [**] basis) for its development activities with respect to the Product for PNH;

5.2.1.6 the addition to the Development Program of any new clinical trial testing the efficacy of the Product for PNH; and

5.2.1.7 any other matters the Parties mutually agree will be, or are expressly provided in this Agreement to be, reviewed and discussed by the JSC.

5.2.2 Responsibilities (Review and Approve). The JSC's responsibilities will include reviewing and approving (in each case, such approval not to be unreasonably withheld, conditioned or delayed) the following:

5.2.2.1 any change in the Development Program that is not required by, or made to respond to comments from, a Regulatory Authority, that would materially decrease the likelihood of obtaining or materially increase the timeline for obtaining a Regulatory Approval in the US or the EU, and that is:

(a) a change to the lead indication of the Trial (i.e., PNH);

(b) a change to any primary or secondary endpoint or the ordering of secondary endpoints of the Trial as set forth on Exhibit K;

(c) a material change to the statistical analysis plan or reduction of the statistical powering of the Trial as set forth in the applicable Protocols;

(d) the substitution or addition of any arms in the Trial;

(e) any material change to the inclusion criteria or exclusion criteria with respect to the Trial as set forth in the applicable Protocol; or

(f) any change from the Manufacturer or any material changes to the manufacturing process for either (i) the drug substance utilized in the Product or (ii) the final Product that, in either case, will be used in the Trial; or

5.2.2.2 any other matters the Parties mutually agree will be, or are expressly provided in this Agreement to be, reviewed and approved by the JSC.

5.2.3 Limitation on Authority. Notwithstanding anything to the contrary set forth in this Agreement, the JSC will have no authority to (x) amend, modify or waive compliance with this Agreement, or (y) resolve any dispute concerning the validity, interpretation, construction of, or breach of this Agreement.

5.2.4 Decision-Making. Apellis shall retain sole decision-making authority over all matters within the scope of the JSC's oversight other than the matters described in the foregoing Section 5.2.2. The unanimous approval of the JSC will be required with respect to all matters within its decision-making authority as described in the foregoing Section 5.2.2. The JSC Representatives of each Party will collectively have one (1) vote (with the result that each Party (rather than the individual JSC Representatives) has one vote). If the JSC cannot reach consensus on an issue for which it has decision-making authority, then Apellis shall have the final decision-making authority, provided that if SFJ disagrees with any such Apellis decision with regard to any of the matters set forth in Section 5.2.2, SFJ shall have the right to terminate this Agreement as provided in Section 14.2.10.

5.3 Reports to be Provided to the JSC.

5.3.1 Progress Reports. Except as may otherwise be agreed by the Parties, at each JSC meeting Apellis will provide an update on the progress of the Trial and progress toward obtaining Regulatory Approvals from FDA and EMA. Apellis shall promptly inform the JSC of the achievement of the Phase 3 Milestone and of Trial Success.

5.3.2 Additional Matters on Which Apellis Shall Report. In addition to the matters specified in Section 5.3.1 above, Apellis shall report on any material developments with respect to the matters set forth on Exhibit G.

ARTICLE 6

PAYMENTS TO SFJ

6.1 Regulatory Approval Following Completion of the Trial. Following Regulatory Approval by: (i) the FDA, Apellis will pay to SFJ an initial payment in the amount set forth below to be made within [**] after the date of the first Regulatory Approval by the FDA based

upon the date of such Regulatory Approval as shown on the table below (the "Initial US Payment") and annual payments in the amounts set forth below on or before each applicable anniversary of the date of the applicable Regulatory Approval (the "US Approval Payments") (in millions of US Dollars); and/or (ii) the EMA, Apellis will pay to SFJ an initial payment in the amount set forth below to be made within [**] after the date of the first Regulatory Approval by the EMA based upon the date of such Regulatory Approval as shown in the table below (the "Initial EU Payment") and annual payments in the amounts set forth below on or before each applicable anniversary of the date of the applicable Regulatory Approval (the "EU Approval Payments") (in millions of US Dollars). The Initial US Payment, Initial EU Payment, US Approval Payments and EU Approval Payments are collectively referred to as the "Approval Payments," and shall be subject to adjustment as provided in Section 6.2.

Approval Period	Approval Region	Initial Payment	First Anniversary	Second Anniversary	Third Anniversary	Fourth Anniversary	Fifth Anniversary	Sixth Anniversary	Total Payments
On or before	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Apr. 30, 2021	**EU**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
May-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Jun-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Jul-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Aug-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Sep-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Oct-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Nov-2021	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
	EU	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
On or after	**US**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**
Dec. 1, 2021	**EU**	2.50	[**]	[**]	[**]	[**]	[**]	[**]	**195.00**

Values are in millions of US Dollars

6.2 Payment Adjustments. In the event that the actual funding paid to Apellis by SFJ hereunder (including any additional amounts paid by SFJ pursuant to Section 4.3) is lower or greater than One Hundred Twenty Million U.S. Dollars ($120,000,000.00), the Approval Payments will be multiplied by a fraction, the numerator of which is equal to such actual funding paid to Apellis by SFJ hereunder and the denominator of which is equal to One Hundred Twenty Million U.S. Dollars ($120,000,000.00). In the event that SFJ pays to Apellis the Additional SFJ Funding in accordance with Section 4.3, for purposes of the foregoing adjustment, [**] U.S. Dollars ($[**]) of such Additional SFJ Funding shall be allocated to the calculation of the US Approval Payments and [**] U.S. Dollars ($[**]) of such Additional SFJ Funding shall be

allocated to the calculation of the EU Approval Payments. If Apellis obtains Regulatory Approval based on data from the PRINCE Trial after a termination of this Agreement pursuant to Section 14.2.3, then, for purposes of Section 14.3.3, the Approval Payment schedule set forth above in Section 6.1 shall be replaced in its entirety with a royalty (the "PRINCE-Only Royalty") equal to [**], which royalty shall be payable until the earlier of such time as the cumulative royalty amounts paid by Apellis to SFJ reach three hundred ninety million dollars ($390,000,000) or such time as Apellis and its Affiliates, licensees, sublicensees and transferees have permanently discontinued all Commercialization of systemic formulations of the Product. For purposes of the foregoing royalty formula, [**].

6.3 Method and Timing of Payment. The US and/or EU Approval Payments to SFJ will be due and payable as of the applicable annual anniversary of the date of the applicable Regulatory Approval or (if applicable) the PRINCE-Only Royalty will be due and payable [**] after the end of each [**]. Such payments will be made by wire transfer to SFJ's account that SFJ may reasonably designate by written notice to Apellis. Apellis will provide SFJ with written notice of each wire transfer to SFJ's account. All amounts payable and calculations under this Agreement shall be in US dollars.

6.4 Late Payments. If either Party fails to pay any amount due under this Agreement on the due date therefore, then, without prejudice to any other remedies that other Party may have, that amount will bear interest from the due date until payment of such amount is made, both before and after any judgment, at a rate equal to: (a) for the first [**] following the due date until payment of such amount is made, the [**] U.S. dollar prime rate effective for the date that payment was due, as reported by Bloomberg plus [**] percent ([**]%), (b) for the next [**] following the due date until payment of such amount is made, the [**] U.S. dollar prime rate effective for the date that payment was due, as reported by Bloomberg plus [**] percent ([**]%) and (c) thereafter, [**] percent ([**]%) per annum; in each case ((a), (b), and (c)) computed on the basis of a year of 360 days for the actual number of days payment is delinquent or if such rate exceeds the maximum amount permitted by Applicable Law, at such maximum rate.

6.5 Taxes. The Parties hereby acknowledge and agree that (a) no withholding or similar taxes will be imposed or levied on account of any payment made under this Agreement, unless such withholding or similar tax becomes payable due to the assignment of this Agreement or any payment obligation hereunder (to the extent permitted) by SFJ to an Affiliate or Third Party, the re-domiciling of SFJ outside the US or any other circumstance that results in SFJ no longer being a US Person for tax purposes and (b) to the extent that there is a change in Applicable Laws at any time during the Term such that withholding or other additional potential taxes may be imposed or levied on account of the payment of any amounts under this Agreement, then the Parties shall use reasonable and legal efforts to mitigate the amount of such taxes that would need to be withheld and/or paid.

6.6 Tax Cooperation. The Parties will cooperate and produce on a timely basis any tax forms or reports, including any IRS Forms W-8BEN or W-9, as applicable, reasonably requested by the other Party in connection with any payment made under this Agreement. Each Party will provide to the other Party any tax forms that may be reasonably necessary in order for such Party not to withhold tax or to withhold tax at a reduced rate under an applicable bilateral income tax treaty. Each Party will provide to the other Party any tax forms at least [**] prior to

the due date for any such payments. Each Party will provide the other with reasonable assistance to enable the recovery, as permitted by law, of withholding taxes, VAT, or similar obligations resulting from payments made under this Agreement, such recovery to be for the benefit of the Party bearing such withholding tax or VAT. Each Party will provide reasonable cooperation to the other Party, at the other Party's expense, in connection with any official or unofficial tax audit or contest relating to tax payments made with respect to amounts paid or payable to such other Party under this Agreement.

6.7 Buyout Option. At any time following the receipt of a Regulatory Approval, Apellis shall have the right to make one-time (with respect to each of the US and the EU) cash payments (each, a "Buyout Payment") in lieu of all or a portion (but not, in the case of any such partial buyout, less than the lesser of (a) [**] percent ([**]%) of the Approval Payments (other than the PRINCE-Only Royalty, which, unless otherwise agreed by the Parties, shall not be subject to Apellis' buyout right) unpaid as of the time of the first such Buyout Payment or (b) the remaining portion of the unpaid Approval Payments that had not previously been bought out) of future, unpaid Approval Payments with respect to the US or EU, as applicable (other than any then past-due Approval Payments, which shall remain immediately due and payable) payable pursuant to Section 6.1 as a result of such Regulatory Approval (such Approval Payments, the "Payment Stream") by written notice (the "Buy-Out Notice") delivered to SFJ no later than [**] prior to the due date for the next installment of the Payment Stream, which written notice shall set forth the amount of the applicable Buyout Payment, the proposed date of closing (which shall occur within [**] after the date of the Buy-Out Notice and be no later than [**] before the due date for the next installment of the Payment Stream), and the calculation of the Buyout Payment in reasonable detail based upon the proposed closing date. The Buyout Payment will be calculated as follows:

[**]

Each Buyout Payment will be payable in one installment in cash at the closing to an account specified by SFJ. The discount rate used to calculate each Buyout Payment shall be as follows: (i) if the Buy-Out Notice is delivered to SFJ within ninety (90) days following the applicable Regulatory Approval, the discount rate shall be six percent (6.0%), or (ii) if the Buy-Out Notice is delivered to SFJ after ninety (90) days following the date of applicable Regulatory Approval, the discount rate shall be five percent (5.0%).

ARTICLE 7

SECURITY INTEREST

7.1 Grant of Security Interest. As security for the payment and performance of the Apellis Obligations, Apellis hereby grants to SFJ, effective upon Apellis' receipt of the initial funding payment by SFJ of Sixty Million U.S. Dollars ($60,000,000.00) set forth in the table in Section 4.2, a security interest in all of Apellis' right, title and interest (excluding any leasehold interest) in, to and under all of its personal property, wherever located and whether now existing or owned or hereafter acquired or arising, including all accounts, books and records, chattel paper, commercial tort claims, deposit accounts, documents, equipment (including all fixtures), general intangibles (except as otherwise provided below), instruments, inventory, investment

property, letter-of-credit rights, other goods, money and all products, proceeds and supporting obligations of any and all of the foregoing (collectively, the "SFJ Collateral"). This Agreement shall create a continuing security interest in the SFJ Collateral which, subject to earlier termination as set forth in Section 14.3.11, shall remain in effect until all Apellis Obligations have been paid or satisfied. Anything herein to the contrary notwithstanding, in no event shall the SFJ Collateral include, and Apellis shall not grant and shall not be deemed to have granted a security interest in, any of Apellis' right, title or interest in (a) any of the outstanding voting capital stock or other ownership interests of a CFC in excess of 65% of the voting power of all classes of capital stock or other ownership interests of such CFC entitled to vote; provided that (i) immediately upon the amendment of the IRC to allow the pledge of a greater percentage of the voting power of capital stock or other ownership interests in a CFC without adverse tax consequences, the SFJ Collateral shall include, and Apellis shall be deemed to have granted a security interest in, such greater percentage of capital stock or other ownership interests of each CFC; and (ii) if no adverse tax consequences to Apellis shall arise or exist in connection with the pledge of any CFC, the SFJ Collateral shall include, and Apellis shall be deemed to have granted a security interest in, such CFC; or (b) any (i) APL Intellectual Property or (ii) license agreement under which Apellis Controls APL Intellectual Property (including the Penn Licenses); provided, however, that the SFJ Collateral shall include all Accounts and all proceeds of APL Intellectual Property (including proceeds of the Penn License).

7.2 Priority of Security Interest. Apellis represents, warrants and covenants that, subject to fulfilment of Apellis' obligations under Section 7.4 and SFJ making any filings necessary to achieve such perfection, the security interest granted to SFJ pursuant to this Article 7 (the "SFJ Security Interest") commencing on the Funding Date shall be and shall at all times thereafter continue to be a first priority perfected security interest in the SFJ Collateral (subject only to Permitted Liens that are permitted pursuant to the terms of this Agreement to have superior priority to the SFJ Security Interest and subject to the obligations set forth in Section 7.4).

7.3 Authorization to File Financing Statements. Apellis hereby authorizes SFJ, on or after the Funding Date, to file financing statements, without notice to Apellis, with all appropriate jurisdictions to perfect or protect the SFJ Security Interest, including a notice that any disposition of any SFJ Collateral by Apellis shall be deemed to violate the rights of SFJ under the UCC. Such financing statements may indicate the SFJ Collateral as substantially the same as the SFJ Collateral described in Section 7.1 or words of similar effect, or as being of an equal or lesser scope, or with greater detail, all in SFJ's discretion; provided, however, that any such filing shall reference the exclusions specified in Section 7.1, including the exclusions of APL Intellectual Property and the Penn Licenses, from the SFJ Collateral.

7.4 Subordination or Payoff of SVB Loan and GDP Note. On or before the Initial Funding Date, Apellis shall (a) provide SFJ with satisfactory evidence that (i) Apellis has repaid the SVB Loan in full, satisfied and extinguished all obligations under the SVB Loan Agreement (other than indemnity obligations that survive the termination of the SVB Loan Agreement), the SVB Loan Agreement has been terminated and all Liens in the SVB Collateral released and all rights therein have been released, (ii) Apellis has modified the SVB Loan Agreement through an amendment to the definition of Collateral thereunder or otherwise such that the SVB Loan is solely collateralized through a pledge of cash of Apellis equal in amount to the obligations of

Apellis to SVB under the SVB Loan Agreement (provided that nothing in the amended SVB Loan Agreement will conflict with or adversely affect the ability of Apellis to perform its obligations, or adversely affect the rights of SFJ, under this Agreement) or (iii) SVB has entered into a subordination agreement reasonably satisfactory to SFJ pursuant to which SVB will subordinate to SFJ all existing and future Liens of SVB in any and all property of Apellis including, without limitation, the SVB Collateral, and (b) provide SFJ with satisfactory evidence that (i) Apellis has repaid the GDP Note in full, satisfied and extinguished any and all other obligations of Apellis under the GDP Note, and the GDP Note has been cancelled or (ii) Golda Darty Partners Société Anonyme ("GDP") has entered into a subordination agreement reasonably satisfactory to SFJ pursuant to which GDP will subordinate to SFJ all existing and future Liens of GDP in any and all property of Apellis.

7.5 Negative Covenants.

7.5.1 Incurrence of Certain Indebtedness. Apellis shall not, without SFJ's prior written consent, create, incur, assume, or be liable for any Indebtedness, or permit any subsidiary of Apellis to do so, other than Permitted Indebtedness.

7.5.2 Subordinated Debt. Apellis shall not (a) make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to Subordinated Debt which would provide for earlier or greater principal, interest, or other payments thereon, or adversely affect the subordination thereof to Apellis Obligations owed to SFJ.

7.5.3 Encumbrances. Apellis shall not, without SFJ's prior written consent:

7.5.3.1 permit any SFJ Collateral not to be subject to the first priority security interest granted pursuant this Article 7, subject to Permitted Liens; or

7.5.3.2 create, incur, allow, or suffer any Lien on any of the APL Intellectual Property, or assign or convey any right to receive income with respect to the APL Intellectual Property (other than royalty and other license fee obligations to licensors thereof in accordance with the applicable license agreement), including the sale of any APL Intellectual Property, or permit any of its subsidiaries to do so.

7.5.3.3 except as and to the extent permitted by Section 7.5.6, enter into any agreement, document, instrument or other arrangement (except with or in favor of SFJ) with any Person which directly or indirectly prohibits or has the effect of prohibiting Apellis or any subsidiary of Apellis from assigning, mortgaging, pledging, granting a security interest in or upon or encumbering (i) any proceeds from APL Intellectual Property or (ii) any proceeds of the Penn License.

7.5.4 Distributions; Investments. Apellis shall not, without SFJ's prior written consent, (a) pay any dividends or make any distribution or payment on account of or redeem, retire or purchase any capital stock, provided that (i) Apellis may convert any

of its equity convertible securities into other equity securities (or cash for partial shares) pursuant to the terms of such equity convertible securities or otherwise in exchange thereof, (ii) Apellis may pay dividends solely in common stock, and (iii) Apellis may repurchase the stock of former employees or consultants pursuant to stock repurchase agreements, provided that the aggregate amount of all such repurchases does not exceed [**] Dollars ($[**]) per fiscal year; or (b) directly or indirectly make any Prohibited Investment (including, without limitation, by the formation of or through any subsidiary), or permit any of its subsidiaries to do so. For the avoidance of doubt, nothing in this Section 7.5.4 shall limit the ability of Apellis to pay or settle on conversion (in cash or equity) any convertible indebtedness.

7.5.5 Licensing Transactions. Apellis shall not, without SFJ's prior written consent, enter into a Licensing Transaction unless such Licensing Transaction is an Excluded Licensing Transaction, in which case such prohibition shall not apply and no such consent of SFJ shall be required; provided that, SFJ shall only be entitled to withhold such consent as to a Licensing Transaction other than an Excluded Licensing Transaction in the event SFJ reasonably determines, and provides Apellis with written notice of its objection within [**] of Apellis providing to SFJ a non-binding term sheet or comparable document summarizing the material terms of the proposed Licensing Transaction, that Apellis entering into such Licensing Transaction would have a substantial likelihood of materially adversely impacting Apellis' ability to timely pay or satisfy all of the Apellis Obligations ("Material Impact"). If Apellis disagrees with SFJ's determination, the matter shall be submitted to arbitration before a single arbitrator under the American Arbitration Association's (AAA's) expedited arbitration rules, which arbitrator shall be mutually agreeable to both Parties and have significant expertise on the subject matter to be decided (provided that if the Parties have not mutually agreed on such arbitrator within [**] after the applicable demand for arbitration, the AAA shall designate such arbitrator), such arbitration to be concluded and the arbitrator's award to be rendered within [**] of the applicable demand for arbitration. The sole issue to be decided in the arbitration shall be whether the entry into such Licensing Transaction by Apellis would have a substantial likelihood of having a Material Impact. In the event the arbitrator agrees with SFJ, Apellis shall not be entitled to enter into such Licensing Transaction. In the event the arbitrator agrees with Apellis, Apellis shall be entitled to enter into the Licensing Transaction; provided that SFJ shall then be entitled to suspend its obligation to pay any further Apellis Development Costs until such time (if ever) as SFJ determines there is no longer a Material Impact (at which time, SFJ may only pay such deferred amounts upon the agreement of Apellis) and, following any Regulatory Approval, SFJ shall be entitled to receive all Approval Payments it otherwise would have been entitled to receive pursuant to Section 6.1, subject to adjustment as provided in Section 6.2.

7.5.6 Sales of Royalty Streams. Apellis shall not sell, transfer or assign, directly or indirectly, in whole or in part, any rights to receive payments of royalties or license fees with respect to the Product (including any Accounts with respect to such royalties or license fees); provided that, Apellis shall have the right to sell, transfer or assign rights to receive, or agree to make, payments of royalties of up to [**] percent

([**]%) of net product sales (including any Accounts with respect to such sales or royalties), provided further that SFJ shall maintain its senior security interest hereunder with respect to such payments, and provided still further that, Apellis shall not sell any such rights to receive, or agree to pay, such royalties without first notifying SFJ of its intention to engage in such transaction and providing SFJ and its constituent limited partners at least [**] to make an offer to Apellis to purchase such rights.

7.6 Affirmative Covenants. Apellis shall do all of the following:

7.6.1 Execution of Additional Security Agreements and Other Further Assurances.

7.6.1.1 Apellis shall, upon request of SFJ from time to time hereafter, execute such security agreements, stock pledge agreements, deposit account control agreements, and take such further action, as reasonably required to perfect or continue the SFJ Security Interest or to effect the purposes of this Article 7.

7.6.2 Government Compliance.

7.6.2.1 Maintain its and all its subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Apellis' business or operations, provided that any subsidiary may liquidate or dissolve so long as such liquidation or dissolution would not reasonably be expected to have a material adverse effect on Apellis' consolidated business or operations, and provided that in connection with such liquidation or dissolution all assets and property of any such subsidiary shall be transferred to Apellis or another subsidiary of Apellis. Apellis shall comply, and have each subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject noncompliance with which would reasonably be expected to have a material adverse effect on Apellis' business.

7.6.2.2 Obtain all of the Governmental Approvals, if any, necessary for the grant of a security interest to SFJ in the SFJ Collateral.

7.6.3 Regulatory Compliance. Apellis shall not become an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Apellis shall not become engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Neither Apellis' nor any of its Subsidiaries' properties or assets shall be used by Apellis or any Subsidiary in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Apellis and each of its subsidiaries shall obtain all consents, approvals and authorizations of, make all declarations or filings with, and give all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted, unless such failure could not reasonably be expected to have a material adverse effect on Apellis' business.

7.6.4 Protection of Intellectual Property Rights. Apellis shall use Commercially Reasonable Efforts in the exercise of its business judgment to prosecute, protect, defend and maintain the validity and enforceability of the APL Intellectual Property.

7.6.5 Acceleration. In the event that, following an applicable Regulatory Approval, Apellis shall fail to make any Approval Payment within [**] after the due date therefor in accordance with Article 6, all remaining unpaid Approval Payments that are based on any Regulatory Approval that has then been achieved shall become immediately due and payable; provided that, (a) in the event of any such acceleration, SFJ's rights to receive Approval Payments, if any, shall be adjusted as set forth in Section 6.2 and reduced by any amounts previously paid to SFJ as provided in Section 14.3, and (b) the PRINCE-Only Royalty shall not be subject to such acceleration.

7.7 Certain Defined Terms. As used in this Article 7 and elsewhere in this Agreement:

7.7.1 "Apellis Obligations" means all indebtedness, liabilities and other obligations of Apellis to SFJ under or in connection with this Agreement and any other documents executed in connection herewith, including, without limitation, all amounts payable to SFJ pursuant to Article 6 hereof, all interest accrued thereon, all fees and all other amounts payable by Apellis to SFJ thereunder or in connection therewith, whether now existing or hereafter arising, and whether due or to become due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and including interest that accrues after the commencement by or against Apellis of any bankruptcy or insolvency proceeding naming such individual or entity as the debtor in such proceeding, but excluding post-termination payment obligations as to which SFJ's security interest is released pursuant to Section 14.3.11 and excluding obligations under the Warrant.

7.7.2 "Contingent Obligation" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other debt obligation of another Person, in each case, directly or indirectly guaranteed, endorsed or co-made by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

7.7.3 "Excluded Licensing Transaction" has the meaning ascribed to such term in Section 1.1.47.

7.7.4 "Indebtedness" means (a) indebtedness for borrowed money or the deferred price of property or services (excluding any trade accounts incurred in the ordinary course of business), such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations (as such term is understood under GAAP as in effect on the date of this Agreement) and (d) Contingent Obligations.

7.7.5 "Investment" means any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

7.7.6 "Lien" means a mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

7.7.7 "Permitted Indebtedness" means:

7.7.7.1 Apellis Obligations;

7.7.7.2 Subordinated Debt;

7.7.7.3 unsecured Indebtedness;

7.7.7.4 Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;

7.7.7.5 Indebtedness secured by Liens permitted under subsections 7.7.8.1 (subject to Section 7.4) and 7.7.8.3 of the definition of "Permitted Liens" hereunder; and

7.7.7.6 Letters of credit issued for the payment of purchase obligations for equipment, materials and inventory and for the payment of equipment and real estate lease obligations (including security deposits in connection therewith).

7.7.8 "Permitted Liens" means:

7.7.8.1 Liens in favor Silicon Valley Bank pursuant to the SVB Loan Agreement (subject to the requirement that such Liens are to be terminated or subordinated as provided in Section 7.4) and Liens in favor of SFJ;

7.7.8.2 Liens for taxes, fees, assessments or other government charges or levies, either (i) not due and payable or (ii) being contested in good faith and for which Apellis maintains adequate reserves on its books and records, provided that no notice of any such Lien has been filed or recorded under the IRC;

7.7.8.3 purchase money Liens or capital leases (i) on equipment acquired or held by Apellis incurred for financing the acquisition of the equipment securing no more than $[**] in the aggregate amount outstanding, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment;

7.7.8.4 leases or subleases of real property granted in the ordinary course of Apellis' business (or, if referring to another Person, in the ordinary course of such Person's business), and leases, subleases, non-exclusive licenses or sublicenses of personal property (other than Intellectual Property) granted in the ordinary course of Apellis' business (or, if referring to another Person, in the ordinary course of such Person's business), if the leases, subleases, licenses and sublicenses do not prohibit granting SFJ a security interest therein;

7.7.8.5 Interests of lessors and licensors under leases and licenses to Apellis of real property and personal property;

7.7.8.6 Liens of carriers, warehousemen, suppliers, or other Persons that are possessory in nature arising in the ordinary course of business so long as such Liens attach only to inventory, securing liabilities in the aggregate amount which are not delinquent or remain payable without penalty or which are being contested in good faith and by appropriate proceedings which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

7.7.8.7 Liens to secure payment of workers' compensation, employment insurance, old-age pensions, social security and other like obligations incurred in the ordinary course of business (other than Liens imposed by ERISA);

7.7.8.8 Liens arising from attachments or judgments, orders, or decrees occurring after the Effective Date in circumstances not constituting or arising from a Fundamental Breach by Apellis;

7.7.8.9 Liens in favor of financial institutions arising in connection with Apellis' deposit and/or securities accounts held at such institutions, provided that SFJ has a first priority perfected security interest in the amounts held in such deposit and/or securities accounts;

7.7.8.10 Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in Sections 7.7.8.1 through 7.7.8.9 (excluding the SVB Loan), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;

7.7.8.11 Deposits securing bids or contracts;

7.7.8.12 Liens securing the payment of purchase obligations for equipment, materials and inventory and for the payment of equipment and real estate lease obligations (including security deposits in connection therewith); and

7.7.8.13 Other Liens securing liabilities in an aggregate amount not to exceed $[**].

7.7.9 "Prohibited Investments" means:

7.7.9.1 Investments in securities of privately held companies (other than wholly owned subsidiaries of Apellis and, where Applicable Law prevents whole ownership,

other than subsidiaries that are wholly owned by Apellis except for any nominal Third Party ownership that is required under Applicable Law);

7.7.9.2 Investments in or purchases of any real property (excluding real property to be occupied or used by Apellis or its subsidiaries), commercial or residential mortgages or mortgage-backed securities; and

7.7.9.3 Investments in auction rate securities, corporate high yield bonds (i.e. less than BBB quality), precious metals, derivatives including margin trades, options, futures, options on futures, short sales, forward contracts, swaps, repurchase agreements and reverse repurchase agreements.

7.7.9.4 Investments that are inappropriate or unusual for a biopharmaceutical company similar or of similar size to Apellis as determined in the reasonable judgment of Apellis' Board of Directors.

7.7.10 "SFJ Collateral" has the meaning set forth in Section 7.1.

7.7.11 "Subordinated Debt" means indebtedness incurred by Apellis that is subordinated to all Apellis Obligations and other indebtedness to SFJ (pursuant to a subordination, intercreditor, or other similar agreement in form and substance reasonably satisfactory to SFJ entered into between SFJ and the other creditor), on terms reasonably acceptable to SFJ.

ARTICLE 8

WARRANT ISSUANCE

8.1 Warrant Issuance. In the event that SFJ pays to Apellis the Additional SFJ Funding in accordance with Section 4.3, Apellis shall issue to SFJ a warrant ("Warrant") exercisable for Apellis common stock ("Stock") at an exercise price per share equal to the average closing price of the Stock over the 20 consecutive trading days ending on the last trading day immediately preceding the date that Apellis notifies SFJ that it is requesting such Additional SFJ Funding and exercisable in the event of Regulatory Approval from FDA for the number of shares of Stock equal to five percent (5%) of the amount of such Additional SFJ Funding paid to Apellis by SFJ divided by the exercise price and exercisable in the event of Regulatory Approval from EMA for the number of shares of Stock equal to five percent (5%) of the amount of such Additional SFJ Funding paid to Apellis by SFJ divided by the exercise price (i.e., if the Warrant is issued as set forth above and Regulatory Approvals from both FDA and EMA are obtained, in aggregate the Warrant would be exercisable for the number of shares of Stock equal to ten percent (10%) of the amount of such Additional SFJ Funding paid to Apellis by SFJ divided by the exercise price).

8.2 Form of Warrant. The Warrant shall in the form attached hereto as Exhibit I, shall have a term of ten (10) years, and shall contain "net-exercise" issuance provisions.

ARTICLE 9

RECORDS

9.1 Accounting. Each Party will maintain materially complete and accurate accounting records related to this Agreement in accordance with GAAP. Each Party will retain such records for [**] after the earlier of expiration or early termination of this Agreement.

9.2 Trial-Related Records. Except as otherwise provided herein, Apellis will maintain materially complete and accurate records related to the Trial until the later of (a) [**] following the Completion Date or (b) the time period required by Applicable Law.

ARTICLE 10

CONFIDENTIAL INFORMATION

10.1 Confidentiality. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the Parties, each Party (each, a "Receiving Party") agrees that, during the Term and for the [**] period following the expiration or termination of this Agreement (except that the obligations will survive thereafter with respect to any Confidential Information that constitutes a trade secret under Applicable Law) or such longer periods for which such Confidential Information may be maintained pursuant to Article 9, it will keep confidential and will not publish or otherwise disclose and will not use for any purpose other than as provided for in this Agreement (which includes the exercise of any rights or the performance of any obligations hereunder) any Confidential Information furnished to it by or on behalf of the other Party (each, a "Disclosing Party") or its Affiliates in connection with this Agreement. The foregoing obligations will not apply to any portion of such information or materials that the Receiving Party can demonstrate:

10.1.1 was publicly disclosed by the Disclosing Party before or after such Confidential Information becomes known to the Receiving Party;

10.1.2 was already known to the Receiving Party or any of its Affiliates, other than under an obligation of confidentiality or non-use, prior to when it was received from the Disclosing Party;

10.1.3 is subsequently disclosed to the Receiving Party or any of its Affiliates by a Third Party lawfully in possession thereof without obligation to keep such Confidential Information confidential;

10.1.4 has been published by a Third Party or otherwise enters the public domain through no fault of the Receiving Party or any of its Affiliates in breach of this Agreement; or

10.1.5 has been independently developed by the Receiving Party or any of its Affiliates, without the aid, application or use of any Confidential Information of the other Party.

10.2 Authorized Disclosure. Each Party may disclose Confidential Information belonging to the other Party to the extent such disclosure is reasonably necessary for complying with Applicable Laws, including regulations promulgated by securities exchanges, provided that the Party required to disclose such information promptly notifies the Disclosing Party prior to making any such disclosure and cooperates with the Disclosing Party's efforts to seek confidential treatment or to otherwise limit disclosure. Each Receiving Party may disclose the other Party's Confidential Information to its Affiliates, employees, agents, advisors, and independent contractors (including Permitted Third Parties) engaged by such Receiving Party, in each case (a) only to the extent such Persons need to know the Confidential Information solely in connection with the performance of this Agreement and (b) provided that each Person receiving Confidential Information must be bound by obligations of confidentiality and non-use at least as stringent as an equivalent in scope to those set forth in this Article 10 prior to any such disclosure and the Party making such disclosure to such Person shall be liable to the other Party for any breach of such obligations by such disclosee. Each Party may also disclose the material terms of this Agreement or provide a copy of this Agreement or a summary of such Party's findings during its due diligence investigation of the Products (if applicable) to any bona fide potential or actual investor, investment banker, acquirer, provider of debt or royalty financing, or other potential or actual financial partner ("Financial Partner") listed on Exhibit H without consent of the other Party, or other Financial Partners with the prior written consent of the other Party, and provided that in connection with such disclosure, each disclosee must be bound by obligations of confidentiality and non-use at least as stringent as an equivalent in scope to those set forth in this Article 10 prior to any such disclosure and the Party making such disclosure to such disclosee shall be liable to the other Party for any breach of such obligations by such disclosee. Notwithstanding anything in the foregoing to the contrary, Exhibit D constitutes Apellis' Confidential Information and not SFJ's Confidential Information, and Apellis may disclose Exhibit D to Third Parties as determined by Apellis in its sole discretion. In any event, each Party agrees to take all reasonable action to avoid unauthorized use or disclosure of Confidential Information of the other Party hereunder.

10.3 Return of Confidential Information. Except as otherwise provided herein, upon expiration or earlier termination of this Agreement, all Confidential Information (including any copies thereof) in written or other tangible form will, at the Disclosing Party's direction, be returned to the Disclosing Party or destroyed by the Receiving Party, and any Person(s) to whom the Receiving Party disclosed (with such destruction being certified in writing by an authorized officer of the Receiving Party), except (i) to the extent such Confidential Information is necessary to exercise any license and/or rights hereunder that survive such expiration or earlier termination; and (ii) one (1) copy of each document may be retained by the Receiving Party solely to the extent necessary to permit it to comply with any ongoing rights and responsibilities with respect to such Confidential Information.

10.4 Confidential Status of the Agreement. Subject to Section 10.2 and Section 10.5, the terms of this Agreement are deemed to be Confidential Information and will be subject to the confidentiality requirements of this Article 10, with each Party being deemed a Receiving Party for such purposes. The Parties each acknowledge that it will be necessary for Apellis to file this Agreement with the US Securities and Exchange Commission and to make other required public disclosures regarding the terms of this Agreement, and accordingly Apellis shall prepare a

confidential treatment request in connection with such filing and provide SFJ a reasonable opportunity to review and comment on such filing as well as on such other required public disclosures and thereafter use Commercially Reasonable Efforts to obtain confidential treatment as to the terms of this Agreement.

10.5 Publicity. The Parties recognize that following the Effective Date the Parties (either individually or jointly) shall issue mutually agreed press release(s) announcing the execution of this Agreement, and thereafter each Party may from time to time desire to issue additional press releases and make other public statements or disclosures regarding the subject matter of this Agreement, and hereby agree that such additional press releases, public statements and disclosures regarding the terms of this Agreement will be permitted only with the other Party's written consent (which shall not be unreasonably withheld, conditioned or delayed). Any publication, news release or other public announcement relating to the terms of this Agreement will first be reviewed and approved in writing by both Parties; provided, however, that any disclosure of the minimum information which is required by Applicable Law (including the rules of a securities exchange), as reasonably advised by the disclosing Party's counsel, may be made without the prior consent of the other Party, although the other Party will be given prompt notice of any such legally required disclosure and to the extent practicable will be provided an opportunity to comment on the proposed disclosure and the disclosing Party will consider in good faith any comments provided by the other Party on such proposed disclosure. For avoidance of doubt, this Section 10.5 shall not restrict Apellis from releasing public statements or disclosures regarding Apellis' development and Commercialization activities with respect to the Product.

10.6 SFJ Name. Unless otherwise expressly permitted herein, Apellis will obtain the written consent of SFJ (which consent will not unreasonably be withheld, conditioned or delayed) prior to referring to SFJ in any correspondence with any Regulatory Authority or Governmental Authority, except as may be required by Applicable Law.

ARTICLE 11

INTELLECTUAL PROPERTY AND PERSONALLY IDENTIFIABLE INFORMATION

11.1 Ownership and Rights.

11.1.1 Ownership.

11.1.1.1 Apellis will own and retain all right, title and interest in, to and under all data, results, information, analyses, discoveries, inventions and know-how that are Controlled by Apellis as of the Effective Date and no such right, title or interest therein, thereto or thereunder is granted to SFJ hereunder.

11.1.1.2 Apellis will be the exclusive and sole owner of and retain all right, title and interest in, to and under (a) all Research Results; (b) the Product; (c) all discoveries and inventions discovered, developed or invented by, or on behalf of, either Party, and any of their Affiliates, and any Permitted Third Party, in connection with the Trial and/or

this Agreement; (d) all improvements that are discovered, developed or invented by, or on behalf of Apellis that relate to Intellectual Property that is Controlled by Apellis as of the Effective Date (collectively, the "Apellis Improvements"); and (e) all Intellectual Property in the foregoing subsections (a) through (d) (all of the foregoing (a)-(e), collectively, the "Trial Inventions"). SFJ shall, and hereby does, assign to Apellis all rights, title and interest of SFJ in, to and under the Trial Inventions, if any.

11.1.2 No Other Rights. Neither the delivery of any information nor of any materials to SFJ hereunder will be construed to grant SFJ any rights or license to use any Intellectual Property Controlled by Apellis. SFJ may not use, publish or otherwise disclose any Intellectual Property Controlled by Apellis without Apellis' prior written consent.

11.2 Patent Prosecution. As between SFJ and Apellis, Apellis will have sole and exclusive right to prepare, file, prosecute and maintain all Patents within the APL Intellectual Property, including all Patents that cover the Trial Inventions and Apellis Improvements, at its own expense (including, for clarity, the sole and exclusive right to decide not to seek Patent protection or to abandon any such Patent). At Apellis' request and expense (for reasonable out-of-pocket expenses), SFJ will reasonably cooperate with Apellis in preparing, filing, prosecuting, and maintaining such Patents.

11.3 Intellectual Property Enforcement.

11.3.1 Apellis Intellectual Property. Apellis will have the sole and exclusive right, but not the obligation, to enforce Intellectual Property Controlled by Apellis, including Intellectual Property that covers the Trial Inventions, against Third Party Infringements.

11.3.2 Infringement of Third Party Rights. If either Party learns of Third Party allegations that it or the other Party or any of its or the other Party's Affiliates, or with respect to Apellis any Permitted Third Parties, have infringed, misappropriated or otherwise violated, or are infringing, misappropriating or otherwise violating, any Intellectual Property of a Third Party in connection with either the Trial or performing its obligations or duties hereunder, such Party will promptly notify the other Party. Apellis will have sole control and responsibility of, and discretion with respect to, such allegations and any related actions and/or litigation.

11.4 Personally Identifiable Information.

11.4.1 Subject Personally Identifiable Information.

11.4.1.1 In conducting of the Trial and its other obligations hereunder, Apellis will comply and will use Commercially Reasonable Efforts to require each applicable Permitted Third Party agree to comply with Applicable Laws relating to privacy or data protection applicable to Apellis or the Trial, including ensuring that all necessary (a) consents from Clinical Investigators, Subjects and any others from whom Personally Identifiable Information will be received are obtained; (b) regulatory notifications are filed in all countries

for which Sites have been selected; and (c) approvals are obtained in all countries for which Sites have been selected, prior to collection or transfer of such Personally Identifiable Information.

11.4.1.2 Apellis will not process any Personally Identifiable Information in a way that is contrary to Applicable Laws.

11.4.1.3 Apellis will use Commercially Reasonable Efforts to maintain appropriate and sufficient technical and organizational security measures to maintain the confidentiality of Personally Identifiable Information and to protect such data against accidental or unlawful destruction or accidental loss, damage, alteration, unauthorized disclosure or access, in particular where such data is transmitted over a network.

ARTICLE 12

INDEMNIFICATION AND INSURANCE

12.1 Indemnification by Each Party.

12.1.1 By SFJ. SFJ will indemnify and hold Apellis; its Affiliates and their respective officers, directors, employees and agents (the "Apellis Indemnified Parties"), harmless from any and all Losses arising or resulting from any Claims by a Third Party against any Apellis Indemnified Parties to the extent arising from (a) SFJ's gross negligence or willful misconduct in performing its obligations under this Agreement; and/or (b) SFJ's material breach of this Agreement, provided that the foregoing shall not subject SFJ to liability for lost revenues, profits, or other consequential damages of Apellis or any Third Party; except to the extent that any of the foregoing (a) and/or (b) was caused by Apellis' gross negligence, willful misconduct, or material breach of this Agreement.

12.1.2 By Apellis. Apellis will indemnify and hold SFJ, its Affiliates, SFJ's investors and their respective officers, directors, employees and agents (the "SFJ Indemnified Parties"), harmless from any and all Losses arising or resulting from any Claims by a Third Party against any SFJ Indemnified Parties to the extent arising from (a) a Product supplied by Apellis; (b) a physical injury or death of a Subject that is caused by the Subject's participation in the Trial not directly attributable to the Product; (c) Apellis' gross negligence or willful misconduct in the conduct of the Trial or preparation and submission of the information for Regulatory Approval; (d) Apellis' material breach of this Agreement, provided that the foregoing shall not subject Apellis to liability for lost revenue, profits, or other consequential damages of SFJ or any of SFJ's investors or any other Third Party; (e) any Permitted Third Party's material breach of the Protocol, (f) actual or alleged infringement of any Third Party's Intellectual Property by the Product or by Apellis in performing its duties or obligations hereunder with respect to the Product; and (g) injuries sustained by Subjects in connection with the Trial, including Claims arising prior to the Effective Date based upon physical injury or death of a Subject in connection with the Trial, or from the Commercialization of the Product except to the extent that any of the foregoing (a) through (g) were caused by SFJ's gross negligence, willful misconduct, or material breach of this Agreement.

12.2 Indemnification Procedure.

12.2.1 Notice of Claim. A Party believing that it is entitled to indemnification under Section 12.1.1 or 12.1.2 (an "Indemnified Party") will give prompt written notice (each, an "Indemnification Claim Notice") to the other Party (the "Indemnifying Party") of commencement of any Claim for which indemnification may be sought, or if earlier, upon the assertion of any such Claim by a Third Party (it being understood and agreed, however, that the failure by an Indemnified Party to give notice of a Claim of a Third Party as provided in this Section will not relieve the Indemnifying Party of its indemnification obligation under this Agreement except and only to the extent that such Indemnifying Party is actually prejudiced as a result of such failure to give notice). Each Indemnification Claim Notice will contain a description of the Claim and the nature and amount of the Loss (to the extent that the nature and amount of such Loss are known at such time). The Indemnified Party will furnish promptly to the Indemnifying Party copies of all papers and official documents received in respect of any Losses.

12.2.2 Control of Defense. At its option, the Indemnifying Party may assume the defense of any Claim by giving written notice to the Indemnified Party within [**] after the Indemnifying Party's receipt of an Indemnification Claim Notice. The assumption of the defense of a Claim by the Indemnifying Party will not be construed as an acknowledgment that the Indemnifying Party is liable to indemnify the Indemnified Party in respect of the Claim, nor will it constitute a waiver by the Indemnifying Party of any defenses it may assert against the Indemnified Party's claim for indemnification. Upon assuming the defense of a Claim, the Indemnifying Party may appoint as lead counsel in the defense of the Claim any legal counsel selected by the Indemnifying Party. In the event the Indemnifying Party assumes the defense of a Claim, the Indemnified Party will promptly deliver to the Indemnifying Party all original notices and documents (including court papers) received by the Indemnified Party in connection with the Claim. Should the Indemnifying Party assume the defense of a Claim, the Indemnifying Party will not be liable to the Indemnified Party for any legal expenses subsequently incurred by such Indemnified Party in connection with the analysis, defense or settlement of such Claim.

12.2.3 Right to Participate in Defense. Without limiting Section 12.2.2, the Indemnified Party will be entitled to (a) participate in, but not control, the defense of such Claim and to engage counsel of its choice for such purpose; provided, however, that such engagement will be at the Indemnified Party's own expense unless the engagement thereof has been specifically authorized by the Indemnifying Party in writing, and (b) control its defense of such Claim and to engage counsel of its choice for such purpose, at the expense of the Indemnifying Party, if the Indemnifying Party has failed to assume the defense and engage counsel in accordance with Section 12.2.2.

12.2.4 Settlement. With respect to any Losses related solely to payment of money damages in connection with a Claim and that will not result in the Indemnified Party admitting liability, becoming subject to injunctive or other equitable relief that will otherwise adversely affect the business of the Indemnified Party in any manner, and as to

which the Indemnifying Party will have acknowledged in writing the obligation to indemnify the Indemnified Party hereunder, the Indemnifying Party will have the sole right to consent to the entry of any judgment, enter into any settlement or otherwise dispose of such Loss, on such terms as the Indemnifying Party, in its sole discretion, will deem appropriate. With respect to all other Losses in connection with Claims, where the Indemnifying Party has assumed the defense of the Claim in accordance with Section 12.2.2, the Indemnifying Party will have authority to consent to the entry of any judgment, enter into any settlement or otherwise dispose of such Loss provided it obtains the prior written consent of the Indemnified Party (which consent will not be unreasonably withheld, conditioned or delayed). The Indemnifying Party will not be liable for any settlement or other disposition of a Loss by the Indemnified Party that is reached without the written consent of the Indemnifying Party. Regardless of whether the Indemnifying Party chooses to defend or prosecute any Claim, the Indemnified Party will not admit any liability with respect to, or settle, compromise or discharge, any Claim without the prior written consent of the Indemnifying Party, not to be unreasonably withheld or delayed.

12.2.5 Cooperation. Regardless of whether the Indemnifying Party chooses to defend or prosecute any Claim, the Indemnified Party will reasonably cooperate in the defense or prosecution thereof and will furnish such records, information and testimony, provide such witnesses and attend such conferences, discovery proceedings, hearings, trials and appeals as may be reasonably requested in connection therewith. Such cooperation will include access during normal business hours afforded to the Indemnifying Party to, and reasonable retention by the Indemnified Party of, records and information that are reasonably relevant to such Claim, and making employees and agents available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder, and the Indemnifying Party will reimburse the Indemnified Party for all its reasonable out-of-pocket expenses in connection therewith.

12.3 Insurance.

12.3.1 Generally. Commencing as of the Effective Date and thereafter during the Development Term, and subject to Section 12.3.2 below, Apellis will carry and maintain, at its own expense, insurance coverage of the kind and with liability limits that, at a minimum, satisfy the requirements of Section 12.3.2, to protect itself and SFJ against any claims or liabilities that may arise from the conduct of the Trial and all other rights and obligations hereunder with insurers with a minimum "A-" A.M. Best rating. Any deductibles for such insurance policies will be assumed by Apellis. Such insurance policies will be primary and non-contributing with respect to any other similar insurance policies available to SFJ or its Affiliates. Prior to the Effective Date, and annually, at each anniversary of the Effective Date (unless, during such year, expiration of the applicable policy occurs first, in which case, on such expiration date), at SFJ's written request Apellis will provide SFJ with documentation of such insurance coverage via original certificates of insurance, if applicable. Apellis will provide SFJ a minimum of [**] prior written notice to SFJ if it is unable to obtain appropriate insurance coverage or if its coverage is canceled, unable to be renewed or materially changed. For clarity,

failure to maintain adequate insurance coverage does not relieve or reduce Apellis' liability under this Agreement. Apellis will ensure that no subcontractor, including any Permitted Third Party, will continue to perform the work unless such subcontractor is insured as deemed appropriate by the Party engaging the Permitted Third Party.

12.3.2 Minimum Requirements. Commencing as of the start of the Trial and thereafter, during the Term (or longer if otherwise stated below), at a minimum, Apellis, will maintain the following types of insurance coverage at a minimum level that is the greater of (a) the highest minimum level required by Applicable Law in the countries in which the Trial and other obligations hereunder are being performed or (b) the following (to the extent different):

12.3.2.1 Commercial General Liability: [**] dollars ($[**]) per occurrence; [**] dollars ($[**]) Product and Completed Operations aggregate, including Premises & Operations, Personal Injury, Product and Completed Operations; [**] dollars ($[**]) combined single limit on all owned, non-owned and hired vehicles of Apellis.

12.3.2.2 Umbrella Excess Liability: [**] dollars ($[**]) per occurrence.

12.3.2.3 Clinical Trial Liability: [**] dollars ($[**]) per occurrence. Apellis will obtain such Clinical Trial Liability insurance and SFJ will reimburse Apellis for the costs of obtaining such insurance, provided that the amount of such reimbursement shall be included as Apellis Development Costs. Coverage must be maintained for at least [**] after the later of termination of this Agreement or release of the last Subject from the Trial.

12.3.2.4 Professional Liability: Any subcontractor, including any Permitted Third Party, who provides professional services to Apellis for the Trial, will obtain Professional Liability Insurance in lieu of Clinical Trial Insurance, with a minimum limit of [**] dollars ($[**]) per occurrence. Coverage must be maintained for at least [**] after the later of (i) expiration or early termination of this Agreement and (ii) release of the last Subject from the Trial.

12.3.3 Additional Insured. Apellis will include SFJ and its Affiliates as additional insured parties on Apellis' Clinical Trial Liability insurance, as set forth in Section 12.3.2.3, for the duration of the Trial and for [**] after the later of termination of this Agreement or release of the last Subject from the Trial.

12.3.4 Product Liability Insurance. Apellis will be responsible for maintaining product liability insurance related to the Commercialization of the Product at its expense.

ARTICLE 13

REPRESENTATIONS AND WARRANTIES

13.1 Representations and Warranties of Both Parties.

13.1.1 Each Party hereby represents and warrants that it has the requisite corporate power and authority to enter into this Agreement and that this Agreement constitutes a legal and valid obligation binding upon such Party, enforceable in accordance with its terms.

13.1.2 Each Party hereby represents and warrants that it is not a party to any agreement that would prevent it from fulfilling its obligations under this Agreement.

13.1.3 Each Party hereby represents and warrants that it has not and will not and will require that Permitted Third Parties of such Party will not directly or indirectly offer or pay, or authorize such offer or payment, of any money or anything of value to improperly or corruptly seek to influence any Government Official or any other person in order to gain an improper business advantage. Throughout the Term, each Party will comply with the anti-bribery and anti-corruption policies set forth in Exhibit F.

13.1.4 Each Party certifies that neither it, nor its Affiliates, nor to its knowledge any Permitted Third Parties engaged by it to perform activities in relation to the Product are debarred under subsections 306(a) or (b) of the US Federal Food, Drug, and Cosmetic Act (US Generic Drug Enforcement Act of 1992; 21 USC 335a (a) or (b)), and that it has not and will not knowingly use in any capacity the services of any Person or Permitted Third Party debarred under this law to conduct the Trial. Each Party further certifies that neither it, nor any of its Affiliates are excluded from any federal health care program, including but not limited to Medicare and Medicaid. Each Party will notify the JSC immediately if either of these certifications needs to be amended in light of new information.

13.2 Additional Apellis Representations, Warranties and Covenants.

13.2.1 Licensure, Registration and Accreditation.

13.2.1.1 Apellis hereby represents and warrants that it is licensed, registered, or otherwise qualified in all material respects under all Applicable Laws to do business in each jurisdiction where such licenses, registrations or other qualifications are required. Apellis further represents and warrants that there has not been and covenants that there will not be during the Term any breach or default by Apellis under the Penn Other Fields License which has not been or will not be, as applicable, timely cured as permitted thereunder, and that the Penn Other Fields License is and shall continue to be in full force and effect during the Term, except to the extent that such a breach, default or failure as to the Penn Other Fields License would not have a material adverse effect on Apellis' ability to satisfy its obligations under this Agreement. Apellis further covenants that it and its Permitted Third Parties have, or will have at

the required times, such certifications, permits, and authorizations as are required to conduct the Trial and perform any and all of their obligations in connection with the Trial.

13.2.2 Disclosure of Regulatory Notices and Communications. Apellis hereby represents and warrants that, as of [**] prior to the Effective Date, the regulatory communications and, if any, notices of inspection, inspection reports, warning letters and deficiency letters related to the Product made available by Apellis in the Data Room were true and complete copies of such documents. To the knowledge of Apellis, such documents comprise all material written regulatory communications related to Trial design or the chemistry, manufacturing or controls of the Product from the FDA or the EMA in the possession of Apellis as of [**] prior to the Effective Date.

13.2.3 CRO Inquiry. Apellis hereby represents and warrants that, up to and as at the Effective Date, after due inquiry to its CRO responsible for conducting the Trial, Apellis has not received any verbal or written notice of the occurrence of any Serious Safety Issue in the Trial.

13.2.4 Apellis Data Provided as of the Effective Date. Apellis hereby represents and warrants that, up to and as of the Effective Date, (i) the CMC Information set forth in the Data Room is accurate in all material respects, (ii) the descriptions of, protocols for, and data and other results of, the clinical trials of the Product for PNH conducted by or on behalf of Apellis set forth in the Data Room are accurate and complete in all material respects and there are no material omissions from such documents, data and other results that render such documents, data or other results materially misleading and (iii) the summaries of primary data regarding the Product and the Comparators set forth in the Data Room are accurate and complete in all material respects, and there are no material omissions from such summaries as so presented that render such summaries materially misleading.

13.3 Outstanding Indebtedness. Apellis hereby represents and warrants that, as at the Effective Date, Apellis and its subsidiaries have no indebtedness for borrowed money other than indebtedness under the SVB Loan Agreement and the GDP Note.

13.4 SFJ Representation, Warranty and Covenant. SFJ hereby represents, warrants and covenants that it will have, as and when needed, sufficient funds to satisfy its obligations hereunder.

13.5 DISCLAIMER OF REPRESENTATIONS AND WARRANTIES.

13.5.1 Each Party hereby agrees and understands that because the Trial and the Product are experimental in nature, the outcome is inherently uncertain and unpredictable. Each Party hereby agrees and understands that the other Party makes no representation, guarantee or warranty, express or implied, regarding the outcome of the Trials (including achievement of Trial Success), any Research Results generated after the Effective Date, the ability to obtain Regulatory Approval or the patentability, legal protectability or usefulness of any Intellectual Property arising from the Trial.

13.5.2 EXCEPT AS OTHERWISE SET FORTH IN THIS ARTICLE 13, NEITHER PARTY MAKES, AND EACH PARTY EXPRESSLY DISCLAIMS, ANY REPRESENTATION OR WARRANTY OF ANY KIND WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT, EITHER ORAL OR WRITTEN, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, INCLUDING ANY REPRESENTATION OR WARRANTY THAT THE USE OF THE PRODUCT WILL NOT INFRINGE ANY PATENT OR OTHER PROPRIETARY RIGHT OF A THIRD PARTY OR REGARDING THE USE, RESULTS OR EFFICACY OF THE PRODUCT.

ARTICLE 14

TERM AND TERMINATION

14.1 Term. The term of this Agreement (the "Term") will commence on the Effective Date and will expire upon the earliest of (i) termination of this Agreement in accordance with Section 14.2, (ii) the occurrence of both (a) the date of payment of the final US Approval Payment in the event of Regulatory Approval from the FDA and (b) the date of payment of the final EU Approval Payment in the event of Regulatory Approval from the EMA, and (iii) the date of payment of the final Buy-Out Payment which may become due pursuant to Section 6.7.

14.2 Termination.

14.2.1 Termination for Breach.

14.2.1.1 SFJ may terminate this Agreement immediately in the event of a Fundamental Breach by Apellis; provided that SFJ shall provide written notice to Apellis of the alleged Fundamental Breach by Apellis, specifying in reasonable detail the particulars of the alleged Fundamental Breach by Apellis, and such alleged Fundamental Breach by Apellis has not been cured within [**] after the date of the relevant notice.

14.2.1.2 Either Party may terminate this Agreement immediately in the event of a material breach of this Agreement by the other Party other than a Fundamental Breach by Apellis; provided that the breaching Party has received written notice from the non-breaching Party of such breach, specifying in the reasonable detail the particulars of the alleged breach and such breach has not been cured within (a) in the case of a breach of Apellis' obligations to make Approval Payments, [**] after the date such Approval Payment is due and payable or (b) in all other cases, [**] after the date of the relevant notice. The non-breaching Party shall have the right to pursue remedies it may have at law or equity, including the right to seek damages from the breaching Party.

14.2.2 Termination for Material Adverse Event. SFJ may terminate this Agreement at any time in the event of a Material Adverse Event.

14.2.3 Termination for Failure to Receive Regulatory Approval.

14.2.3.1 This Agreement will, upon written notice from either Party to the other Party, terminate with no further action from either Party if the Product has failed to

receive Regulatory Approval from both the FDA and the EMA after completion of the Trial, submission by Apellis of applications for Regulatory Approval to the FDA and the EMA and after Commercially Reasonable Efforts by Apellis to obtain such Regulatory Approvals based on such submitted applications. For the avoidance of doubt, if Regulatory Approval is received from either the FDA or the EMA, then this Agreement shall not be terminated pursuant to this Section 14.2.3.1.

14.2.3.2 This Agreement will, upon written notice from either Party to the other Party, terminate with no further action from either Party if either (1) the primary endpoint in the PEGASUS Trial has not been achieved or (2) the mutual agreement of Apellis and SFJ that the Research Results do not support Regulatory Approval and that an application for Regulatory Approval shall not be submitted to either the FDA or the EMA. For avoidance of doubt, if an application for Regulatory Approval is submitted to one, but not both, of FDA or the EMA, then this Agreement shall not be terminated pursuant to this Section 14.2.3.2.

14.2.4 Termination for Bankruptcy. Either Party may terminate this Agreement upon written notice to the other Party if the other Party makes an assignment for the benefit of creditors, or commences a case or proceeding under any bankruptcy, reorganization, insolvency, or similar laws, has a trustee or receiver or similar officer of any court appointed for such Party, or for substantial part of the property of such Party, or bankruptcy, reorganization, insolvency, or liquidation proceedings are instituted by or against such Party without such proceedings being dismissed, in each of the foregoing cases for a period of at least sixty (60) days.

14.2.5 Termination for Change of Control of Apellis. Apellis will notify SFJ in writing promptly (and in any event within [**]) following the entering into of a definitive agreement with respect to a Change of Control of Apellis. SFJ may, in its sole discretion, terminate this Agreement in its entirety at any time following a Change of Control of Apellis that occurs prior to the date of Regulatory Approval, and Apellis may, in its sole discretion, terminate this Agreement in its entirety at any time following a Change of Control of Apellis that occurs after August 31, 2019 and prior to the date of Regulatory Approval.

14.2.6 Termination for Safety Concerns. This Agreement shall automatically terminate if (a) the independent data monitoring committee for the Trial recommends termination of either of the PEGASUS Trial and the PRINCE Trial for reasons pertaining to the health or safety of the Subjects or for futility, (b) a Program Failure as set forth in clause (a) of the definition of Program Failure occurs or (c) the Parties mutually agree a material health or safety concern with respect to the Subjects exists.

14.2.7 Termination for Certain Breaches/Actions.

14.2.7.1 SFJ may terminate this Agreement if (i) Apellis has breached by its own actions, or by the actions of a Permitted Third Party either of Section 13.1.3 or Section 13.1.4 in any material respects, (ii) an Apellis employee or contractor or a Permitted Third Party has breached the policy attached as Exhibit F in any material respects and such

breach results in a material violation of Applicable Law, or (iii) SFJ learns (a) that improper payments are being or have been made to Government Officials or any other person by Apellis or those acting on behalf of Apellis with respect to services performed on behalf of Apellis or any other Person or (b) that Apellis or those acting on behalf of Apellis with respect to services performed on behalf of Apellis has accepted any payment, item, or benefit, regardless of value, as an improper inducement to award, obtain or retain business or otherwise gain or grant an improper business advantage from or to any other person or entity, in any such case ((i), (ii) or (iii)) unless such breach or improper payment can be cured without having a materially adverse impact on the probability of completing the Trial or obtaining Regulatory Approval for the Product. Further, in the event of such termination, Apellis will not be entitled to any further payments under Article 4, regardless of any activities undertaken or agreements with additional Third Parties entered into prior to termination, and SFJ shall have the right to pursue remedies it may have at law or equity, including the right to seek damages, from Apellis.

14.2.7.2 Apellis may terminate this Agreement if SFJ by its own actions directly or indirectly offers or pays, or authorizes such offer or payment, of any money or anything of value to improperly or corruptly seek to influence any Government Official in connection with this Agreement or Apellis learns that (a) improper payments are being made to Government Officials or any other person by SFJ or those acting on behalf of SFJ with respect to services performed on behalf of SFJ or any Permitted Third Parties in connection with this Agreement or (b) SFJ or those acting on behalf of SFJ with respect to services performed on behalf of SFJ in connection with this Agreement has accepted any payment, item, or benefit, regardless of value, as an improper inducement to award, obtain or retain business or otherwise gain or grant an improper business advantage from or to any other person or entity, in any such case (i) or (ii) unless such breach or improper payment can be cured without having a materially adverse impact on the probability of completing the Trial or obtaining Regulatory Approval for the Product, and in the event of such termination, SFJ will not be entitled to any further payments hereunder, and Apellis shall have the right to pursue remedies it may have at law or equity, including the right to seek damages, from SFJ.

14.2.8 If Apellis learns that a Permitted Third Party has materially breached either of Section 13.1.3 or 13.1.4, or Exhibit F or that improper payments are being or have been made to Government Officials by any Permitted Third Party with respect to services performed on behalf of Apellis or in connection with the Trial, Apellis will notify SFJ and, at SFJ's option, Apellis will terminate its relationship with such Permitted Third Party with respect to the Trial.

14.2.9 Termination Because of Third Party Patents. SFJ may terminate this Agreement if Apellis is permanently enjoined from further developing the Product for PNH and the future value of the Product may be adversely affected in a material way ("Adverse Patent Impact") due to Third Party patents that were not known to SFJ at the Effective Date and if Apellis does not cure such Adverse Patent Impact within a period of 12 months from the date of SFJ's notice to Apellis of an Adverse Patent Impact.

14.2.10 Termination for JSC Decision. SFJ may, in its sole discretion, terminate this Agreement in its entirety at any time prior to the date of Regulatory Approval in the event Apellis exercises its decision-making authority under

Section 5.2.4 to approve a matter set forth in Section 5.2.2 if SFJ disagrees with such decision in its sole discretion.

14.3 Effects of Termination.

14.3.1 Termination for Breach.

14.3.1.1 In the event that SFJ terminates this Agreement pursuant to Section 14.2.1.1 above, then Apellis will pay SFJ, within [**] of the date of termination, an amount equal to three hundred percent (300%) of SFJ Development Costs paid by SFJ to Apellis prior to such termination. Additionally, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis will remain obligated to pay any Approval Payments that become due and payable pursuant to Article 6 at such time as such payments become due and payable (if ever), provided that each Approval Payment shall be adjusted as set forth in Section 6.2, and reduced by the amount previously paid by Apellis to SFJ pursuant to this Section 14.3.1.1. Notwithstanding the foregoing provisions of this Section 14.3.1.1, in no event will Apellis be required to pay more than an aggregate of three hundred eight million dollars ($308,000,000) to SFJ pursuant to this Section 14.3.1.1.

14.3.1.2 In the event that either Party terminates this Agreement pursuant to Section 14.2.1.2 above or Apellis terminates this Agreement pursuant to Section 14.2.7.2 above, then, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall (subject to the immediately following sentence) remain obligated to pay to SFJ any Approval Payments that become due and payable pursuant to Article 6 at such time that such payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be adjusted as set forth in Section 6.2. Notwithstanding the foregoing, if Apellis terminates this Agreement pursuant to Section 14.2.1.2 above based on SFJ's failure to make any payment due to Apellis in accordance with Article 4, then, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to pay to SFJ the product of the fraction (2.75/3.25) multiplied by any Approval Payments that become due and payable pursuant to Article 6 at such time that such payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall also be adjusted as set forth in Section 6.2. In the event that SFJ terminates this Agreement pursuant to pursuant to Section 14.2.7.1 above, then (A) Apellis will pay SFJ, within [**] of the date of termination, an amount equal to one hundred fifty percent (150%) of SFJ Development Costs paid to Apellis by SFJ prior to such termination, and (B) if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to pay to SFJ any Approval Payments that become due and payable pursuant to Article 6 at such time that such payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be adjusted as set forth in Section 6.2, and reduced by the amount previously paid by Apellis to SFJ pursuant to this Section 14.3.1.2.

14.3.2 Effect of Termination for Material Adverse Event. In the event that SFJ terminates this Agreement pursuant to Section 14.2.2, then, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to pay SFJ an amount equal to fifty percent (50%) of the

Approval Payments (as first adjusted as set forth in Section 6.2) that become due and payable under Article 6 at such time as they become due and payable (if ever).

14.3.3 Termination for Failure to Achieve Regulatory Approval. In the event that this Agreement is terminated pursuant to Section 14.2.3 above, then, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to make any Approval Payments that become due and payable pursuant to Article 6 at such time that such payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be adjusted as set forth in Section 6.2.

14.3.4 Termination for Bankruptcy.

14.3.4.1 In the event that Apellis terminates this Agreement pursuant to Section 14.2.4 above, then, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to pay to SFJ any Approval Payments that become due and payable pursuant to Article 6 at such time as such Approval Payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be as adjusted as set forth in Section 6.2.

14.3.4.2 In the event SFJ terminates this Agreement pursuant to Section 14.2.4 above, then Apellis will pay SFJ an amount equal to three hundred percent (300%) of SFJ Development Costs paid by SFJ to Apellis prior to such termination. Additionally, Apellis will remain obligated to pay any Approval Payments that become due and payable pursuant to Article 6 at such time as such payments become due and payable (if ever), provided that each Approval Payment shall be adjusted as set forth in Section 6.2, and reduced by the amount previously paid by Apellis to SFJ pursuant to this Section 14.3.4.2. Notwithstanding the foregoing provisions of this Section 14.3.4.2, in no event will Apellis be required to pay more than an aggregate of $308,000,000 to SFJ pursuant to this Section 14.3.4.2.

14.3.5 Termination for Change of Control of Apellis. In the event that either Party terminates this Agreement pursuant to Section 14.2.5 above, then Apellis will pay to SFJ an amount equal to one hundred fifty percent (150%) of SFJ Development Costs which were paid to Apellis by SFJ within [**] of the date of termination, Apellis shall be obligated to continue to exercise Commercially Reasonable Effort to develop the Product and seek Regulatory Approval as set forth herein following the date of such termination, and Apellis shall remain obligated to pay any Approval Payments that become due and payable pursuant to Article 6 at such time as such Approval Payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be adjusted as set forth in Section 6.2 and shall be reduced by the amount previously paid to SFJ as set forth in this Section 14.3.5. Notwithstanding the foregoing, following a termination of this Agreement pursuant to Section 14.2.5 above, once a Regulatory Approval from FDA or from EMA has been achieved (whether achieved before or after such termination), Apellis may elect, in lieu of making the foregoing payments set forth in this Section 14.3.5 with respect to the applicable Regulatory Approval, to pay SFJ an amount equal to the Buyout Payment required to buy out all

Approval Payments with respect to such Regulatory Approval then remaining unpaid (after crediting any amount previously paid to SFJ as set forth in this Section 14.3.5).

14.3.6 Termination for Safety Concerns. In the event that this Agreement terminates pursuant to Section 14.2.6 above, then Apellis will not be obligated to pay SFJ any SFJ Development Costs or Approval Payments. Notwithstanding the foregoing, if this Agreement terminates pursuant to Section 14.2.6 above and such termination (i) arises as a result of gross negligence on the part of Apellis or (ii) is due to the applicable independent data monitoring committee recommending termination of the Trial or Apellis and SFJ mutually agreeing to terminate the Trial due to a Serious Safety Issue that was previously known, demonstrated or identified by Apellis as being material as of the Effective Date and the material data showing, demonstrating, or identifying such Serious Safety Issue were not included in the Data Room or otherwise publicly known prior to the Effective Date, then (A) Apellis will pay SFJ an amount equal to one hundred fifty percent (150%) of SFJ Development Costs paid to Apellis by SFJ within [**] of the date of termination, and (B) if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis will remain obligated to pay any Approval Payments that become due and payable pursuant to Article 6 at such time as such Approval Payments become due and payable (if ever) pursuant to Article 6, provided that the payments set forth in Article 6 shall be adjusted as set forth in Section 6.2 and shall be reduced by the amount previously paid by Apellis to SFJ pursuant to this Section 14.3.6.

14.3.7 Termination Because of Third Party Patents. In the event that SFJ terminates this Agreement pursuant to Section 14.2.9, then Apellis shall pay to SFJ, within [**] of the date of termination, an amount equal to all SFJ Development Costs paid to Apellis by SFJ as of the date of termination.

14.3.8 Termination for JSC Decision. In the event that SFJ terminates this Agreement pursuant to Section 14.2.10 above, then Apellis will pay to SFJ, within [**] of the date of termination, an amount equal to the SFJ Development Costs paid to Apellis by SFJ plus interest at the annual rate of twenty-two percent (22%) from the date such SFJ Development Costs were paid to Apellis by SFJ and, if Apellis elects to continue development and obtains Regulatory Approval following such termination, Apellis shall remain obligated to pay any Approval Payments that become due and payable pursuant to Article 6 at such time as such Approval Payments become due and payable (if ever) pursuant to Article 6, provided that such Approval Payments shall be adjusted as set forth in Section 6.2 and reduced by the amount previously paid to SFJ as set forth in this Section 14.3.8.

14.3.9 Accrued Rights and Obligations. Expiration or termination of this Agreement for any reason will not release either Party from any obligation or liability which, at the time of such expiration or termination, has already accrued to the other Party or which is attributable to a period prior to such expiration or termination.

14.3.10 Exclusive Remedy. Notwithstanding anything herein to the contrary, termination of this Agreement by a Party will be without prejudice to other

remedies such Party may have at law or equity; provided that, the payment by Apellis to SFJ of the amounts specified as being payable upon a given termination in this Section 14.3 shall be in lieu of any claim for damages that SFJ may have arising from the circumstances that formed the basis for such termination.

14.3.11 Release of Security Interest. Upon any termination of this Agreement and payment by Apellis of all amounts specified as being payable upon such termination in this Section 14.3 (other than a termination pursuant to Section 14.2.2, in which case SFJ's security interest shall not be released until the earlier of such time as conditions exist that would have permitted this Agreement to be terminated under Section 14.2.3 or Section 14.2.6 in the absence of such termination under Section 14.2.2 or such time as Apellis has made all Approval Payments that become payable pursuant to Section 14.3.2) excluding Approval Payment amounts, SFJ shall and hereby does release the security interest granted by Apellis to SFJ pursuant to Article 7. SFJ agrees to sign such further releases and other documents and take such further actions as may be necessary or desirable, in Apellis' reasonable judgment and at Apellis' request, to more fully give effect to such release.

14.3.12 Surviving Obligations. Expiration or earlier termination of this Agreement will not relieve either Party of any obligation accruing prior to or upon such expiration or earlier termination, including that neither Party will be relieved of any payment obligation that may have accrued prior to such expiration or earlier termination. Further, the following provisions of this Agreement, together with any other provisions that expressly specify that they survive, will survive expiration or earlier termination of this Agreement: Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, Sections 7.1, 7.2, and 7.3 (in the case of such Sections 7.1, 7.2 and 7.3, subject to Section 14.3.11), Sections 15.1 through 15.3, 15.5 through 15.21 and Article 1, Article 9, Article 10, Article 11, Article 12 and Article 13 and Article 14.

ARTICLE 15

MISCELLANEOUS

15.1 Relationship with Affiliates. Each Party will be responsible for any breach by its Affiliates of its obligations in connection with this Agreement, and each such Party will remain responsible for any responsibilities that it has delegated to an Affiliate as though such Party had performed (or failed to perform) such responsibilities itself.

15.2 Prior Agreements. The Parties agree on behalf of themselves and their respective Affiliates that any prior Confidentiality Agreement, by and between Apellis and SFJ (the "Prior CDA") is hereby terminated and superseded by this Agreement and that all Information disclosed under or pursuant to the Prior CDAs will constitute Confidential Information disclosed pursuant to this Agreement and will be subject to the terms of Article 10, with the confidentiality and non-use provisions of Article 10 applying retroactively to such Confidential Information from the date of disclosure.

15.3 Notices. Any notice or other communication required or permitted to be given by either Party under this Agreement will be in writing and will be effective when delivered if delivered by fax, e-mail, hand, reputable courier service, or five (5) days after mailing if mailed by registered or certified mail, postage prepaid and return receipt requested, addressed to the other Party at the following addresses or such other address as may be designated by notice pursuant to this Section:

15.3.1 If to Apellis:

Apellis Pharmaceuticals, Inc.
6400 Westwind Way, Suite A
Crestwood, KY 40014
Attention: Chief Executive Officer

with a copy to:

Apellis Pharmaceuticals, Inc.
6400 Westwind Way, Suite A
Crestwood, KY 40014
Attention: General Counsel ([**])

WilmerHale LLP
60 State Street
Boston, MA 02109
Attention: Stuart M. Falber, Esq. (stuart.falber@wilmerhale.com)
Steven D. Barrett, Esq. (steven.barrett@wilmerhale.com)

15.3.2 If to SFJ:

SFJ Pharmaceuticals XI, L.P.
5000 Hopyard Road, Suite 330
Pleasanton, CA 94588
Attn: Robert DeBenedetto

with a copy to:

Morrison & Foerster LLP
755 Page Mill Road
Palo Alto, CA 94304-1018
Attention: Michael O'Donnell

15.4 Force Majeure. Neither Party will be liable for any breach or delay in performance of any obligation under this Agreement to the extent caused by any of the following: war, terrorism, riot, fire, explosion, accident, flood, sabotage, changes in Applicable Laws, actions of Governmental Authorities, or any other event beyond the reasonable control of

such Party. The Party invoking this Section must provide prompt written notice and full particulars of such event to the other Party and will use diligent and commercially reasonable efforts to mitigate the effects of any such force majeure event on such Party's compliance with and performance under this Agreement.

15.5 Use of Names. Neither Party will use the other Party's nor any of its Affiliates' (including the limited partners of SFJ's) names or trademarks in any promotional materials or advertising without the prior written consent of the other Party except as otherwise expressly permitted in this Agreement.

15.6 Assignment. Without the prior written consent of the other Party hereto, neither Party will sell, transfer, assign, pledge or otherwise dispose of, whether voluntarily, involuntarily, by operation of law or otherwise, this Agreement or any of its rights or duties hereunder; provided, however, that either Party may assign, sublicense or transfer this Agreement and all of its rights and obligations hereunder, in their entirety, to any of its Affiliates or to a successor in connection with the sale or other transfer of all or substantially all of its assets to which this Agreement relates or in the event of its merger, consolidation, Change of Control (other than as set forth in clause (b) of its definition) or other similar transaction. Notwithstanding the foregoing, any assignment of the rights or obligations under this Agreement by Apellis (i) to an Affiliate shall require Apellis to guarantee the performance of such Affiliate's financial and performance obligations hereunder (ii) or in connection with a sale of assets, merger, consolidation, or Change of Control (other than other than as set forth in clause (b) of its definition) of Apellis shall require the ultimate Affiliate controlling the other party in such transaction to guarantee Apellis' financial and performance obligations hereunder and Apellis shall remain liable for such financial and performance obligations notwithstanding such sale of assets, merger, consolidation, or Change in Control. Furthermore, notwithstanding any of the foregoing, SFJ may assign its right to receive Approval Payments to (a) the limited partners in SFJ, provided that such limited partners agree that a majority in interest shall be entitled to take all actions and make any consents on behalf of SFJ hereunder and provided that such limited partners notify Apellis of a single account to which Apellis can make all payments that may become due hereunder and assume sole responsibility for distributing all such payments, or to a liquidating trust or similar entity that is established to receive and distribute Approval Payments for the benefit of the limited partners in SFJ, that is required to carry out such responsibilities as a single entity, and provided that such limited partners or liquidating trust takes such rights to receive and distribute Approval Payments subject to all of Apellis' rights and defenses hereunder (and in any case under this clause (a), Apellis shall have the unconditional right to follow any instruction it receives or rely on any actions, consents and communications received from or taken by such limited partners or liquidating trust or similar entity without any duty to verify or otherwise determine the validity thereof) or (b) an other Third Party to which SFJ assigns this Agreement in its entirety as set forth above, provided that, following any assignment of this Agreement by SFJ to a Third Party pursuant to the foregoing clause (b) the JSC shall terminate, such assignee shall not have any further rights under Article 5 and such assignee shall not have any further rights to approve or consent (and Apellis shall not have any further obligation to seek SFJ's approval or consent) as to any matter relating to Apellis' development and Commercialization of the Product. This Agreement is binding upon and will inure to the benefit of each of the Parties, its successors and permitted assigns.

15.7 Further Assurances. The Parties will execute such further reasonable documents and perform such further reasonable acts as may be necessary to comply with or more fully effectuate the terms of this Agreement.

15.8 Fees and Expenses. Each party to this Agreement will bear its own costs and expenses, including attorneys' fees and expenses, in connection with the closing of the transactions contemplated hereby.

15.9 Governing Law. The construction and validity of this Agreement and the provisions hereof, and the rights and obligations of the Parties hereunder, will be governed by the internal laws of the State of Delaware, USA, and, to the extent applicable to Patents and Trademarks, the applicable federal laws of the USA, in each instance without regard to conflict of laws principles.

15.10 Dispute Resolution. The Parties recognize that disputes as to certain matters relating to this Agreement may arise from time to time. It is the objective of the Parties to establish procedures to facilitate the resolution of disputes in an expedient manner by mutual cooperation and without resort to litigation. Accordingly, the Parties agree that any dispute, controversy or claim arising under, out of or in connection with this Agreement, including any subsequent amendments, or the validity, enforceability, construction, performance or breach hereof (and including the applicability of this Section 15.10 to any such dispute, controversy or claim) (each a "Dispute") will be resolved by the Parties as follows:

15.10.1 Either Party shall have the right to refer such Dispute to the Executive Officers for attempted resolution by good faith negotiations during a period of [**]. Any final decision mutually agreed to by the Executive Officers in writing shall be conclusive and binding on the Parties. With respect to any other unresolved Dispute, then such Dispute shall be submitted to the American Arbitration Association ("AAA") for final and binding arbitration pursuant to the arbitration clause set forth in Section 15.10.2. Notwithstanding the foregoing, no matters relating to breach or alleged breach of the ownership of intellectual property or rights in intellectual property or the validity or enforceability thereof shall be subject to resolution by the AAA, but rather shall be determined by a U.S. federal court of appropriate jurisdiction. Notwithstanding anything in this Agreement to the contrary, either Party shall be entitled to seek preliminary injunctive relief in any court of competent jurisdiction immediately if necessary to prevent irreparable harm to that Party.

15.10.2 Arbitration Process.

15.10.2.1 The Parties shall attempt to resolve any and all disputes, claims or controversies arising out of or relating to this Agreement promptly by negotiation between executives who have authority to settle the controversy. If such disputes, claims or controversies are not resolved through such negotiation as set forth in Section 15.10.1, then they shall be submitted for final and binding arbitration pursuant to the arbitration clause set forth below. Either Party may initiate arbitration with respect to the matters submitted to negotiation by filing a written demand for arbitration at any time following the initial negotiation session. Notwithstanding the foregoing, any dispute between the Parties as to whether entering into a

Licensing Transaction would have a Material Impact shall be resolved as set forth in Section 7.5.5.

15.10.2.2 To the extent not resolved by mediation, any dispute, claim or controversy arising out of or relating to this Agreement or the breach, termination, enforcement, interpretation or validity thereof, including the determination of the scope or applicability of this agreement to arbitrate, shall be determined by arbitration in Delaware, in the language in which the contract was written. The arbitration shall be administered by the AAA pursuant to its arbitration rules and procedures. References herein to any arbitration rules or procedures mean such rules or procedures as amended from time to time, including any successor rules or procedures, and references herein to the AAA include any successor thereto. The arbitration shall be before three (3) arbitrators. The two (2) Party appointed arbitrators will select the third, who will serve as the panel's chair or president. All three (3) arbitrators shall be professionals with substantial experience in development and Commercialization of biopharmaceutical products. This arbitration provision, and the arbitration itself, shall be governed by the laws of the state of Delaware and the Federal Arbitration Act, 9 U.S.C. §§ 1-16.

15.10.2.3 Consistent with the expedited nature of arbitration, each Party will, upon the written request of the other Party, promptly provide the other with copies of documents on which the producing Party may rely in support of or in opposition to any claim or defense. At the request of a Party, the arbitrators shall have the discretion to order examination by deposition of witnesses to the extent the arbitrator deems such additional discovery relevant and appropriate. Depositions shall be limited to a maximum of [**] per Party and shall be held within [**] after the grant of a request. Additional depositions may be scheduled only with the permission of the arbitrators, and for good cause shown. Each deposition shall be limited to a maximum of [**] duration. All objections are reserved for the arbitration hearing except for objections based on privilege and proprietary or confidential information. The Parties shall not utilize any other discovery mechanisms, including international processes and U.S. federal statutes, to obtain additional evidence for use in the arbitration. Any Dispute regarding discovery, or the relevance or scope thereof, shall be determined by the arbitrators, which determination shall be conclusive. All discovery shall be completed within [**] following the appointment of the arbitrators. All costs and/or fees relating to the retrieval, review and production of electronic discovery shall be paid by the Party requesting such discovery.

15.10.2.4 The arbitrators will have no authority to award punitive or other damages not measured by the prevailing Party's actual damages, except as may be required by statute. Each Party expressly waives and foregoes any right to consequential, punitive, special, exemplary or similar damages or lost profits. The arbitrators shall have no power or authority, under the AAA arbitration rules and procedures or otherwise, to relieve the Parties from their agreement hereunder to arbitrate or otherwise to amend or disregard any provision of this Agreement. The award of the arbitrators shall be final, binding and the sole and exclusive remedy to the Parties. Either Party may seek to confirm and enforce any final award entered in arbitration, in any court of competent jurisdiction. The cost of the arbitration, including the fees of the arbitrators, shall be borne by the Party the arbitrator determines has not prevailed in the arbitration.

15.10.2.5 If an arbitral award does not impose an injunction on the losing Party or contain a money damages award in excess of [**] dollars USD ($[**]), then the arbitral award shall not be appealable and shall only be subject to such challenges as would otherwise be permissible under the Federal Arbitration Act, 9 U.S.C. §§ 1 16. In the event that the arbitration does result in an arbitral award, which imposes an injunction or a monetary award in excess of [**] dollars USD ($[**]), such award may be appealed to a tribunal of appellate arbitrators via the AAA arbitration rules and procedures.

15.10.2.6 Except as may be required by law, neither a Party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both Parties.

15.11 Limitation of Liability. TO THE MAXIMUM EXTENT PERMITTED BY LAW AND NOTWITHSTANDING ANY PROVISION IN THIS AGREEMENT TO THE CONTRARY, NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, RELIANCE OR PUNITIVE DAMAGES OR LOST OR IMPUTED PROFITS OR ROYALTIES OR COST OF PROCUREMENT OF SUBSTITUTE GOODS OR SERVICES, WHETHER LIABILITY IS ASSERTED IN CONTRACT, TORT (INCLUDING NEGLIGENCE AND STRICT PRODUCTS LIABILITY), INDEMNITY OR CONTRIBUTION, AND IRRESPECTIVE OF WHETHER THAT PARTY OR ANY REPRESENTATIVE OF THAT PARTY HAS BEEN ADVISED OF, OR OTHERWISE MIGHT HAVE ANTICIPATED THE POSSIBILITY OF, ANY SUCH LOSS OR DAMAGE. THE PARTIES AGREE THAT THE LIMITATIONS SPECIFIED IN THIS SECTION WILL APPLY EVEN IF ANY LIMITED REMEDY SPECIFIED IN THIS AGREEMENT IS FOUND TO HAVE FAILED OF ITS ESSENTIAL PURPOSE. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, “CONSEQUENTIAL DAMAGES” WILL BE DEEMED TO INCLUDE, AND NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY OR ANY OF SUCH OTHER PARTY’S AFFILIATES, REPRESENTATIVES OR STOCKHOLDERS FOR ANY DAMAGES BASED ON OR MEASURED BY LOSS OF PROJECTED OR SPECULATIVE FUTURE SALES OF THE PRODUCT, ANY PAYMENT DUE UPON ANY UNACHIEVED EVENT UNDER ARTICLE 8, OR ANY OTHER UNEARNED, SPECULATIVE OR OTHERWISE CONTINGENT PAYMENTS PROVIDED FOR IN THIS AGREEMENT. FOR THE AVOIDANCE OF DOUBT, THIS SECTION 15.13 IS NOT MEANT TO LIMIT APELLIS’ OBLIGATION TO PAY SFJ THE AMOUNTS SET FORTH IN ARTICLE 6 OR SECTION 14.3.

15.12 Cumulative Remedies. Unless expressly set forth in this Agreement, all rights and remedies of the Parties, including all rights to payment, rights of termination, rights to injunctive relief, and other rights provided under this Agreement, will be cumulative and in addition to all other remedies provided for in this Agreement, in law, and in equity.

15.13 Relationship of the Parties.

15.13.1 Independent Contractors. Nothing contained herein will be deemed to create a partnership, joint venture, or similar relationship between the Parties. Neither Party is the agent, employee, joint venturer, partner, franchisee, or

representative of the other Party. Each Party specifically acknowledges that it does not have the authority to, and will not, incur any obligations or responsibilities on behalf of the other Party. Notwithstanding anything to the contrary in this Agreement, each Party (and its officers, directors, agents, employees, and members) will not hold themselves out as employees, agents, representatives, or franchisees of the other Party or enter into any agreements on such Party's behalf.

15.13.2 Direction. Neither Party will be subject to the supervisory direction of the other Party in regard to the conduct of the Trial.

15.14 No Third Party Beneficiaries. This Agreement and the provisions herein are for the benefit of the Parties only, and are not intended to confer any rights or benefits to any Third Party.

15.15 Rights Reserved. No license or any other right is granted to either Party, by implication or otherwise, except as specifically set forth in this Agreement. All rights not exclusively granted to SFJ are reserved to Apellis and its Affiliates. Notwithstanding any other provision of this Agreement to the contrary, and for clarity, no Intellectual Property or other proprietary rights Controlled by Apellis or its Affiliates will be assigned or licensed to SFJ in connection with this Agreement.

15.16 Nonsolicitation. During the Term and for a period of [**] thereafter, neither Party shall solicit an employee of the other Party who is or has been involved in the performance or oversight of any of the development activities hereunder to terminate his or her employment and accept employment or work as a consultant with the soliciting Party. Notwithstanding the foregoing, nothing herein shall restrict or preclude the Parties' right to make generalized searches for employees by way of a general solicitation for employment placed in a trade journal, newspaper or website.

15.17 Amendments; No Waiver. Unless otherwise specified herein, no amendment, supplement, or modification of this Agreement will be binding on either Party unless it is in writing and signed by both Parties. No delay or failure on the part of a Party in the exercise of any right under this Agreement or available at law or equity will be construed as a waiver of such right, nor will any single or partial exercise thereof preclude any other exercise thereof. All waivers must be in writing and signed by the Party against whom the waiver is to be effective. Any such waiver will constitute a waiver only with respect to the specific matter described in such writing and will in no way impair the rights of the Party granting such waiver in any other respect or at any other time.

15.18 Severability. If any provision (or portion thereof) of this Agreement is determined by a court or arbitration to be unenforceable as drafted by virtue of the scope, duration, extent, or character of any obligation contained herein, it is the Parties' intention that such provision (or portion thereof) will be construed in a manner designed to effectuate the purposes of such provision to the maximum extent enforceable under such Applicable Law. The Parties will enter into whatever amendment to this Agreement as may be necessary to effectuate such purposes.

15.19 Entire Agreement. This Agreement, including all Exhibits hereto, contains the entire understanding of the Parties and supersedes, revokes, terminates, and cancels any and all other arrangements, understandings, agreements, term sheets, or representations and warranties, whether oral or written, between the Parties relating to the subject matter of this Agreement.

15.20 Counterparts. This Agreement will be executed in two (2) counterparts, one (1) for either Party, which, taken together, will constitute one and the same agreement. This Agreement will not be binding on the Parties or otherwise effective unless and until executed by both Parties.

15.21 Construction. This Agreement has been negotiated by the Parties and their respective counsel. This Agreement will not be construed in favor of or against either Party by reason of the authorship of any provisions hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties, intending to be legally bound hereby, have caused this Agreement to be executed in duplicate by their duly authorized representatives as of the Effective Date.

APELLIS PHARMACEUTICALS, INC.

By: /s/ Cedric Francois

Name: Cedric Francois

Title: CEO

Date: February 28, 2019

IN WITNESS WHEREOF, the Parties, intending to be legally bound hereby, have caused this Agreement to be executed in duplicate by their duly authorized representatives as of the Effective Date.

SFJ PHARMACEUTICALS XI, L.P.

By: SFJ Pharmaceuticals General Partner XI, L.P.,
a Delaware limited partnership
Its: General Partner

By: SFJ Pharmaceuticals GP Corp. XI,
a Delaware corporation
Its: General Partner

By: /s/ Robert DeBenedetto
Name: Robert DeBenedetto
Title: President and Chief Executive Officer

Date: February 28, 2019

EXHIBIT AND SCHEDULE LIST

Exhibit A	The Product
Exhibit B	Current CROs
Exhibit C	Current Vendors
Exhibit D	Development Program
Exhibit E	Executive Officers
Exhibit F	Anti-Bribery and Anti-Corruption Practices
Exhibit G	Additional JSC Meeting Discussion Matters
Exhibit H	Pre-Approved Financial Partners
Exhibit I	Form of Warrant
Exhibit J	Financial Statements and Reports
Exhibit K	Protocol Specifications
Exhibit L	Manufacturer
Exhibit M	Funding Date Milestones
Exhibit N	Pegasus Trial
Exhibit O	Prince Trial

STANDARD OFFICE LEASE

Between
Geary-Market Investment Company, Ltd.,
a California corporation
("Landlord")

And

Apellis Pharmaceuticals, Inc.
a Delaware corporation
("Tenant")

STANDARD OFFICE LEASE

This Standard Office Lease ("Lease") is made as of March 29, 2019 by and between Geary-Market Investment Company, Ltd., a California corporation ("Landlord"), and Apellis Pharmaceuticals, Inc., a Delaware corporation, ("Tenant"), who agree as follows:

BASIC LEASE INFORMATION

The following is the Basic Lease Information of this Lease. Other Sections of this Lease explain and define the Basic Lease Information in more detail and are to be read in conjunction herewith.

1.	**LANDLORD:**	Geary-Market Investment Company, Ltd. 49 Geary St., West Mezzanine San Francisco, California 94108
	TENANT:	Apellis Pharmaceuticals, Inc. 720 Market Street, Suite 500 San Francisco, CA 94108
2.	**PREMISES:**	(a) 720 Market Street, Suite 500 San Francisco, CA 94108 (b) Approximately 5,044 rentable square feet on the fifth (5th) floor. (c) Approximately 40,140 rentable square feet for the Building.
3.	**TERM:**	Five (5) years
4.	**COMMENCEMENT DATE:**	March 15, 2019 or upon substantial completion of the Tenant Improvements, whichever is later. If the Commencement Date has not occurred by May 1, 2019, Tenant shall receive one day of free rent for each day from May 1, 2019 until the Commencement Date occurs. If the Commencement Date has not occurred by June 15, 2019, Tenant may terminate the Lease.
	RENT COMMENCEMENT:	Same as Commencement Date.
5.	**BASIC MONTHLY RENT:**	Months 1-12*: $27,321.66 per month Months 13-24: $28,141.31 per month Months 25-36: $28,985.55 per month Months 37-48: $29,855.12 per month Months 49-60: $30,750.77 per month

	BASIC ANNUAL RENT:	Months 1-12*: $327,860.00 per annual ($65.00 rsf) Months 13-24: $337,695.80 per annual ($66.95 rsf) Months 25-36: $347,826.67 per annual ($68.95 rsf) Months 37-48: $358,261.47 per annual ($71.02 rsf) Months 49-60: $369,009.31 per annual ($73.15 rsf) *If the Commencement Date does not occur on the first day of the month, month 12 shall be deemed to end on the last day of the month in which the first anniversary of the Commencement Date occurs, such that month 13 shall begin on the first day of the applicable month.
6.	**TENANT'S PRO RATA SHARE: ADD'L RENT, TAXES, COMMON AREA MAINTENANCE**	Taxes and Operating expenses relating to the entire building: 12.57% Operating expenses relating to Office Tenants only: 13.78%. Base Year: Calendar Year 2019 grossed up to represent a 100% occupied building.
7.	**PREPAID RENT:**	Tenant will pay to Landlord Prepaid Rent equal to the Sixtieth (60th) month's Basic Monthly Rent: $30,750.77 in the form of Cash.
8.	**BROKERS:**	The parties acknowledge that T3 Advisors is representing the Tenant in this transaction and Transwestern is representing Landlord in this transaction. In the event of a lease between the parties being consummated, Landlord shall pay a brokerage commission equal to Two Dollars ($2.00) per rentable square foot per year leased to T3 Advisors, as well as the brokerage commission due to Transwestern pursuant to a separate agreement between Landlord and Transwestern. Commission shall be due toeach broker, 50% upon Lease execution and 50% on the Commencement Date.
9.	**PERMITTED USES:**	Office, administration and any related storage uses.
10.	**ACCESS/SECURITY:**	Tenant's specified personnel will have 24-hour per day, 7 days per week, 52 weeks per year access to its premises in the building with key/card access and electric services being provided by Landlord at all times.

11. TENANT IMPROVEMENTS:

Except as otherwise provided in this Lease, the Premises shall be delivered in its "As Is" condition with the following improvements. Landlord, at Landlord's sole cost and expense, shall provide:

1. New mutually agreed upon paint throughout the Premises with up to two (2) accent colors.

2. Installation of building standard carpet of mutually agreed upon color/tone (collectively, the "Tenant Improvement Work").

Landlord and Tenant acknowledge and agree that they have mutually agreed on such paint and carpet colors prior to the date hereof.

Landlord shall be responsible for the compliance and good working order of all underlying building systems and improvements, and on the Commencement Date, the Premises shall be in compliance with all applicable laws.

Cosmetic Alterations:

Tenant shall have the right to paint and recarpet and make non-structural cosmetic alterations up to $25,000.00 per project without Landlord consent and without payment of a construction management fee to Landlord. Tenant must still provide Landlord appropriate notice of work and comply with building procedures and as-built drawings on completion, as further set forth in Article 9 hereof.

12. LANDLORD RESPONSIBIILITY:

Landlord will be responsible for all path of travel and ADA compliance outside the Premises. Landlord shall be responsible for any and all costs incurred in keeping with Title 24 compliance throughout the Tenant improvement process.

ARTICLE 1
PREMISES

1.1 Premises

Landlord leases to Tenant and Tenant leases from Landlord, upon the provisions and conditions set forth herein, those certain premises ("Premises") described on Exhibit A attached hereto, which Premises are located in that certain building known as 720 Market Street, San Francisco, California ("Building") and situated upon that certain real property as more particularly described on Exhibit A ("Real Property"). The Real Property and the Building and the underlying land and improvements are referred to collectively herein as the "Project".

1.2 Rentable Square Footage

The rentable area of Premises and the Building are agreed to be the numbers of square feet respectively specified in the Basic Lease Information.

1.3 Common Areas

"Common Areas" shall mean the lobby and the open space and sidewalk areas on the Real Property, and any other areas of the Building or Real Property designated by Landlord from time to time for the common use or benefit of occupants of the Building, and their employees and invitees, or the public.

ARTICLE 2
TERM

2.1 Term Commencement Date

The term of this Lease ("Term") shall commence on the Commencement Date. Unless sooner terminated, as provided in this Lease, the Term shall end March 31, 2024 or on the last day of the sixtieth (60th) full month after the Commencement Date, whichever occurs later. ("Term Expiration Date").

2.2 Delivery and Acceptance of Premises

Tenant shall accept the Premises on the date when the Premises are "Ready for Delivery." The Premises shall be deemed Ready for Delivery when Landlord has provided access to the Premises for Tenant, so as to be used for the Permitted Use and with the Tenant Improvement Work as described in the Basic Lease Information substantially completed. Landlord represents and warrants to Tenant that all Building Systems (as hereinafter defined) and Building improvements are, and throughout the Term will be, in good working order, and that on the Commencement Date, the Premises will be in compliance with all applicable laws. Subject to the foregoing, Tenant agrees to accept possession of the Premises in their "as is" condition on the date when the Premises are Ready for Delivery, without representation or warranty by Landlord, express or implied, and with no obligation of Landlord to repaint, remodel, repair, improve or alter the Premises, or to perform any construction, remodeling or other work of improvement upon the Premises, or contribute to the cost of any of the foregoing, except for the representations and warranties set forth above, and except for Landlord's obligation to complete the Tenant Improvement Work. Tenant also acknowledges that, except for the representations and warranties set forth in this Lease, neither Landlord nor any agent of Landlord has made any representation or warranty regarding the condition of the Premises or the Building. Tenant shall be deemed to have accepted possession of the Premises when Tenant first moves any of its personnel, furnishings and/or equipment into the Premises, except to the extent that Tenant is explicitly authorized in this Lease to do any of the foregoing without being deemed to have accepted possession of the Premises.

2.3 INTENTIONALLY DELETED

ARTICLE 3
RENT

3.1 Basic Monthly Rent

Commencing on the Rent Commencement Date, Tenant shall pay to Landlord, as basic monthly rental ("Basic Monthly Rent"), the amount specified in Item 5 of the Basic Lease Information. Unless otherwise expressly provided in this Lease, the Basic Monthly Rent and all other amounts payable hereunder shall be paid to Landlord in advance on the Rent Commencement Date and thereafter on or before the first day of each month during the Term without abatement, deduction or offset, in lawful money of the United States of America at the office of the property manager as designated in writing by the Landlord, or to such place as Landlord may designate in writing, except that a full month's Basic Monthly Rent shall be paid to Landlord concurrent with Tenant's execution of this Lease, which payment shall be credited to the first month's Basic Monthly Rent due on the Rent Commencement Date. If the Rent Commencement Date occurs on other than the first day of a calendar month, then there shall be deemed paid on the Rent Commencement Date a pro rata portion of the Basic Monthly Rent based upon the number of days remaining in such month and the remaining balance of any amount paid by Tenant upon Lease execution shall be credited towards the Basic Monthly Rent due in the second calendar month after the Rent Commencement Date. In the event the Term ends on a day other than the last day of the month, the last monthly payment of Basic Monthly Rent shall be prorated based upon the number of days in such month prior to and including the last day of the Term.

3.2 Interest on Past Due Amounts

Any Rent not paid when due shall bear interest from the date due until the date paid at the rate (the "Interest Rate") equal to the Prime Rate (as hereinafter defined) as of such due date, plus five percent (5%) per annum; provided, however, that Tenant's total liability for interest payments under this Lease shall not exceed the limits, if any, imposed on such payments by the usury laws of the State of California. The payment of such interest shall not excuse or cure any Default or modify any obligation of Tenant under this Lease. The "Prime Rate" shall mean the prime rate (or base rate) reported in the Money Rates column or section of The Wall Street Journal as being the base rate on corporate loans at large U.S. money center commercial banks (whether or not such rate has actually been charged by any such bank) on the first day on which The Wall Street Journal is published in the month preceding the month in which the subject costs are payable or incurred.

3.3 Late Fee

Tenant acknowledges that the late payment by Tenant to Landlord of Rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be difficult to ascertain. Such costs may include, without limitation, administrative costs, processing and accounting charges, and late charges, which may be imposed on Landlord. Accordingly, if any payment of Rent shall not be received by Landlord within five (5) days after the date that such payment is due and payable, then Tenant shall pay to Landlord, in addition to the interest provided above, a late charge in the amount of five percent (5%) of the amount due. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by the Tenant. Acceptance of such late charge by Landlord shall not prevent the Landlord from exercising any of its rights or remedies hereunder.

3.4 Rent

For purposes of this Lease, "Rent" and "rent" shall include all amounts payable by Tenant to Landlord under this Lease, including Basic Monthly Rent and all additional rent and other charges hereunder, regardless of how described or denominated.

3.5 Prepaid Rent

Tenant shall provide Landlord with prepaid rent in the amount of Thirty Thousand Seven Hundred and Fifty Dollars and Seventy-Seven Cents ($30,750.77) (the **"Prepaid Rent")** to be submitted within Fifteen (15) days of the full execution of this Lease (but in any event prior to the delivery of possession of the Premises to Tenant). The Prepaid Rent shall be held by Landlord. The use, application or retention of the Prepaid Rent, or any portion thereof, by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by any applicable law.

Provided that Tenant is not in default of any Lease terms, Landlord shall repay to Tenant the Prepaid Rent to be applied to the sixtieth (60^{th}) month's rent within thirty (30) days of written request from Tenant. If Tenant fails to pay any Rent, or otherwise Defaults with respect to any provision of the Lease, Landlord may (but shall not be obligated to), and without prejudice to any other remedy available to Landlord, use, apply or retain all or any portion of the Repaid Rent for the payment of any Rent then in default for the payment of any other sum to which Landlord may become obligated by reason of Tenant' Default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. Tenant waives the provisions of California Civil Code Section 1950.7 and all other provisions of law now in force or that become in force after the date of execution of this Lease that provide that Landlord may claim from the Prepaid Rent only those sums reasonably necessary to remedy Defaults in the payment of Rent, to repair damage caused by Tenant, or to clean the Premises. If Landlord uses or applies all or any portion of the Prepaid Rent as provided above, Tenant shall, within ten (10) days after demand therefor, deposit cash with Landlord in an amount sufficient to restore the Prepaid Rent to the full amount thereof, and Tenant's failure to do so shall, at Landlord's option, be an Event of Default (as defined in Section 16.1 below) under this Lease. Landlord shall not be required to keep the Prepaid Rent separate from its general accounts. If Tenant performs all of Tenant's obligations hereunder, the Prepaid Rent, or so much thereof as has not theretofore been applied by Landlord, shall, without payment of interest or other increment for its use pay Rent due for the last month of the Term. No trust relationship is created herein between Landlord and Tenant with respect to Prepaid Rent.

ARTICLE 4
ADDITIONAL RENT

4.1 Increased Direct Expenses

The "Base Year" is that calendar year specified in Paragraph 6 of the Basic Lease Information. During each calendar year of the Term subsequent to the Base Year Tenant shall pay to Landlord, as additional rent, Tenant's Percentage Share (as specified in the Basic Lease Information) of any increase in Direct Expenses (as defined in Section 4.2) paid or incurred by the Landlord during such calendar year (which increase is hereinafter referred to as the "Increased Direct Expenses"). Landlord may, at or after the start of any calendar year subsequent to the Base Year, notify Tenant of the amount which Landlord estimates will be Tenant's monthly share of Increased Direct Expenses for such calendar year, and Tenant shall pay such amount as additional rent on or before the first day of each month of the Term, along with the Basic Monthly Rent payments required to be made by Tenant in such year. If during the Base Year or any succeeding calendar year

less than one hundred percent (100%) of the Building is leased and occupied, then the amount of Direct Expenses allocable to the subject calendar year for purposes of Tenant's Percentage Share of Increased Direct Expenses shall be increased to an amount reasonably estimated by Landlord to be the amount of Direct Expenses which would have been paid or incurred if one hundred percent (100%) of the Rentable Area of the Building had been occupied during the subject year. Tenant's Percentage Share may be adjusted from time to time for certain Direct Expenses due to the pool of tenants who are provided such services.

4.2 Definition of Direct Expenses

"Direct Expenses" as used herein shall include all costs, charges and expenses incurred in the course of ownership, management, operation, security, repair and maintenance of the Project including, without limitation:

(a) Wages, salaries, fringe benefits and other compensation of all employees of Landlord and its agents to the extent engaged in the management, security, repair, operation or maintenance of the Project, including, but not limited to, a Building superintendent and/or engineer and associated personnel; employer's Social Security taxes, unemployment taxes and/or insurance, and other taxes to the extent levied upon such wages, salaries, fringe benefits or other compensation; the cost of disability and hospitalization insurance and pension or retirement benefits for such employees, excluding however, all executive salaries and brokerage commissions.

(b) Costs of service, maintenance and inspection contracts for landscaping, janitorial, window cleaning, rubbish removal, maintenance of Common Areas, exterminating, replacement of Building standard lighting, elevator, plumbing, electrical and mechanical equipment and the costs of purchasing or renting mechanical equipment, supplies, tools, materials and uniforms.

(c) Premiums and other charges for insurance, including, without limitation, all risk, earthquake, public liability, property damage and worker's compensation insurance, and such other insurance coverage in such amounts as Landlord, in its reasonable discretion, shall elect to maintain consistent with the requirements of other landlords of buildings located in the downtown San Francisco area, or as may be required by the Holder of any Superior Interest (as such terms are defined in Article 18 below).

(d) Costs of electricity, water, gas, steam, sewer and other utility services in order to maintain the Building in a manner, consistent with buildings of similar age and quality in the downtown San Francisco area.

(e) Sales, use, excise taxes on goods and services purchased or owned by Landlord for the operation, security or maintenance of the Building.

(f) Permit and inspection fees and charges, the cost of contesting any governmental enactments which may affect Direct Expenses, and the costs incurred in connection with any transportation system management program or similar program, including the costs of operating any shuttle bus or similar program.

(g) Ordinary legal, accounting and other professional, consulting or service fees and expenses, including the costs of audits by certified public accountants.

(h) Fees for management services, whether provided by an independent management company, Landlord, or an affiliate of Landlord, including, but not limited to, fair market rental for the Building office, fees and expenses for accounting, financial management, data processing and information services, and costs of tenant service programs.

(i) The costs of any capital improvements, equipment or devices installed or paid for by Landlord (1) to conform with any change in Laws after the date hereof (including to conform with any change in the Building's or the Premises' use or occupancy classification) of any governmental or quasi-governmental authority having jurisdiction including any health or environmental protection authority or legislation or of the board of fire underwriters or similar insurance body or, (2) to effect a labor saving, energy saving or other economy; amortized over the lesser of ten (10) years, the payback period, or the useful life of such capital improvement, equipment or device (as reasonably determined by Landlord), as well as interest on the unamortized balance at the Prime Rate plus 2% on the date the costs are incurred or such higher rate as may have been paid by Landlord on borrowed funds. The *"pay back period"* shall be the period within which the anticipated savings from the use of such capital improvement, equipment or device, as determined by Landlord, will equal the cost of the subject capital improvement, equipment or device. Notwithstanding anything to the contrary contained herein, costs for capital expenditures not specifically described in this Section 4.2 shall not be includable in Direct Expenses, and further, all such includable capital expenditures shall be amortized as set forth in this subsection (i).

(j) The costs of (i) carpeting, draperies and wall coverings in the Common Areas, and (ii) other furnishings in Common Areas which, as a result of normal use, require periodic replacement in order to maintain the Building in a first class manner, consistent with buildings of similar age and quality in the downtown San Francisco area, amortized over the useful life of such improvements (as reasonably determined by Landlord), together with interest on the unamortized balance at the Prime Rate on the date the costs are incurred or such higher rate as may have been paid by Landlord on borrowed fund.

(k) The cost of operating (including power consumption) maintaining, repairing, servicing and replacing the entire heating, ventilation and air conditioning ("HVAC"), mechanical, electrical, plumbing systems and other entire systems serving the Building.

4.3 Statements and Audit Right

A reasonably detailed statement (the "Statement") of the Direct Expenses actually payable by Tenant shall be given to Tenant within one hundred eighty (180) days after the end of each calendar year or as soon thereafter as practicable. If Tenant's Percentage Share of any Direct Expenses as shown on such Statement is greater or less than the total amount actually paid by Tenant during the calendar year covered by such Statement, then within thirty (30) days thereafter, Tenant shall pay in cash any sums owed to Landlord or, if applicable, Tenant shall receive a credit against any Rent next accruing for any sum owed Tenant. If, as of the ninetieth (90th) day after delivery to Tenant of a Statement, Tenant shall not have delivered to Landlord an Objection Notice (as defined below), then such Statement shall be final and binding upon Landlord and Tenant, and Tenant shall have no further right to object to such Statement. If within such ninety (90) day period, Tenant delivers to Landlord a written statement specifying objections to such Statement (an "Objection Notice"), then Tenant may elect to (i) perform an audit pursuant to this Section 4.3, or (ii) meet with Landlord to attempt to resolve such objection within thirty (30) days after delivery of the Objection Notice. Landlord shall provide access for Tenant to review its pertinent records, during the period after delivery to Tenant of a Statement during which Tenant may perform an audit, during regular business hours in Landlord's management office for the Building. Notwithstanding that any such

dispute remains unresolved, Tenant shall be obligated to pay Landlord all Rent payable in accordance with this Lease (including any disputed amount). If such dispute results in an agreement that Tenant is entitled to a refund, Landlord shall, at its option, either pay such refund or credit the amount thereof to the Basic Monthly Rent next becoming due from Tenant. The failure or delay by Landlord to provide Tenant with Landlord's estimate of Tenant's Percentage Share of Direct Expenses or a Statement for any calendar year shall not constitute a default by Landlord hereunder, or a waiver by Landlord of Tenant's obligation to pay Tenant's Percentage Share of Direct Expenses for such calendar year or of Landlord's right to send to Tenant such an estimate or Statement, as the case may be. If the Term of this Lease expires or is terminated on a day other than the last day of a calendar year, the amount of Direct Expenses payable by Tenant during the calendar year in which the Term expires or is terminated shall be prorated on the basis which the number of days from the commencement of the calendar year to and including the date on which the Term expires or is terminated bears to three hundred sixty-five (365). Within one hundred twenty (120) days following expiration of the calendar year in which the Term expired or terminated, or as soon thereafter as practicable, Landlord shall give a final Statement to Tenant for such calendar year ("Final Statement"). If Tenant's share of any Direct Expenses as shown on the Final Statement is greater or less than the total amounts of Direct Expenses actually paid by Tenant during the calendar year covered by the Final Statement, then within thirty (30) days thereafter the appropriate party shall pay to the other party any sums owed.

Landlord shall keep complete books and records regarding all charges made by Landlord under Article 4 and Article 5 hereof. All records shall be retained for at least three (3) years and shall be available electronically. Tenant shall have the right to audit the applicable records of Landlord to confirm that the charges billed to Tenant under Article 4 and Article 5 are proper and conform to the provisions of such provisions. Such right shall be exercisable by Tenant within the ninety (90) day period after Tenant's delivery to Landlord of an Objection Notice. Landlord shall cooperate with Tenant in providing Tenant reasonable access to Landlord's books and records during normal business hours to enable Tenant to audit Landlord's books and records as they relate to any costs or expenses passed through to Tenant pursuant to any provisions of this Lease. If the audit discloses any overpayment on the part of Tenant, then Tenant shall be entitled to a credit or refund as set forth above. In addition, in the event such audit by Tenant discloses such an overcharge in excess of the five percent (5%) of the amount payable in accordance with Sections 4.1 and 5.1 hereof, then Landlord shall pay to Tenant the reasonable costs and expenses of such audit.

ARTICLE 5
TAX ADJUSTMENT

5.1 Increased Taxes

During each calendar year of the Term subsequent to the Base Year, Tenant shall pay to Landlord, as additional rent, Tenant's Percentage Share (as specified in the Basic Lease Information) of any increase in taxes ("Taxes" as defined in Section 5.2) paid or incurred by Landlord during such calendar year (which increase is hereinafter referred to as the "Increased Taxes"). Landlord may, at or after the start of any calendar year subsequent to the Base Year, notify Tenant of the amount of which Landlord estimates will be Tenant's monthly share of Increased Taxes for such calendar year, and Tenant shall pay such amount as additional rent on or before the first day of each month of the Term, along with the Basic Monthly Rent payments required to be made by Tenant in such year. Statements of the Increased Taxes actually payable by Tenant for each year subsequent to the Base Year shall be given to Tenant within one hundred eighty (180) days after the end of each calendar year. If Tenant's share of any Increased Taxes as shown on such statement is greater or less than the total amounts actually paid by Tenant during the year covered by such statement, then within thirty (30) days thereafter, Tenant shall pay in cash any sums owed Landlord or, if applicable, Tenant shall

receive a credit against any Rent next accruing for any sum owed Tenant. If this Lease expires or is terminated on a day other than the last day of a calendar year, the amount of Increased Taxes payable by Tenant during the year in which the Lease expires or is terminated shall be prorated on the basis which the number of days from the commencement of the calendar year to and including the date on which the Lease expires or is terminated bears to three hundred sixty-five (365). Following expiration of the calendar year in which the Lease expired or was terminated, Landlord shall give a final statement, subject to revision, of Increased Taxes for such calendar year. If Tenant's share of any Increased Taxes as shown on such final statement is greater or less than the total amounts to the other party any of Increased Taxes actually paid by Tenant during the year covered by the statement, then within thirty (30) days thereafter the appropriate party shall pay to the other party any sums owed.

5.2 Definition of Taxes

"Taxes" as used herein shall mean all taxes, service payments, service payments in lieu of taxes, annual or periodic license or use fees, excises, transit charges, housing fund assessments or other housing charges, assessments, levies, fees or charges, general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind which are assessed, levied, charged, confirmed, or imposed by any public authority upon the Building, its operations, the rent or any portion or component thereof, the Real Property, or upon the personal property of Landlord used in the operation of the Building or the Real Property, fees and payments except: (a) inheritance or estate taxes imposed upon or assessed against Landlord or the Building or any part thereof or interest therein, (b) taxes computed upon the basis of the net income derived from the Building by Landlord or the owner of any interest therein, and (c) any penalties or charges associated with delinquent taxes, taxes pertaining to periods prior to or after the Term. "Taxes" shall also include any and all supplemental Taxes, escape assessments or increases of Taxes for or as a result of any reason whatsoever.

"Taxes" shall also include Landlord's cost of contesting by appropriate proceeding the amount or validity of any of the aforementioned taxes. Landlord shall credit a pro rata share of any tax rebate or refund against all Rent due hereunder from and after the date of Landlord's recovery and adjust Tenant's Percentage Share of all future Taxes as of such date.

5.3 Additional Taxes

In addition to the Basic Monthly Rent and other charges to be paid by Tenant hereunder, Tenant shall reimburse Landlord upon demand for any and all taxes, surcharges, levies, assessments, fees and charges payable by Landlord, whether or not now customary or within the contemplation of the parties hereto: (a) upon, measured by, or reasonably attributable to the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises, or the cost or value of any leasehold improvements, regardless of whether title to such improvements shall be in Tenant or Landlord; (b) upon, or measured by, any Rent or other amount payable hereunder or otherwise in connection with the Project, including, without limitation, any business tax, business license tax, payroll tax, gross receipts tax or excise tax levied by the city and/or county where the Building is located, the State of California, the federal government of the United States or any other governmental body with respect to the receipt of such Rent or other amounts payable under this Lease; (c) upon, or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; or (d) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

ARTICLE 6
USE

6.1 General

The Premises shall be used only for the Permitted Uses specified in Item 9 of the Basic Lease Information and for no other purpose whatsoever, without the prior written consent of Landlord which shall be given or withheld in Landlord's sole and absolute discretion.

6.2 No Nuisance or Waste

Tenant shall not do or knowingly permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure or annoy them or use or allow the Premises to be used for any improper, immoral or objectionable purpose, nor shall Tenant cause, maintain or knowingly permit any nuisance in, on, or about the Premises. Tenant agrees not to commit or suffer to be committed any waste in or upon the Premises.

6.3 Compliance With Laws

(a) No Illegal Use

Tenant shall not use the Premises or knowingly permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance, or governmental rule, regulation or requirement, including, without limitation, Disability Access Laws, as defined in Section 6.3(b), now in force or which may hereafter be enacted or promulgated ("Law" or "Laws''), or which might result in any change in the Building's or the Premises' use or occupancy classification. At its sole cost and expense, Tenant shall promptly comply with all Laws which relate to (i) Tenant's use of the Premises, (ii) any Alterations made by Tenant to the Premises, or (iii) the portions of the Building outside of the Premises, but only to the extent such obligations are triggered by Alterations made by Tenant to the Premises or triggered by Tenant's use of the Premises for other than general office use, and excepting compliance which is the Landlord's responsibility under Section 2.2 and Section 6.3(b) hereof, and provided that Landlord has the right to perform such work at Tenant's cost. Tenant shall not do or knowingly permit anything to be done in or about the Premises or bring or keep anything herein which will in any way increase the rate of fire insurance upon the Building or any of its contents, and Tenant shall, at its sole cost and expense, promptly comply with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to Tenant's use or occupancy of the Premises. The judgment of any court of competent jurisdiction or the admission of Tenant in an action against Tenant, whether Landlord be a party thereto or not, that Tenant has so violated any Law shall be conclusive of such violation as between Landlord and Tenant.

(b) Compliance with Disability Access Laws

(i) The Premises and/or the Building are subject to, among other Laws, the requirements of the Americans with Disabilities Act, a federal law codified at 42 U.S.C. 12101 et seq., including, but not limited to Title III thereof, and all regulations and guidelines related thereto, together with any and all similar laws, rules, regulations, ordinances, codes and statutes now in force or which may hereafter be enacted or promulgated, including, without limitation, Title 24 of the California Code of Regulations, the Unruh Civil Rights Act, California Civil Code Sections 51 through 51.3, and San Francisco Administrative Code Section 38, as the same may be in effect on the date of this Lease and may be hereafter modified, amended or supplemented (collectively, the "Disability Access Laws"). The Premises have not undergone inspection by a Certified Access Specialist (CASp), as defined in Section 55.52 of the California Civil Code, and Tenant is

responsible for inspecting the Premises to ensure that the Premises comply with Disability Access Laws. Subject to reimbursement pursuant to Article 4 above, if any work is required to the Building outside the Premises under Disability Access Laws, then such work shall be the responsibility of Landlord; provided, that, if such work is required under Disability Access Laws as a result of Tenant's use of the Premises for other than general office use or any work or Alteration made to the Premises by or on behalf of Tenant, then, at Landlord's option, such work shall be performed by Landlord or Tenant, at the sole cost and expense of Tenant. Notwithstanding anything to the contrary contained herein, Landlord, at Landlord's sole cost and expense (and without reimbursement pursuant to Article 4), shall be responsible for compliance with the "path of travel" requirements of the Disability Access Laws. Except as otherwise expressly provided in this provision, Tenant shall be responsible at its sole cost and expense for fully and faithfully complying with all applicable requirements of Disability Access Laws. Within ten (10) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with copies of (as applicable), any notices alleging violation of Disability Access Laws relating to any portion of the Premises or the Building; any claims made or threatened orally or in writing regarding noncompliance with Disability Access Laws and relating to any portion of the Premises or the Building; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with Disability Access Laws and relating to any portion of the Premises or the Building. Tenant shall and hereby agrees to protect, defend (with counsel acceptable to Landlord) and hold Landlord and the Indemnitees harmless and indemnify Landlord and the Indemnitees from and against all liabilities, damages, claims, losses, penalties, judgments, charges and expenses (including attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation including the enforcement of this provision) arising from or in any way related to, directly or indirectly, Tenant's or Tenant Parties' violation or alleged violation of Disability Access Laws. Tenant agrees that the obligations of Tenant herein shall survive the expiration or earlier termination of this Lease.

(ii) Pursuant to the requirements of San Francisco Administrative Code Section 38.5, Tenant hereby agrees to use reasonable efforts to notify Landlord if Tenant makes any Alterations or improvements to the Premises that might impact accessibility to the Premises or the Building under any Disability Access Laws. Landlord hereby agrees to use reasonable efforts to notify Tenant if Landlord makes any alterations or improvements to the Premises or the Building that might impact accessibility to the Premises or the Building under any Disability Access Laws.

(iii) Landlord and Tenant hereby acknowledge that, prior to the execution of this Lease, Landlord and Tenant executed a Disability Access Obligations Notice, pursuant to San Francisco Administrative Code Chapter 38. Landlord and Tenant shall each, within three (3) business days following a request from the other party, execute a new Disability Access Obligations Notice in accordance with San Francisco Administrative Code Chapter 38 or any successor statute. In addition, Tenant acknowledges receipt from Landlord of an Access Information Notice as required by San Francisco Administrative Code Chapter 38. Tenant acknowledges that such notices comply with the requirements of San Francisco Administrative Code Chapter 38.

6.4 Alterations to Common Areas

Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Common Areas at any time, and Tenant acknowledges and agrees that Landlord may, from time to time, close-off or restrict access to the Common Areas for purposes of permitting or facilitating any construction, alteration, repairs or improvements, provided that Tenant will have access to and use of the Premises. If changes or alterations are made by Landlord to any portion of the Project other than the Premises, Landlord shall not thereby be subject to any liability nor shall Tenant be entitled to any compensation or any diminution or abatement of Rent and such

changes or alterations shall not be deemed to be a constructive or actual eviction or a breach of Landlord's covenant of quiet enjoyment. Landlord agrees to use commercially reasonable efforts to undertake such work in a manner so as to minimize any disruption to Tenant's operations and to minimize any reduction in Tenant's visibility, access or utility of the Premises.

6.5 Toxic Substances

Tenant shall not maintain, create, use or discharge any toxic or hazardous substances in, on, or about the Project (other than small amounts of typical cleaning supplies as shall be needed to clean and operate the Premises, used in strict compliance with applicable local, state and federal law).

6.6 Load and Equipment, Notice of Defects

Tenant shall not place a load upon any floor of the Premises which exceeds the load per square foot which such floor was designed to carry, as determined by Landlord or Landlord's structural engineer. The cost of any such determination made by Landlord's structural engineer shall be paid for by Tenant upon demand. Tenant shall not install business machines or mechanical equipment which cause noise or vibration to such a degree as to be objectionable to Landlord or other Building tenants. Tenant shall give Landlord prompt notice of any change to or defective condition in any part or appurtenance of the Building's mechanical, electrical, plumbing, HVAC or other systems serving, located in, or passing through the Premises of which it is aware.

6.7 Signage

Tenant shall not display any sign or picture in the interior of the Premises, which is visible from the outside of the Building. Landlord will provide, at Landlord's cost, one line of directory signage in the main lobby of the Building and at the entrance to the Premises. Any additional Tenant signage shall be at Tenant's cost and subject to Landlord's prior approval. Landlord shall have the right to remove any sign, placard, picture, name, advertisement, or notice not approved by Landlord without notice to and at the expense of Tenant.

ARTICLE 7
SERVICES AND UTILITIES

7.1 General

Landlord shall:

(a) Operate or cause the operation in season of the heating system, serving the Premises, if any, during Ordinary Business Hours (as such term is defined in the Rules and Regulations attached hereto as Exhibit B) at such temperatures and in such amounts as Landlord determines are reasonably required for the comfortable occupancy of the Premises or as may be permitted or controlled by applicable Laws. Any heating provided by Landlord to Tenant during other than Ordinary Business Hours shall be furnished only upon at least forty-eight (48) business hours prior written request of Tenant and at Tenant's sole cost and expense.

(b) Provide water to the restrooms on each floor and make customary arrangements with public utilities and/or public agencies to furnish electric current to the Premises in amounts sufficient for normal lighting by overhead fluorescent fixtures and for normal use of standard personal computers for standard office use and other office machines of similar low electrical consumption but not including electricity required for computer servers, independent air-conditioning units, special communications equipment, special lighting or any other item of electrical equipment which (singly) consumes more than one (1.0) kilowatt at rated capacity or requires a voltage other than 120 volts single-phase (collectively "High-Consumption Equipment"). Tenant shall not install any High-Consumption Equipment in the Premises without Landlord's prior written consent. Landlord shall have no obligation to install dedicated circuits or other special circuitry or wiring. Tenant shall advise Landlord prior to the execution of this Lease and within five (5) days after written request therefor of the nature and quantity of all lights, equipment and machines using electricity in the Premises and shall permit Landlord or its authorized agents to make periodic inspections of all facilities using electricity of 0.18 kilowatt hours per square foot of rentable area.

(c) Operate, maintain, clean, light, and heat the Common Areas, as Landlord shall deem necessary. Landlord shall provide security services to the Building as is customary for first-class buildings in the vicinity of the Building, including, but not limited to a key/card access system at all times and security personnel in the lobby of the Building during regular Ordinary Business Hours. Tenant acknowledges that security services provided by Landlord from time to time may not prevent theft or other criminal acts, or insure the safety of persons or property, and Tenant expressly assumes the risk that any such security service may not be effective. In all events and notwithstanding any provision of this Lease to the contrary, Landlord and the other Indemnitees (as defined in Section 12.2 below) shall not be liable to Tenant, and Tenant hereby waives any claim against the Indemnitees to the maximum extent permitted by Law, for (i) any unauthorized or criminal entry of third parties into the Premises or the Building, (ii) any injury to or death of persons, or (iii) any loss of property in and about the Premises or the Building by or from any unauthorized or criminal acts of third parties, regardless of any action, inaction, failure, breakdown, malfunction and/or insufficiency of the security services provided by Landlord, or any allegation of active or passive negligence on the part of Landlord or the other Indemnitees. Tenant shall obtain insurance coverage to the extent Tenant desires protection against criminal acts and other losses.

(d) Provide janitorial service to the Building at a standard provided to other comparable office buildings in San Francisco on each weekday, exclusive of Saturday, Sunday and holidays, subject to access being granted to the person or persons employed or retained by Landlord to perform such work at such time as prescribed by Landlord.

7.2 Supplementary Services

Tenant shall pay Landlord, at the charges established by Landlord from time to time, for all supplementary services requested by the Tenant, which charges shall be payable by Tenant upon demand by Landlord. Such supplementary services shall include, without limitation, maintenance, repair, janitorial, rubbish removal, cleaning and other services required by Tenant in addition to such services required to be provided by Landlord. Landlord shall not be under any obligation to provide such supplementary services.

7.3 Interruption of Access, Use or Services

Landlord shall not be liable for any failure to provide access to or use of the Premises, or to furnish any services or utilities when such failure is caused by natural occurrences, riots, civil disturbances, insurrection, war, court order, public enemy, accidents, breakage, repairs, strikes, lockouts, other labor disputes, the making of repairs, alterations or improvements to the Premises or the Building, the inability to obtain an adequate supply of fuel, gas, steam, water, electricity, labor or other supplies or by any other condition beyond Landlord's reasonable control, except to the extent any injury, death or damage therefrom is caused by Landlord's gross negligence or willful misconduct and not covered by the insurance required to be carried pursuant to this Lease, and Tenant shall not be entitled to any damages resulting from such failure, nor shall such failure relieve Tenant of the obligation to pay all sums due hereunder or constitute or be construed as a constructive or other eviction of Tenant. If any governmental entity promulgates or revises any statute, ordinance or building, fire or other code, or imposes mandatory or voluntary controls or guidelines on Landlord or the Building or any part thereof, relating to the use or conservation of energy, water, gas, steam, light or electricity or the provision of any other utility or service provided with respect to this Lease, or if Landlord is required or elects to make alterations to the Building in order to comply with such mandatory or voluntary controls or guidelines, or make such alterations to the Building, neither such compliance nor the making of such alterations shall in any event entitle Tenant to any damages, relieve Tenant of the obligation to pay any of the sums due hereunder, or constitute or be construed as a constructive or other eviction of Tenant. Tenant hereby waives the provisions of California Civil Code Section 1932(1) or any other applicable Laws permitting the termination of this Lease due to such failure or interruption.

ARTICLE 8
SUITABILITY OF PREMISES

Tenant acknowledges that, except for the representations and warranties of Landlord set forth in this Lease, neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the suitability or fitness of the possession or use of the Premises for the conduct of Tenant's business or for any other purpose.

ARTICLE 9
ALTERATIONS

9.1 General

Except as permitted hereby, Tenant shall neither make nor cause to be made any alterations, additions or improvements (collectively "Alterations") in, on or to any portion of the Building or the Common Areas outside of the interior of the Premises. Tenant shall not make or suffer to be made any Alterations in, on or to the interior of the Premises or any part thereof, without the prior written consent of Landlord, which consent will not be unreasonably withheld or delayed; provided, however, Tenant acknowledges that, by way of example and without limitation, it shall be reasonable for Landlord to withhold its consent to Alterations affecting the structural portions of the Building or the life-safety, electrical, plumbing, HVAC fire-protection, telecommunications or other Building systems (collectively, "Building Systems"), structural portions of the Building, or Alterations which require work to be performed in portions of the Project outside the Premises in order to comply with Laws (e.g., ordinances intended to provide full access to handicapped persons). When applying for any such consent, Tenant shall furnish to Landlord complete plans and specifications for the desired Alterations. Landlord's approval of Tenant's plans and specifications shall create no liability on the part of Landlord for their completeness, sufficiency, or compliance with Laws. Any Alterations to be constructed hereunder shall comply with Laws, including, without

limitation, Disability Access Laws, and all costs incurred to comply therewith shall be a part of and included in the cost of the Alterations. Tenant shall be solely responsible for conducting its own independent investigation of this matter and for ensuring that the design of all Alterations strictly complies with Laws. Subsequent to obtaining Landlord's consent and prior to commencement of construction of the Alterations, Tenant shall deliver to Landlord any building permit required by Law. Notwithstanding the foregoing, Tenant shall have the right to paint and re-carpet and make non-structural cosmetic Alterations costing up to $25,000.00 per project ("Cosmetic Alterations") without Landlord consent, without payment of a construction management fee to Landlord, and without provision of any bonds to Landlord. Any permitted Alterations shall be made by Tenant at Tenant's sole cost and expense. All Alterations shall be performed only by contractors or mechanics approved by Landlord, which approval shall not be unreasonably withheld; provided, however, that Landlord may, in its sole discretion, specify engineers, general contractors, subcontractors, and architects to perform work affecting the Building Systems or structural portions of the Building, and provided further that Landlord's consent shall not be required with respect to contractors performing Cosmetic Alterations provided that such contractors are licensed and carry the insurance required hereby. Tenant shall provide, at its expense, such completion, performance and/or payment bonds as Landlord considers reasonably necessary. Tenant shall also require its contractor and all subcontractors to maintain insurance in amounts and in such form as Landlord may reasonably require, and Tenant shall provide to Landlord, prior to commencement of construction of the Alterations, evidence of such insurance as Landlord may require. Any Alterations shall be completed in accordance with the plans and specifications approved by Landlord, shall be carried out in a good, workmanlike and prompt manner, shall comply with all applicable Laws, and, shall be subject to supervision by Landlord or its employees, agents or contractors. Tenant shall pay to Landlord a fee in the amount of ten percent (10%) of the cost of the Alterations (other than Cosmetic Alterations) for its review of plans and its coordination of the progress of the work. Without Landlord's prior written consent, Tenant shall not use any portion of the Common Areas in connection with the making of any Alterations. If the Alterations which Tenant causes to be constructed result in Landlord being required to make any alterations and/or improvements to other portions of the Building in order to comply with Laws (e.g., ordinances intended to provide full access to handicapped persons), then Tenant shall reimburse Landlord within thirty (30) days following Tenant's receipt of a detailed demand for all costs and expenses incurred by Landlord in making such alterations and/or improvements. Any Alterations made by Tenant shall remain on and be surrendered with the Premises upon the expiration or sooner termination of the Term, except Tenant shall upon demand by Landlord, at Tenant's sole cost and expense forthwith and with all due diligence remove all or any portion of any Alterations made by Tenant which are designated by Landlord to be removed, and Tenant shall forthwith and with all due diligence, and at its sole cost and expense, repair and restore the Premises to their original condition, reasonable wear and tear excepted. Tenant shall remove all telephone equipment, telephone and computer wires, cables, conduits and other conductors, which were installed for the benefit of the Tenant at the Tenant's sole cost and expense upon termination of the Lease, and the Tenant shall at its sole cost and expense, forthwith and with all due diligence repair and restore the Premises and the Building to their original condition.

9.2 Notice

Tenant shall give Landlord at least fifteen (15) days prior written notice of commencement of any work of construction, alteration, maintenance, repair or replacement in order to enable Landlord to post and record notices of non-responsibility. Tenant shall keep the Premises, Common Areas, Building and the Real Property free from any liens arising out of any work performed, materials furnished or obligations incurred by Tenant. In the event that Tenant does not, within ten (10) days following the recording of notice of any such lien, Tenant shall cause the same to be released of record, and Landlord shall have, in addition to all other remedies provided herein and by Law, the right, but not the obligation, to cause the same to be released by such means as it shall

deem proper, including payment of the claim giving rise to such lien. All sums paid by Landlord for such purpose, and all expenses incurred by it in connection therewith, shall be payable to Landlord by Tenant, as additional rent, on demand, together with interest at the Interest Rate from the date such expenses are incurred by Landlord to the date of the payment thereof by Tenant to Landlord.

9.3 Labor Relations

Should any construction, alteration, addition, improvement or decoration of the Premises by Tenant interfere with the harmonious labor relations in existence in the Building, all such work shall be halted immediately by Tenant or Landlord's agent until such time as construction can proceed without any such interference.

9.4 Indemnity

Tenant shall indemnify and hold Landlord and each of the other Indemnitees harmless from and protect and defend each Indemnitee against any and all Claims (as defined in Section 12.2 below) arising out of or in any way related to claims for work or labor performed, or materials or supplies furnished, to or at the request of Tenant or in connection with performance of any work done for the account of Tenant in the Premises, the Common Areas or the Building, whether or not Tenant obtained Landlord's permission to have such work done, labor performed, or materials or supplies furnished.

9.5 Future Construction Work

Landlord reserves the right (upon thirty (30) days' prior notice to, but otherwise without the consent of Tenant) to make improvements and/or additions to portions of the Building, including, without limitation, adding floor area to one or more existing floors of the Building, and to undertake structural and seismic improvement projects in the Building. Such construction activity may result in columns, beams and other structural components being placed in the Premises to accommodate the construction work and/or the permanent additions and/or expansions to be constructed. Any such construction activity is entirely discretionary with Landlord, and Tenant hereby waives any and all rights or claims of any kind for rent offsets or based on constructive eviction, nuisance or interference with enjoyment which may arise in connection with or result from such construction activities; provided, however, Landlord shall use commercially reasonable efforts to minimize disruption of Tenant's business caused by such construction activities, and throughout such construction activities Tenant shall have access to, and use of, the entire Premises for the Permitted Use. Notwithstanding anything in this Paragraph to the contrary, if Landlord determines that any of the foregoing construction activities will result in a material interference with or disruption to Tenant's business in the Premises, Landlord, upon thirty (30) days' prior written notice to Tenant that Landlord intends to commence such construction activity, may, at Landlord's sole cost and expense, relocate Tenant, temporarily, to other comparable space in the Building. If the Premises are altered by reason of such improvements, Landlord agrees to re-measure the Premises following the completion of the improvements and to adjust the Tenant's rental obligations hereunder based on the new square footage of the Premises, as determined by Landlord.

ARTICLE 10
REPAIRS

Landlord shall be responsible for maintaining and repairing the Common Areas of the Building, all Building Systems, the exterior of the Building, and all structural aspects of the Building throughout the Term. No representations or warranties, except as contained herein or endorsed hereon, have been made to Tenant respecting the condition of the Premises. Tenant shall take good

care of the Premises and shall maintain the Premises and any equipment installed by Tenant that exclusively serving the Premises (whether located in the Premises or the Common Areas) and make all repairs and replacements (not required to be made by Landlord) in order to preserve the Premises in good working order and condition. In addition, Tenant shall reimburse Landlord, within thirty (30) days of written demand, for the cost of any and all repairs or replacements to the Common Areas or the structural aspects of the Premises necessitated or occasioned by the acts, omissions or negligence of Tenant or any person claiming through or under Tenant, or any of their servants, employees, contractors, agents, visitors or licensees, or by the use or occupancy or manner of use or occupancy of the Premises by Tenant or any such person. Landlord shall not be liable for, and there shall be no abatement of Rent with respect to, any injury to or interference with Tenant's business arising from any repairs, maintenance, alteration or improvement in or to any portion of the Premises, the Common Areas or the Building or in or to the fixtures, appurtenances or equipment therein. Tenant hereby waives all right to make repairs at Landlord's expense under the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code (or any similar law or ordinance now or hereafter in effect), and instead, all improvements, repairs, and/or maintenance expenses incurred on the Premises shall be at the expense of Tenant, and shall be considered as part of the consideration for leasing the Premises except as otherwise expressly provided herein. All damages or injury done to the Premises by Tenant or by any person who may be in or upon the Premises with Tenant's consent or at Tenant's initiation, shall be paid for by Tenant, and Tenant shall, at the termination of this Lease, surrender the Premises to Landlord in as good condition and repair as when accepted by Tenant, reasonable wear and tear excepted.

ARTICLE 11
ASSIGNMENT AND SUBLETTING

11.1 Restrictions on Transfers

Tenant shall not, without the prior written consent of Landlord, which consent Landlord shall not unreasonably withhold and which shall be given (or withheld) in accordance with the terms hereof within thirty (30) days of Tenant's request therefor: (a) assign, mortgage, pledge, hypothecate, encumber, or permit any lien to attach to, or otherwise transfer, this Lease or any interest hereunder, by operation of law or otherwise; (b) sublet the Premises or any part thereof; or (c) permit the use of the Premises by any individuals, entities, firms, associations, partnerships, companies or corporations other than Tenant and its employees (all of the foregoing are hereinafter sometimes referred to collectively as "Transfers" and any person to whom any Transfer is made or sought to be made is hereinafter sometimes referred to as a "Transferee").

11.2 Notice of Proposed Transfer

If Tenant shall desire Landlord's consent to any Transfer, Tenant shall notify Landlord in writing ("Notice of Proposed Transfer"). Any such Notice of Proposed Transfer shall include: (a) the proposed effective date (which shall not be less than thirty (30) nor more than ninety (90) days after the date of Tenant's Notice of Proposed Transfer), (b) the portion of the Premises to be Transferred (herein called the "Subject Space"), (c) the terms of the proposed Transfer and the consideration therefor, the name and address of theproposed Transferee, a copy of all documentation pertaining to the proposed Transfer, and an estimated calculation of the "Transfer Premium" (as that term is defined in Section 11.4 below) in connection with such Transfer, (d) financial statements of the proposed Transferee for the three (3) year period immediately preceding the Notice of Proposed Transfer (or, if the proposed Transferee has been in existence for less than three (3) years, for such shorter period as may be applicable) certified by an officer, partner or owner thereof and any other information reasonably necessary to enable Landlord to determine the financial responsibility

(including, without limitation, bank references and contacts at other of Tenant's funding sources), character and reputation of the proposed Transferee, the nature of such Transferee's business and proposed use of the Subject Space, and (e) such other information as Landlord may reasonably require. Any Transfer made without complying with this Section shall, at Landlord's option, be null, void and of no effect, and/or shall constitute an immediate Event of Default under this Lease. Whether or not Landlord shall grant consent, Tenant shall pay, within thirty (30) days after written request by Landlord, Five Hundred and No/100 Dollars ($500.00) towards Landlord's review and processing expenses, plus any reasonable legal fees incurred by Landlord in connection with any proposed Transfer.

11.3 Reasonable conditions

By way of example and without limitation, the parties hereby agree that it shall be deemed to be reasonable under this Lease and under any applicable Laws for Landlord to withhold consent to any proposed Transfer where, in the good-faith judgment of Landlord, one or more of the following apply (or where Landlord has not been provided with sufficient information to determine that none of the following apply):

(a) The proposed Transferee fails to satisfy Landlord's then current credit and other standards for tenants of the Building, or does not have the financial strength and stability to perform all of the obligations of the Tenant under this Lease (as they apply to the Subject Space) as and when they fall due; or

(b) The Transferee is of a character or reputation or is engaged in a business which is not consistent with the quality of the Building or the existing tenant mix; or

(c) The proposed use of the Premises by the proposed Transferee would (i) be unlawful; (ii) be inappropriate to the location and configuration of the Premises; (iii) cause Landlord to be in violation of another lease or agreement to which Landlord is a party, or would give an occupant of the Building a right to cancel its lease; (iv) likely cause an increase in insurance premiums for insurance policies applicable to the Building; (v) likely require new tenant improvements that Landlord would be entitled to disapprove pursuant to Article 9 hereof; (vi) likely cause an increase in services to be provided to the Premises; (vii) likely create any increased burden in the operation of the Building, or in the operation of any of its facilities or equipment; (viii) likely cause a change in the Building's or the Premises' use or occupancy classification, or (ix) likely impair the dignity, reputation or character of the Building; or

(d) The proposed use of the Premises would result in the division of the Premises into more than one (1) tenant space; or

(e) At the time of the proposed Transfer, an Event of Default shall have occurred hereunder, or an event shall have occurred that with notice, the passage of time, or both, would become an Event of Default; or

(f) The proposed Transferee is a governmental entity, or is entitled, directly or indirectly, to diplomatic or sovereign immunity, or is not subject to the service of process in, or the jurisdiction of the courts of, the State of California, or holds any exemption from the payment of ad valorem or other taxes which would prohibit Landlord from collecting from such Transferee any amounts otherwise payable under this Lease; or

(g) Either the proposed Transferee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed Transferee, (i) occupies space in the Building at the time of the request for consent, (ii) is negotiating with Landlord to lease space in the Building at such time, or (iii) has negotiated with Landlord during the six (6)-month period immediately preceding Tenant's request for consent; or

(h) The proposed Transfer or the proposed Transferee fails to comply with any other conditions reasonably required by Landlord under the circumstances at such time in accordance with good business practices; or

(i) The sublease rent charged by Tenant to such proposed Transferee during the term of such Transfer, is less than the fair market sublease rental value of the Subject Space as of the date of the proposed Transfer.

11.4 Transfer Premium

If Landlord consents to a Transfer, as a condition thereto which the parties hereby agree is reasonable, Tenant shall pay Landlord seventy-five percent (75%) of any Transfer Premium derived by Tenant from such Transfer. "Transfer Premium" shall mean all rent, additional rent or other consideration due from such Transferee (including, but not limited to, payments in excess of fair market value for Tenant's assets, trade fixtures, equipment and other personal property, goodwill, intangible property and any capital stock or other equity ownership of Tenant) in excess of the Rent payable by Tenant under this Lease (on a monthly basis during the Term, and on a per rentable square foot basis, if less than all of the Premises is transferred), after deducting Permitted Transfer Costs. As used herein, "Permitted Transfer Costs" means the actual costs incurred and paid by Tenant for (a) any customary leasing commissions and reasonable legal fees and expenses in connection with the Transfer, and (b) any Alterations to the Subject Space made by Tenant in connection with the Transfer, provided that Tenant shall furnish Landlord with copies of bills or other documentation substantiating such costs. For purposes of calculating the Transfer Premium when the Transfer Premium is not paid to Tenant in a lump sum, all Permitted Transfer Costs shall be amortized on a straight-line basis, without interest, over the relevant term of the Transfer. If part of the consideration for such Transfer shall be payable other than in cash, Landlord's share of such non-cash consideration shall be in such form as is reasonably satisfactory to Landlord. If Tenant shall enter into multiple Transfers, the Transfer Premium payable to Landlord shall be calculated independently with respect to each Transfer. The Transfer Premium due Landlord hereunder shall be paid within ten (10) days after any Transfer Premium from the Transferee is paid to Tenant. Landlord or its authorized representatives shall have the right at all reasonable times to audit the books, records and papers of Tenant relating to any Transfer, and shall have the right to make copies thereof. If the Transfer Premium respecting any Transfer shall be found to be understated, Tenant shall within thirty (30) days after demand pay the deficiency, and if understated by more than two percent (2%), Tenant shall pay Landlord's costs of such audit.

11.5 Recapture

Notwithstanding anything to the contrary contained in this Article 11, Landlord shall have the option, by giving written notice to Tenant within thirty (30) days after receipt of Tenant's Notice of Proposed Transfer, to recapture the Subject Space. Such recapture notice shall cancel and terminate this Lease with respect to the Subject Space as of the date stated in Tenant's Notice of Proposed Transfer as the effective date of the proposed Transfer (or, at Landlord's option, shall cause the Transfer to be made to Landlord or its agent, in which case the parties shall execute the

Transfer documentation promptly thereafter). If Landlord recaptures the Subject Space, the following provisions shall be applicable: (a) Landlord, at Landlord's expense, shall construct any demising walls required to segregate the Subject Space from the remaining Premises retained by Tenant; and Tenant shall be responsible, at its expense, for painting, covering or otherwise decorating the surfaces of the partitions facing the remaining Premises retained by Tenant; (b) if this Lease shall be cancelled with respect to less than the entire Premises, the Rent reserved herein shall be prorated on the basis of the number of rentable square feet retained by Tenant in proportion to the number of rentable square feet contained in the Premises; and this Lease as so amended shall continue thereafter in full force and effect (upon request of either party, the parties shall execute written confirmation of the same); and (c) Landlord shall have the right to negotiate directly with Tenant's proposed Transferee and to enter into a direct lease or occupancy agreement with any such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion, and Tenant hereby waives any claims against Landlord related thereto, including, without limitation, any claims for compensation or profit related to such lease or occupancy agreement.

11.6 Terms of Consent

If Landlord consents to a Transfer: (a) the terms and conditions of this Lease, including among other things, Tenant's liability for the Subject Space, and Rent with respect thereto, shall in no way be deemed to have been released, waived or modified, (b) such consent shall not be deemed consent to any further Transfer by either Tenant or the Transferee, (c) no Transferee shall succeed to any rights provided in this Lease or any amendment hereto to extend the Term, expand the Premises, or lease additional space, any such rights being deemed personal to Tenant, (d) Tenant shall deliver to Landlord promptly after execution, an original executed copy of all documentation pertaining to the Transfer in form reasonably acceptable to Landlord, and (e) Tenant shall furnish upon Landlord's request a complete statement, certified by an independent certified public accountant, or Tenant's chief financial officer, setting forth in detail the computation of any Transfer Premium Tenant has derived and shall derive from such Transfer. In addition, if Landlord consents to a Transfer, but the Transfer does not occur within ninety (90) days after Tenant's Notice of Proposed Transfer, or if the terms of the proposed Transfer materially change from those set forth in Tenant's Notice of Proposed Transfer, Tenant shall submit a new Notice of Proposed Transfer, requesting Landlord's consent, and the Subject Space shall again be subject to Landlord's rights under Section 11.5 above. Each Transferee under an assignment of this Lease, other than Landlord, must expressly assume all of the provisions, covenants and conditions of this Lease on the part of Tenant to be kept and performed. Any sublease hereunder shall be subordinate and subject to the provisions of this Lease, and if this Lease shall be terminated during the term of any sublease, Landlord shall have the right to: (A) treat such sublease as cancelled and repossess the Subject Space by any lawful means, or (B) require that the subtenant attorn to and recognize Landlord as its landlord under any such sublease. If an Event of Default shall occur, Landlord is hereby irrevocably authorized, as Tenant's agent and attorney-in-fact, to direct any Transferee to make all payments under or in connection with the Transfer directly to Landlord (which Landlord shall apply towards Tenant's obligations under this Lease) until such Event of Default is cured.

11.7 Subsequent Consents

Consent by Landlord to any Transfer made pursuant to this Lease shall not operate to relieve Tenant from any covenant or obligation hereunder or be deemed to be a consent to or relieve Tenant from obtaining Landlord's consent to any subsequent Transfer by Tenant or anyone claiming by, through or under Tenant. No subtenant shall have the right to further Transfer its interest in the Subject Space.

11.8 Certain Transfers

For purposes of this Lease, the term "Transfer" shall also include (a) if Tenant is a partnership, the withdrawal or change, voluntary, involuntary or by operation of law, of a general partner or a majority of the partners, or a transfer of a majority of partnership interests, or the dissolution of the partnership;•and (b) if Tenant is a limited liability company, the withdrawal or change, voluntary, involuntary, or by operation of law, of a majority of members, or a transfer of a majority of the membership interests, or the dissolution of the limited liability company.

11.9 Tenant Remedies

Notwithstanding anything to the contrary in this Lease, if Tenant claims that Landlord has unreasonably withheld or delayed its consent under this Article 11 or otherwise has breached or acted unreasonably under this Article 11, Tenant's sole remedy shall be declaratory judgment and an injunction for the relief sought without any monetary damages, and Tenant hereby waives all other remedies, including, without limitation, any right provided under California Civil Code Section 1995.310 or other applicable Laws to terminate this Lease. Tenant shall indemnify and hold Landlord harmless from and protect and defend Landlord against any and all Claims involving any third party or parties (including, without limitation, Tenant's broker or proposed Transferee) who claim they were damaged by Landlord's wrongful withholding or conditioning of Landlord's consent.

11.10 Bankruptcy

To the extent permitted under then-applicable Law, if a petition is filed by or against Tenant for relief under Title 11 of the United States Code, as amended (the "Bankruptcy Code"), and Tenant (including, for purposes of this Section, Tenant's successor in bankruptcy, whether a trustee or Tenant as debtor in possession) assumes and proposes to assign, or proposes to assume and assign, this Lease pursuant to the provisions of the Bankruptcy Code to any person or entity who has made a bona fide offer to accept any assignment of this Lease on terms acceptable to Tenant, then notice of the proposed assignment setting forth (a) the name and address of the proposed assignee, (b) all of the terms and conditions of the offer and proposed assignment, and (c) the adequate assurance to be furnished by the proposed assignee of its future performance under the Lease, shall be given to Landlord by Tenant no later than twenty (20) days after the Tenant has made or received such offer, but in no event later than ten (10) days prior to the date on which Tenant applies to a court of competent jurisdiction for authority and approval to enter into the proposed assignment. Landlord shall have the prior right and option, to be exercised by notice to Tenant given at any time prior to the date on which the court order authorizing such assignment becomes final and non-appealable, to receive an assignment of this Lease upon the same terms and conditions, and for the same consideration, if any, as the proposed assignee, less any brokerage commissions which may otherwise be payable out of the consideration to be paid by the proposed assignee for the assignment of this Lease. If this Lease is assigned pursuant to the provisions of the Bankruptcy Code, Landlord: (A) may require from the assignee a deposit or other security for the performance of its obligations under the Lease in an amount substantially the same as would have been required by Landlord upon the initial leasing to a tenant similar to the assignee; (B) shall receive, as additional rent, the sums and economic consideration described in Section 11.4; and (C) shall be entitled to receive reimbursement of reasonable attorneys' fees and costs incurred in connection with such assignment. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed, without further act or documentation, to have assumed all of the Tenant's obligations arising under this Lease on and after the date of such assignment. No provision of this Lease shall be deemed a waiver of Landlord's rights or remedies under the Bankruptcy Code to oppose any assumption and/or assignment of this Lease, to require a timely performance of Tenant's

obligations under this Lease, or to regain possession of the Premises if this Lease has neither been assumed nor rejected within sixty (60) days after the date of the order for relief or within such additional time as a court of competent jurisdiction may have fixed. Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of Landlord under this Lease, whether or not expressly denominated as Rent, shall constitute rent for the purposes of Section 502(b)(6) of the Bankruptcy Code.

11.11 Permitted Transfers

Notwithstanding any provision of this Article 11 to the contrary, the following Transfers (a Transferee under any such Transfer is herein referred to as a "Permitted Transferee", and such Transfer, a "Permitted Transfer") shall be permitted without Landlord's consent: (a) an assignment of this Lease to a Transferee that purchases all or substantially all (at least eighty-five percent (85%)) of the assets of Tenant, or to a Transferee that is the successor entity to Tenant resulting from a merger, consolidation, non-bankruptcy reorganization, or government action, or (b) an assignment or subletting of all or a portion of the Premises to an affiliate, subsidiary, parent or other entity which is controlled by, controls, or is under common control with, Tenant; provided that (i) no Event of Default exists at the time of the Transfer; (ii) Tenant delivers to Landlord a Notice of Proposed Transfer with respect to such proposed Transfer at least thirty (30) days prior to the effective date thereof (unless such transaction is confidential, in which case, such notice and accompanying information shall be provided to Landlord within thirty (30) days after the effective date of the Transfer) and promptly supplies Landlord with any documents or information reasonably requested by Landlord regarding such Transfer or Transferee, including, but not limited to, copies of the sublease or instrument of assignment, copies of documents establishing to the reasonable satisfaction of Landlord that the transaction in question is one described in clause (a) or (b) above, and, in the case of a Transfer pursuant to clause (a) above, evidence reasonably satisfactory to Landlord of the proposed Transferee's Net Worth (as defined below), (iii) any such Transfer shall be subject to the provisions of Sections 11.2 [other than the requirements of Landlord consent and a processing fee, which are inapplicable to a Permitted Transfer], 11.3 [other than Sections 11.3(a), 11.3(g) and 11.3(h)], 11.6 (except with respect to the Transfer Premium and the provisions thereof regarding consent of Landlord), 11.7, 11.8, and 11.10 hereof (and Sections 11.3, 11.4, 11.5 and 11.9 shall be inapplicable to any Permitted Transfer); (iv) in the case of a Transfer pursuant to clause (a) above, the Transferee has a tangible net worth at the time of the Transfer (i.e., not including intangible assets in the calculation, such as goodwill, patents, copyrights, and trademarks) computed in accordance with generally accepted accounting principles ("Net Worth") at least equal to the greater of (A) the Net Worth of Tenant immediately prior to such Transfer, or (B) the Net Worth on the date of this Lease of the original named Tenant; (v) the Permitted Transferee shall continue to actively conduct business in the Premises in compliance with the provisions of this Lease; and (vi) any such proposed Transfer is made for a good faith operating business purpose and not, whether in a single transaction or in a series of transactions, be entered into as a subterfuge to evade the obligations and restrictions relating to Transfers set forth in this Article 11. "Control," as used in this Section 11.11, shall mean the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in, any person or entity.

ARTICLE 12
NON-LIABILITY AND INDEMNIFICATION

12.1 Waiver of Liability

Neither Landlord nor any of the other Indemnitees shall be liable or responsible in any way for, and Tenant hereby waives all claims against Landlord and such other Indemnitees with respect to or arising out of any death or any injury of any nature whatsoever that may be suffered or sustained by Tenant or any employee, licensee, invitee, guest, contractor, agent or customer of Tenant or any other person, occurring in or about the Premises or the Building, from any causes whatsoever; or for any loss or damage or injury to any property in or about the Premises or the Building belonging to Tenant or its employees, contractors, agents, customers, licensees, invitees, guests or any other person (except to the extent such limitation on liability is prohibited by Law). Without limiting the generality of the foregoing, Landlord shall not be liable for any damage or damages of any nature whatsoever to persons or property caused by explosion, fire, theft or breakage, by sprinkler, drainage or plumbing systems, by failure for any cause to supply adequate drainage, by the interruption of any public utility or service, by steam, gas, water, rain or other substances leaking, issuing or flowing into any part of the Premises, by natural occurrence, acts of the public enemy, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority. In addition, Landlord shall not be liable for any loss or damage for which the Tenant is required to insure.

12.2 Indemnity

Tenant shall indemnify and hold Landlord, the Holders of all Superior Interests, Landlord's agents, the shareholders, constituent partners and other direct or indirect owners of Landlord or any agent of Landlord, and all contractors, officers, directors and employees of any thereof (collectively, "Indemnitees"), and each of them, harmless from and protect and defend each Indemnitee against any and all obligations, losses, claims, actions (including remedial or enforcement actions of any kind and administrative or judicial proceedings, suits, orders or judgments), causes of action, liabilities, penalties, damages (including consequential and punitive damages), costs and expenses (including reasonable attorneys' and consultants' fees and expenses) (collectively, "Claims"): (a) occurring in, on, or about the Premises, or any part thereof, arising at any time and from any cause whatsoever, other than, with respect to any Indemnitee, by reason of the gross negligence or willful misconduct of such Indemnitee and such matter is not covered by the insurance required to be carried by Tenant hereunder (except to the extent such indemnity obligation is prohibited by Law); (b) occurring in, on, or about any part of the Project other than the Premises, when such damage, injury, illness or death shall be caused by the negligence or willful misconduct of Tenant, its agents, servants, contractors, employees, invitees or licensees ("Tenant Parties); (c) arising out of any toxic or hazardous substance placed in, on, or about the Project by Tenant or any Tenant Party; or (d) arising from the failure of Tenant to observe or perform any of its obligations hereunder. Tenant's indemnification includes, without limitation, any and all costs incurred by Landlord due to any investigation of the site or any cleanup or removal of toxic hazardous substances or restoration mandated by a federal, state or local agency or political subdivision arising out of the actions of Tenant or any Tenant Parties. If any action or proceeding is brought against any of the Indemnitees by reason of any such Claim or liability, Tenant, upon notice from Landlord, covenants to resist and defend at Tenant's sole expense such action or proceeding by counsel reasonably satisfactory to Landlord. Tenant's obligations under this Section 12.2 shall not be construed as in any way restricting, limiting, or modifying Tenant's insurance or other obligations under this Lease. Further, Tenant's compliance with the insurance requirements and other obligations of this Lease shall not in any way restrict, limit or modify Tenant's obligations under this Section 12.2. Tenant's duty to

defend Landlord and the other Indemnitees is separate and independent of Tenant's duty to indemnify the Indemnitees. The duty to defend includes Claims for which the Indemnitees may be liable without fault or strictly liable. The duty to defend applies regardless of whether the issues of negligence, liability, fault, Default, or other obligation on the part of Tenant, its agents, servants, contractors, employees, invitees or licensees have been determined. The duty to defend applies immediately, regardless of whether the Indemnitees have paid any sums or incurred any detriment arising out of or relating (directly or indirectly) to any Claims. It is the express intention of the parties that the Indemnitees be entitled to obtain summary adjudication or summary judgment regarding Tenant's duty to defend the Indemnitees at any stage of any claim or suit within the scope of this Section. The provisions of this Section 12.2 shall survive the expiration or earlier termination of this Lease with respect to any Claims or liability occurring or arising prior to the expiration or earlier termination.

12.3 Limitation of Liability

None of Landlord's direct or indirect partners, shareholders, members, affiliates, or agents, nor the officers, directors, members and employees of Landlord or any such other person or entity (collectively called the "Landlord Parties") shall be liable for the performance of Landlord's obligations under this Lease. Tenant shall look solely to Landlord to enforce Landlord's obligations hereunder and shall not seek any damages against any of the Landlord Parties. The liability of Landlord for Landlord's obligations under this Lease shall not exceed and shall be limited to Landlord's interest in the Building and Tenant shall not look to the property or assets or any of the Landlord Parties in seeking either to enforce Landlord's obligations under this Lease or to satisfy a judgment for Landlord's failure to perform such obligations. Notwithstanding any other provision of this Lease, Landlord shall not be liable for loss of or damage to artwork, currency, jewelry, bullion, unique or valuable documents, securities or other valuables, or for other property not in the nature of ordinary fixtures, furnishings and equipment used in general administrative and executive office activities and functions. Wherever in this Lease Tenant (a) releases Landlord from any claim or liability, (b) waives or limits any right of Tenant to assert any claim against Landlord or to seek recourse against any property of Landlord or (c) agrees to indemnify Landlord against any matters, the relevant release, waiver, limitation or indemnity shall run in favor of and apply to Landlord and each of the Landlord Parties. Further, regardless of the basis on which Tenant is entitled to claim damages (including breach, negligence, misrepresentation, or other contract or tort claim), in no event shall Landlord or the Landlord Parties be liable under any circumstances for any special, incidental, punitive, indirect or consequential damages or for injury or damage to, or interference with, Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill, or loss of use, however occurring.

ARTICLE 13
INSURANCE

13.1 Insurance to be Carried by Tenant

Tenant shall during the Term, at its sole cost and expense, obtain and maintain the following types of insurance:

(a) All Risk coverage insurance, including endorsements for vandalism, malicious mischief, theft, sprinkler leakage, and earthquake sprinkler leakage, covering all of Tenant's property, including, but not limited to, furniture, equipment, additions, fixtures, and anything in the nature of a leasehold improvement constructed by Tenant in an amount equal to the full replacement cost of such property without deduction for depreciation. Landlord and Landlord's agent shall be named an additional insured with respect to Landlord's interest in any real property on Tenant's fire and extended coverage policy;

(b) Commercial general liability insurance, including bodily injury and property damage, personal injury and contractual liability with respect to all claims, demands or actions by any person or entity, in and arising from, related to, or connected with the conduct and operation of Tenant's business in the Premises or Tenant's use of the Premises. Landlord, the Holder of any Superior Interest and any agent of Landlord designated by Landlord shall be shown as an "additional insured" on any such policy at Tenant's expense. Such policies shall be written with no more than a Five Thousand Dollar ($5,000.00) deductible, with coverage limits of not less than Two Million Dollars ($2,000,000.00) per occurrence and Five Million Dollars ($5,000,000.00) aggregate;

(c) Worker's Compensation insurance coverage as required by Law, together with employer's liability insurance coverage with limits not less than One Million Dollars ($1,000,000.00);

(d) Business income insurance and extra expense coverage with coverage amounts that shall reimburse Tenant for all rental, expense and other payment obligations of Tenant under this Lease for a period of not less than one year, including, without limitation, Basic Monthly Rent and adjustments thereto and Direct Expenses, Taxes and all other costs, fees, charges and payments which would be borne by or due from Tenant under this Lease if the Premises and Tenant's business were fully open and operating; and

(e) Any other form or forms of insurance (including increases to the limits of existing coverage) as Landlord or the Holder of any Superior Interest may reasonably require from time to time in form and in amounts and for insurance risks against which a prudent tenant would protect itself.

Each policy evidencing insurance required to be carried by Tenant pursuant to this Article 13 shall contain a provision including Landlord and Landlord's managing agent, and any other parties in interest designated by Landlord, as an additional insured(s).

13.2 Policy Forms and Delivery

All policies shall be taken out from insurers acceptable to Landlord and in a form satisfactory to Landlord. Tenant agrees that certificates of such insurance shall be delivered to Landlord as soon as practicable after the placing of the required insurance, but in no event later than ten (10) days prior to the date Tenant takes possession of the Premises.

13.3 Use of Proceeds

In the event of damage or destruction to the leasehold improvements in the Premises covered by insurance required to be taken out by Tenant pursuant to this Article, Tenant shall use the proceeds of such insurance for the purposes of repairing or restoring such leasehold improvements. In the event of damage or destruction of the Building entitling the Landlord or Tenant to terminate this Lease pursuant to Article 15 hereof, then, if the Premises have also been damaged, Tenant will pay to Landlord that portion of its insurance proceeds relating to the leasehold improvements in the Premises.

13.4 Landlord's Insurance

Subject to reimbursement as a Direct Expense in accordance with the provisions of Article 4 hereof, Landlord shall procure and maintain in effect throughout the Term property insurance and such other types of insurance as are customarily carried by owners of office buildings in the vicinity of the Building, and/or as may be required by Landlord's mortgage lender. Such coverages shall be in such amounts, from such companies and on such other terms and conditions as Landlord may from time to time determine, and Landlord shall have the right, but not the obligation, to change, cancel, decrease or increase any insurance coverages in respect of the Building, add additional forms of insurance as Landlord shall deem necessary, and/or obtain umbrella or other policies covering both the Building and other assets owned by or associated with Landlord or its affiliates.

13.5 Waiver of Subrogation

Landlord and Tenant hereby waive and release any and all rights of recovery against the other party, including officers, employees, agents and authorized representatives (whether in contract or tort) of such other party, that arise or result from any and all loss of or damage to any property of the waiving party located within or constituting part of the Project, including the Premises (whether or not the party suffering the loss or damage actually carries any insurance, recovers under any insurance or self-insures the loss or damage). Each party shall have their insurance policies issued in such form as to waive any right of subrogation as might otherwise exist. This mutual waiver is in addition to any other waiver or release contained in this Lease.

ARTICLE 14
TRANSFER OF LANDLORD'S INTEREST

In the event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the agreements, obligations, covenants or conditions, express or implied, herein contained in favor of Tenant, and in such event Tenant agrees to look solely to the successor-in-interest of Landlord in and to this Lease. This Lease shall not be affected by any such sale or conveyance, however, and Tenant agrees to attorn to the successor-in-interest of Landlord in and to this Lease, such attornment to be effective and self-operative without the execution of any further instruments on the part of any of the parties of this Lease.

ARTICLE 15
DAMAGE OR DESTRUCTION

15.1 Repair or Termination

(a) If the Premises, the Common Areas or the Building are damaged by fire or other casualty of the type insured by Landlord, in a way that materially interferes with Tenant's use of the Premises, the damage shall be repaired by Landlord; provided Landlord reasonably determines that such repairs can be made within one hundred eighty (180) days after the commencement of repairs without the payment of overtime or other premiums and that the insurance proceeds are sufficient to pay the cost of such repairs. Until such repairs are completed or this Lease is terminated as herein provided, Basic Monthly Rent shall be abated in proportion to the part of the Premises which is rendered unusable by Tenant in the conduct of its business as a result of such casualty, but provided that there shall be no abatement of Basic Monthly Rent by reason of any portion of the Premises being unusable for a period of three (3) days or less. If the damage is due to the act or negligence of Tenant or its agents, servants, contractors, employees, invitees or licensees there shall be no abatement of Rent.

(b) Landlord shall not be liable for any failure to make any such repairs to the extent such failure is caused by accidents, strikes, lockouts or other conditions beyond the reasonable control of Landlord.

(c) If such repairs cannot reasonably be made within such one hundred eighty (180) days, if such repairs will cost more than the available insurance proceeds, if such casualty is not of the type insured by Landlord, or if Landlord has the right to terminate this Lease under Section 15.1(g) below, Landlord may, at its option, elect to either (i) make such repairs within a reasonable time and, in such event, this Lease shall continue in effect and the Basic Monthly Rent shall be abated in the manner provided above, or (ii) terminate this Lease. Within thirty (30) days after the occurrence of a casualty, Landlord shall give written notice to Tenant of Landlord's election to (i) repair the damage caused by such casualty, or (ii) terminate this Lease as of the date specified in such notice.

(d) With respect to any damage and repairs, Tenant waives the provisions of Section 1932(2), 1933(4), 1941 and 1942 of the California Civil Code or any successor statute thereto or similar statute hereinafter enacted.

(e) All proceeds of any insurance maintained by Tenant or Landlord upon the Premises (including insurance on Tenant improvements) shall be used to pay for the repairs to the property covered by said insurance, to the extent that repairs are made pursuant to this Article.

(f) If the Premises, the Building, or the Common Areas are damaged, and such damage is of the type insured against under the insurance maintained by Landlord, the cost of repairing said damage up to the amount of the deductible, or any amount in excess of the coverage under said insurance policy, shall be included as a part of Direct Expenses.

(g) Landlord shall not have any obligation whatsoever to repair, reconstruct, or restore the Premises or any portion of Common Areas or the Building when the damage occurs during the last eighteen (18) months of the Term. Tenant may terminate this Lease if the Premises are damaged, in any material manner, during the last eighteen (18) months of the Term, unless such damage may be repaired or the Premises be restored within ninety (90) days after such damage, provided, within thirty (30) days after such damage occurs, Tenant shall give Landlord written notice of its election to terminate on a date specified in such notice, which date shall not be less than thirty (30) nor more than sixty (60) days after the date of such notice.

15.2 Loss of Enjoyment

No damages, compensation or claim shall be payable by Landlord to Tenant for any inconvenience, loss of business or annoyance of Tenant arising from any repair or restoration of any portion of the Premises or any other portion of the Building or Common Areas performed by Landlord or its agents. Landlord shall use commercially reasonable efforts to effect such repair or restoration promptly and in such manner as not unreasonably to interfere with Tenant's use and occupancy of the Premises.

15.3 Automatic Termination

A total destruction of the Building shall automatically terminate this Lease.

ARTICLE 16
DEFAULTS AND REMEDIES

16.1 Events of Default

Any act or omission of Tenant, in breach of the Lease, which does not constitute an Event of Default shall be a "Default." The occurrence of any of the following shall constitute an "Event of Default" and breach of this Lease by Tenant:

(a) Any failure by Tenant to pay Rent as and when due, for more than three (3) days after written notice thereof by Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under Section 1161, et seq. of the California Code of Civil Procedure or any successor statute thereto or similar statute hereinafter enacted; or

(b) The abandonment of the Premises by Tenant, Landlord acknowledging that ceasing operations shall not be deemed abandonment unless Tenant ceases operations for more than sixty (60) days; or

(c) Any failure by Tenant to deliver an estoppel certificate under Section 20.11 or an instrument requested by the Holder of a Superior Interest under Article 18, as the case may be, within the time period set forth in such provisions; or

(d) Any failure by Tenant to observe and perform any other provision of this Lease or the Rules and Regulations (as defined in Section 20.14 below) where such failure continues for thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that any such notice shall be in lieu of and not in addition to, any notice required under Section 1161, et seq. of the California Code of Civil Procedure or any successor statute thereto or similar statute hereinafter enacted; or

(e) The making by Tenant of any general assignment for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a Chapter 7 debtor or to have debts discharged or of a petition for reorganization or arrangement under any Law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within ninety (90) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within ninety (90) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within ninety (90) days.

16.2 Landlord's Remedies

(a) In the event of an Event of Default by Tenant, as defined herein, then, in addition to any other remedies available to Landlord at law or in equity, Landlord shall have the immediate option, but shall not be obligated to do so, to terminate this Lease and all rights of Tenant hereunder by giving Tenant written notice of such election to terminate. In the event that Landlord shall elect to so terminate this Lease, then Landlord may recover from Tenant:

(i) The worth at the time of award of any unpaid Rent which had been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds that portion of rental loss which Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss which Tenant proves reasonably could be avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligation under this Lease or which in the ordinary course of things would be likely to result therefrom including, but not limited to, brokerage commissions and the cost of restoring said Premises to the condition required under this Lease; plus

(v) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable Law.

(vi) As used in (i) and (ii) above, the "worth at the time of award" shall be computed by allowing interest at the Interest Rate. As used in (iii) above, "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank at San Francisco at the time of award, plus one (1) percentage point.

(b) In the event of any such Event of Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to reenter the Premises to remove all persons and property from the Premises. Such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(c) In the event of the abandonment of the Premises by Tenant or in the event of any Event of Default by Tenant, if Landlord does not elect to terminate this Lease as provided in this Section, then Landlord may exercise the remedy and shall be entitled to all the rights provided for in California Civil Code Section 1951.4 or any successor statute thereto or similar statute hereinafter enacted.

(d) Landlord shall not, by any reentry or other act, be deemed to have accepted any surrender by Tenant of the Premises or Tenant's interest therein, or be deemed to have terminated this Lease or Tenant's right to possession of the Premises or the liability of Tenant to pay Rent thereafter to accrue or Tenant's liability for damages under any of the provisions hereof, unless Landlord shall have notified Tenant in writing that it has so elected to terminate this Lease.

(e) Landlord may suspend or discontinue all or any of the services specified in Article 7 during the continuance of any material and undisputed monetary Event of Default; and no such suspension or discontinuance will be deemed or construed to be an eviction, constructive or actual, or an ejection of Tenant.

(f) If Landlord reenters the Premises following an Event of Default, Tenant shall have no claims for damages that may be caused by Landlord's reentering or removing and storing the property of Tenant, and without limiting Section 12.2 above, Tenant agrees to indemnify, defend, protect and hold Landlord harmless from all losses, costs, expenses (including attorney's fees and court costs) or damages occasioned by Landlord. No such entry shall be considered or deemed to be a forcible entry by Landlord.

(g) All rights, options, and remedies of Landlord contained in this Lease shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law, whether or not stated in this Lease.

(h) Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future law in the event Tenant is evicted or dispossessed from the Premises for any cause, or in the event Landlord obtains possession of the Premises by reason of the commission by Tenant of an Event of Default or otherwise.

16.3 Landlord's Default

Landlord shall not be deemed to be in default under this Lease for failure to perform its obligations unless and until it has failed to perform such obligations within thirty (30) days after written notice by Tenant to Landlord specifying the manner in which Landlord has failed to perform such obligations; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for this performance, then Landlord shall not be deemed to be in default, if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. In the event of a default by Landlord hereunder, the extent of Landlord's liability shall be strictly limited to and shall not extend beyond Landlord's interest in the Building as per Section 12.3 hereof.

ARTICLE 17
EMINENT DOMAIN

17.1 Taking of Premises

If all or any part of the Premises shall be taken by any public or quasi-public authority as a result of the exercise of the power of eminent domain, this Lease shall terminate as to the part so taken as of the date of taking, and, in the case of partial taking, either Landlord or Tenant shall have the right to terminate this Lease as to the balance of the Premises by written notice to the other within thirty (30) days after the date of such taking; provided, however, that a condition to the exercise by Landlord or Tenant of such right to terminate shall be that the portion of the Premises taken shall, in Tenant's and Landlord's commercially reasonable judgment, be of such extent and nature as substantially to handicap, impede and impair Tenant's use of the balance of the Premises. If a material part of the Building or the Common Areas are condemned or taken, or if substantial alteration or reconstruction of the Building or Common Areas shall, in Landlord's reasonable opinion, be necessary as a result of such condemnation or taking, Landlord may terminate this Lease by written notice to Tenant within thirty (30) days after the date of taking. If a material part of the Building or the Common Areas are condemned or taken, and Tenant reasonably determines that it is unable to continue to operate the Premises in the same manner following such condemnation or taking, Tenant may terminate this Lease by written notice to Landlord within thirty (30) days after the date of taking.

17.2 Condemnation Award

In the event of any taking, Landlord shall be entitled to any and all compensation, damages, income, rent, awards, and any interest therein whatsoever which may be paid or made in connection therewith, and Tenant shall have no claim against Landlord for the value of any unexpired Term or otherwise. In the event of a partial taking of the Premises which does not result in a termination of this Lease, the Basic Monthly Rent thereafter to be paid shall be equitably reduced by Landlord. Tenant hereby waives sections 1265.110 through 1265.160 of the California Code of Civil Procedure.

17.3 Temporary Taking

Without limiting any other provision of this Article 17, if all of the Premises shall be condemned or taken for governmental occupancy for a period of more than one year, this Lease shall terminate as of the date of taking and Landlord shall be entitled to any and all compensation, damages, income, rent and awards in connection therewith.

ARTICLE 18
SUBORDINATION

This Lease is subject and subordinate to all declarations of restrictions, ground leases, mortgages, deeds of trust or other security interests of any kind now or hereafter encumbering or affecting the Project or any portion thereof, or on or against Landlords interest or estate therein (collectively, "Superior Interests"), all without the necessity of any further instrument executed or delivered by or on the part of Tenant for the purpose of effectuating such subordination. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver, upon demand, such further instruments evidencing such subordination of this Lease to any such Superior Interest and the other terms of this Article 18 as may be required by Landlord or by the current or prospective holder of such Superior Interest (the "Holder"). Notwithstanding anything to the contrary in this Article 18 or otherwise in this Lease, the Holder of any mortgage or deed of trust

now or hereafter placed on or against the Building or the Project, or both ("Lender") may at any time subordinate such mortgage or deed of trust to this Lease in whole or in part, without any need to obtain Tenant's consent, by execution of a written document subordinating such mortgage or deed of trust to this Lease to the extent set forth in such document and thereupon this Lease shall be deemed prior to such mortgage or deed of trust to the extent set forth in such document without regard to this Lease, such mortgage or deed of trust, or their respective dates of execution, delivery and/or recording. In that event, to the extent set forth in such document, such mortgage or deed of trust shall have the same rights with respect to this Lease as would have existed if this Lease had been executed, and a memorandum thereof recorded prior to the execution, delivery and recording of such mortgage or deed of trust. In the event of foreclosure or exercise of any power of sale under any Superior Interest, Tenant, upon demand, shall attorn to the purchaser at any foreclosure sale or sale pursuant to the exercise of any power of sale in which event this Lease shall not terminate and Tenant shall automatically be and become the tenant of the purchaser; provided, no landlord or purchaser at any foreclosure sale or sale pursuant to the exercise of any power of sale or any successor thereto shall be liable for any act or omission of any prior landlord (including Landlord) or be subject to an offsets or defenses which Tenant might have against any prior landlord (including Landlord), except and to the extent that any such amount has been assigned, recovered or obtained by the successor-in-interest to Landlord or be bound by any Rent which Tenant might have paid in advance to any prior landlord (including Landlord) for a period in excess of one month or by any Prepaid Rent

or other prepaid charge which Tenant might have paid in advance to any prior landlord (including Landlord), or be bound by an agreement or modification of this Lease made after Tenant has written notice of the interest of such party without the prior written consent of such party. If requested by Tenant in writing concurrently with the execution and delivery of this Lease, at Tenant's sole cost and expense, Landlord shall use commercially reasonable efforts to obtain from its existing Lender, such Lender's subordination, non-disturbance and attornment agreement (if any); provided, however, that the failure to obtain such an agreement shall not subject Landlord to any liability and shall not affect the validity or effectiveness of or any of Tenant's obligations under this Lease.

ARTICLE 19
SURRENDER OF PREMISES; REMOVAL OF PROPERTY

19.1 Tenant's Removal of Property

Upon the expiration or termination of the Term, Tenant shall quit and surrender possession of the Premises to Landlord in as good order, condition and repair as the same are now or hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and in a reasonable state of cleanliness. In such event, Tenant shall, without expense to Landlord, remove from the Premises all debris, rubbish, furniture, equipment, business and trade fixtures, free-standing cabinet work, moveable partitions and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises and all similar articles of any other persons claiming under Tenant. Unless otherwise required to do so by Landlord, however, Tenant shall not remove any additions or improvements to the Premises, such as carpet, interior partition walls and doors, "built-ins", shelves, built-in fixtures or other similar items, it being understood and agreed that such items are and shall remain the property of Landlord. Tenant shall also repair, at its expense, all damage resulting from such removal.

19.2 Abandoned Property

Whenever Landlord shall reenter the Premises as provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the Term or within five (5) business days after a termination by reason of an Event of Default, as provided in this Lease, shall be considered abandoned, and Landlord may remove any or all such items and dispose of the same in any manner or store the same in a public warehouse or elsewhere at the cost of and for the account of Tenant as per Section 16.2(b) hereof.

ARTICLE 20
MISCELLANEOUS

20.1 Landlord's Inspection and Maintenance

Tenant shall permit Landlord and its agents upon one (1) business day prior notice (except in the event of an emergency) at all reasonable times, in the company of a representative of Tenant, to enter the Premises for the purpose of inspecting the same and/or for the purpose of protecting the interest therein of Landlord, and to take all required materials and equipment into the Premises and perform all required work therein, subject to the terms of this Lease, and provided that Landlord and its agents shall comply with Tenant's confidentiality policies and procedures.

20.2 Exhibition of Premises

Tenant shall permit Landlord and its agents to enter and pass through the Premises at all reasonable hours to:

(a) Post notices of non-responsibility; and

(b) Exhibit the Premises to Holders of Superior Interests and to any prospective Lender, purchaser or lessee of the Building, provided that Landlord provides Tenant with at least one (1) business day prior notice (except in the event of an emergency) of such entry, enters in the company of a representative of Tenant, and complies with Tenant's confidentiality policies and procedures.

20.3 Rights Reserved by Landlord

Landlord reserves the following rights, exercisable without liability to Tenant for (a) damage or injury to property, person or business, (b) causing an actual or constructive eviction from the Premises, or (c) disturbing Tenant's use or possession of the Premises:

(i) To name the Building and to change the name or street address of the Building.

(ii) To install and maintain all signs on the exterior and interior of the Building.

(iii) To have pass keys to the Premises and all doors within the Premises, excluding Tenant's vaults and safes, which keys shall be safeguarded by Landlord and available only to Landlord's authorized personnel.

(iv) To enter the Premises for the purpose of making inspections, repairs, alterations, additions or improvements to the Premises or the Building and to take all steps as may be reasonably necessary or desirable for the safety, protection, maintenance or preservation of the Premises or the Building or Landlord's interest therein, or as may be necessary or desirable for the operation or improvement of the Building or in order to comply with Laws, in all cases, subject to the terms of this Lease; provided that Landlord shall provide Tenant with at least one (1) business day prior notice (except in the event of an emergency), shall enter the Premises in the company of a representative of Tenant, and shall comply with Tenant's confidentiality policies and procedures.

20.4 Quiet Enjoyment

Landlord covenants, in lieu of any implied covenant of quiet possession or quiet enjoyment, that so long as Tenant is in compliance with the covenants and conditions set forth in this Lease, Tenant shall have the right to quiet enjoyment of the Premises without hindrance or interference from Landlord or those claiming through Landlord, and subject to the covenants and conditions set forth in this Lease and to the rights of any Holders of Superior Interests.

20.5 Force Majeure

Any prevention, delay or stoppage of work to be performed by Landlord or Tenant which is due to strikes, labor disputes, inability to obtain labor, materials equipment or reasonable substitutes therefore, acts of God, governmental restrictions or regulations or controls, judicial orders, enemy or hostile government actions, civil commotion, war or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder, shall excuse performance of the work by that party for a period equal to the duration of that prevention, delay or stoppage. Nothing in this Section, however, shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease except as otherwise expressly provided.

20.6 Counterparts

This Lease may be executed in multiple counterparts, all of which shall constitute one and the same Lease.

20.7 Execution of Lease

The submission of this Lease to Tenant shall be for examination purposes only, and does not and shall not constitute a reservation of or option for Tenant to lease, or otherwise create any interest of Tenant in the Premises or any other premises within the Building. Execution of this Lease by Tenant and its return to Landlord shall not be binding on Landlord notwithstanding any time interval, until Landlord has in fact signed and delivered this Lease to Tenant.

20.8 Further Assurances

The parties agree to promptly sign all documents reasonably requested to give effect to the provision of this Lease.

20.9 Lender Protection

Tenant agrees to send by certified or registered mail to any Lender whose address has been furnished to Tenant in writing, a copy of any notice of default served by Tenant on Landlord. If Landlord fails to cure such default within the time provided for in this Lease, such Lender shall have an additional thirty (30) days to cure such default; provided that if such default cannot reasonably be cured within that thirty (30) day period, then such Lender shall have such additional time to cure the default as is reasonably necessary under the circumstances.

20.10 Expenses of Litigation

If either party incurs any expense, including reasonable attorneys' fees, in connection with any action instituted by either party by reason of any dispute under this Lease or any Default or alleged Default of the other party, the party prevailing in such action shall be entitled to recover its reasonable attorneys' fees and expenses from the other party, which shall include fees and expenses of any appeal, all as fixed by the court. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment. In addition, if Landlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid by Tenant or in connection with any other breach of this Lease by Tenant, Tenant agrees to pay Landlord actual attorneys' fees for such services, regardless of the fact that no legal action may be commenced or filed by Landlord.

20.11 Tenant's Certificates

Tenant agrees at any time from time to time, within twenty (20) days of receipt of written request, to execute, acknowledge and deliver to Landlord a statement in writing certifying: (a) that this Lease is unmodified and in full force and effect or if there have been modifications, that this Lease is in full force and effect as modified and stating the modifications; (b) the Term Commencement Date, Rent Commencement Date and Term Expiration Date; (c) the dates to which the Basic Monthly Rent and Rent hereunder have been paid in advance, if any; (d) the amount of the current Basic Monthly Rent; (e) as to any actual or proposed Transfers; (f) whether or not, to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease, and, if so, specifying each such default of which it may have knowledge; (g) the amount of Prepaid Rent, if any; and (h) any other information reasonably requested. Any such statement delivered pursuant to this Section may be relied upon by Landlord, any prospective purchaser of the Building, any current or prospective Lender, any other current or prospective Holder of a Superior Interest, and any other third parties.

20.12 Holding Over

Any holding over after the expiration or termination of the Term without the consent of Landlord shall be construed to be a tenancy at sufferance upon the same provisions and conditions as otherwise set forth herein, except that the Basic Monthly Rent shall be an amount equal to one hundred fifty percent (150%) of the Basic Monthly Rent payable (without reduction) immediately prior to such holding over. Acceptance by Landlord of Rent after the expiration or termination of this Lease shall not constitute a consent by Landlord to any such tenancy from month to month or result in any other tenancy or any renewal of the Term. Tenant acknowledges that if Tenant holds over without Landlord's consent, such holding over may compromise or otherwise affect Landlord's ability to enter into or perform under new leases with prospective tenants regarding the Premises. Therefore, if Tenant fails to surrender the Premises within thirty (30) days of the expiration or other termination of this Lease, then, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all Claims resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost profits to Landlord resulting therefrom. The provisions of this Section 20.12 are in addition to, and do not affect, Landlord's right to re-entry or other rights hereunder or provided by law.

20.13 Notices

All notices, which Landlord or Tenant may be required or may desire to serve on the other shall be in writing and shall be served by personal delivery, overnight delivery or by mailing the same by registered or certified mail, postage prepaid, addressed as specified in Item 1 of the Basic Lease Information or addressed to such other address or addresses as either Landlord or Tenant may from time to time designate to the other in writing in accordance with this Section. Any notice so given by mail as provided above shall be deemed effectively given forty-eight (48) hours after deposit in the mail as provided above, unless received earlier by the addressee. Any notice served by personal delivery shall be deemed effectively given when delivered at the party's address. Any notice by overnight delivery shall be deemed effectively given on the next business day.

20.14 Rules and Regulations

Tenant agrees to abide by and comply with the Rules and Regulations attached hereto as Exhibit B (the "Rules and Regulations") and incorporated herein by this reference. Landlord shall not be liable to Tenant for any violation of such Rules and Regulations by any other tenant or occupant of the Building. In the event of any inconsistencies between this Lease and the Rules and Regulations, the terms of this Lease shall prevail. Landlord shall have the right upon written notice, from time to time, to amend, modify and add to the Rules and Regulations.

20.15 Waiver of Jury Trial; Venue and Jurisdiction

To the extent permitted by Law, each party hereto shall not seek a jury trial, hereby waives trial by jury, and hereby further waives any objection to venue in the City and County of San Francisco, and agrees and consents to personal jurisdiction of the courts of the State of California, in any action or proceeding or counterclaim brought by any party hereto against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Premises, or any claim of injury or damage, or the enforcement of any remedy under any statute, emergency or otherwise, whether any of the foregoing is based on this Lease or on tort law. No party will seek to consolidate any such action in which a jury has been waived with any other action in which a jury trial cannot or has not been waived. It is the intention of the parties that these provisions shall be subject to no exceptions. By execution of this Lease, the parties agree that this provision may be filed by any party hereto with the clerk or judge before whom any action is instituted, which filing shall constitute the written consent to a waiver of jury trial pursuant to and in accordance with Section 631 of the California Code of Civil Procedure. No party has in any way agreed with or represented to any other party that the provisions of this Section 20.15 will not be fully enforced in all instances. The provisions of this Section 20.15 shall survive the expiration or earlier termination of this Lease.

20.16 Governing Laws

This Lease shall be governed by and construed in accordance with the laws of the State of California.

20.17 Heading and Titles

The marginal titles to the Articles of this Lease are inserted for convenience of reference only and shall have no effect upon the construction or interpretation of any part hereof.

20.18 Heirs and Assigns

Subject to the limitations on Transfers, this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

20.19 Time of Essence

Time is of the essence with respect to the performance of every provision of this Lease.

20.20 Severability

If any condition or provision of this Lease shall be held invalid or unenforceable to any extent under any applicable Law or by any court of competent jurisdiction, the remainder of this Lease shall be affected thereby, and each condition and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

20.21 Authority

Tenant represents and warrants that each individual executing this Lease on behalf of Tenant is duly authorized to execute and deliver this Lease on behalf of Tenant and that this Lease is binding upon Tenant in accordance with its terms.

20.22 Brokers

Landlord shall be solely responsible for the payment of brokerage commissions to the entity or entities specified in Item 8 of the Basic Lease Information.

20.23 No Light. Air or View Easement

Any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to the Building shall not in any way affect this Lease or impose any liability on Landlord.

20.24 Entire Agreement

This Lease, along with any Exhibits affixed hereto, constitutes the entire and exclusive agreement between Landlord and Tenant relative to the Premises.

20.25 Recording

Neither Landlord nor Tenant shall record this Lease.

20.26 Number and Genders; Joint and Several Liability

The words “Landlord” and “Tenant”, as used herein, shall include the plural as well as the singular. Words used in the masculine gender include the feminine and neuter. If there be more than one Landlord or Tenant, then the obligations hereunder imposed upon Landlord and Tenant shall be joint and several.

20.27 Waiver

The failure of Landlord or Tenant to exercise its rights in connection with any breach or violation of any term, covenant, or condition herein contained, shall not be deemed to be a waiver of such term, covenant or condition or any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptances of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease other than the failure of Tenant to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent.

20.28 No Merger

The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of Landlord, terminate any or all existing subleases or sub tenancies, or operate as an assignment to Landlord of any or all of such subleases or sub tenancies.

20.29 No Representations or Warranties

Neither Landlord nor Landlord's agents or attorneys have made any representations or warranties with respect to the Premises, the Building or this Lease, except as expressly set forth herein, and no easements or licenses are or shall be acquired by Tenant by implication or otherwise.

20.30 Amendments

This Lease may not be altered, changed, or amended except by an instrument signed by both parties hereto.

20.31 Exhibits

Each of the following Exhibits and Addenda are attached hereto and incorporated herein by this reference:

Exhibit A - Legal Description of Real Property
Exhibit B - Rules and Regulations
Exhibit C - Breakdown of Operating Expenses

IN WITNESS WHEREOF the parties hereto have executed this Lease on the day and year first above written.

"LANDLORD"

Geary-Market Investment Company, Ltd.,
a California corporation

By: David Cuneo
Its: Vice President

"TENANT"

Apellis Pharmaceuticals, Inc.,
a Delaware corporation

Name: Pascal Deschatelets
Its: Chief Operating Officer

EXHIBIT A

LEGAL DESCRIPTION OF REAL PROPERTY

PARCEL A:

Beginning at a point on the northwesterly line of Market Street, distant thereon 139 feet and 5/8 of an inch southwesterly from the point formed by the intersection of the northwesterly line of Market Street with the westerly line of Kearny Street; running thence southwesterly along said line of Market Street 50 feet; thence at a right angel (to the said northwesterly line of Market Street) northeasterly to a point formed by the intersection of a line drawn northwesterly and at a right angle to the northwesterly line of Market Street from a point distant thereon 189 feet and 5/8 of an inch southwesterly from the westerly line of Kearny Street, and a line drawn at right angles southerly to the southerly line of Geary Street at a point on the southerly line of Geary Street, distant thereon 184 feet and 5 inches westerly from the westerly line of Kearny Street; thence northerly from the point of intersection of said two lines to a point situate on the southerly line of Geary Street, distant thereon 184 feet and 5 inches westerly from the westerly line of Kearny Street, meeting said southerly line of Geary Street aforesaid at a right angle; thence easterly along the southerly line of Geary Street 40 feet; thence at a right angle (to said southerly line of Geary Street), southerly 65 feet and 6½ inches; thence southeasterly 54 feet, more or less, to the northwesterly line of Market Street and the point of beginning.

Being a portion of 50 Vara Block No. 98.

PARCEL B:

Beginning at a point on the northwesterly line of Market Street, distant thereon 189.052 feet southwesterly from the westerly line of Kearny Street; running thence southwesterly along said line of Market Street 193.396 feet to a point distant thereon 40 feet northeasterly from the northerly line of O'Farrell Street; thence deflecting 112°36'33" to the right from the southwesterly bearing of said line of Market Street and running northerly 99.229 feet to a point which is perpendicularly distant 50 feet easterly from the easterly line of Grant Avenue measured from a point distant thereon 120 feet northerly from the northerly line of O'Farrell Street; thence deflecting 67°29'02" to the right from the northerly bearing of the preceding course and running northeasterly 36.901 feet; thence deflecting 54°19'44" to the left and running northerly parallel with said line of Grant Avenue 40.880 feet; thence deflecting 54°07'23" to the right and running northeasterly 24.708 feet to a line drawn southerly at a right angle to the southerly line of Geary Street from a point distant thereon 100 feet easterly from the easterly line of Grant Avenue; thence deflecting 54°07'23" to the left and running northerly along the last said line so drawn 78.120 feet to the said southerly line of Geary Street; thereon 184.417 feet westerly from the westerly line of Kearny Street; thence southerly at a right angle to said line of Geary Street 95.531 feet to the line drawn northwesterly from the point of beginning at a right angle to said line of Market Street; thence deflecting 35°45'51" to the left from the southerly bearing of the preceding course and running southeasterly 53.063 feet to the point of beginning.

Being a portion of 50 Vara Block No. 98.
Assessor's parcel No: Lots 4 and 9, Block 31

DEPICTION OF PREMISES

To be inserted

DEPICTION OF PREMISES

720 MARKET STREET
SAN FRANCISCO, CA. 94102

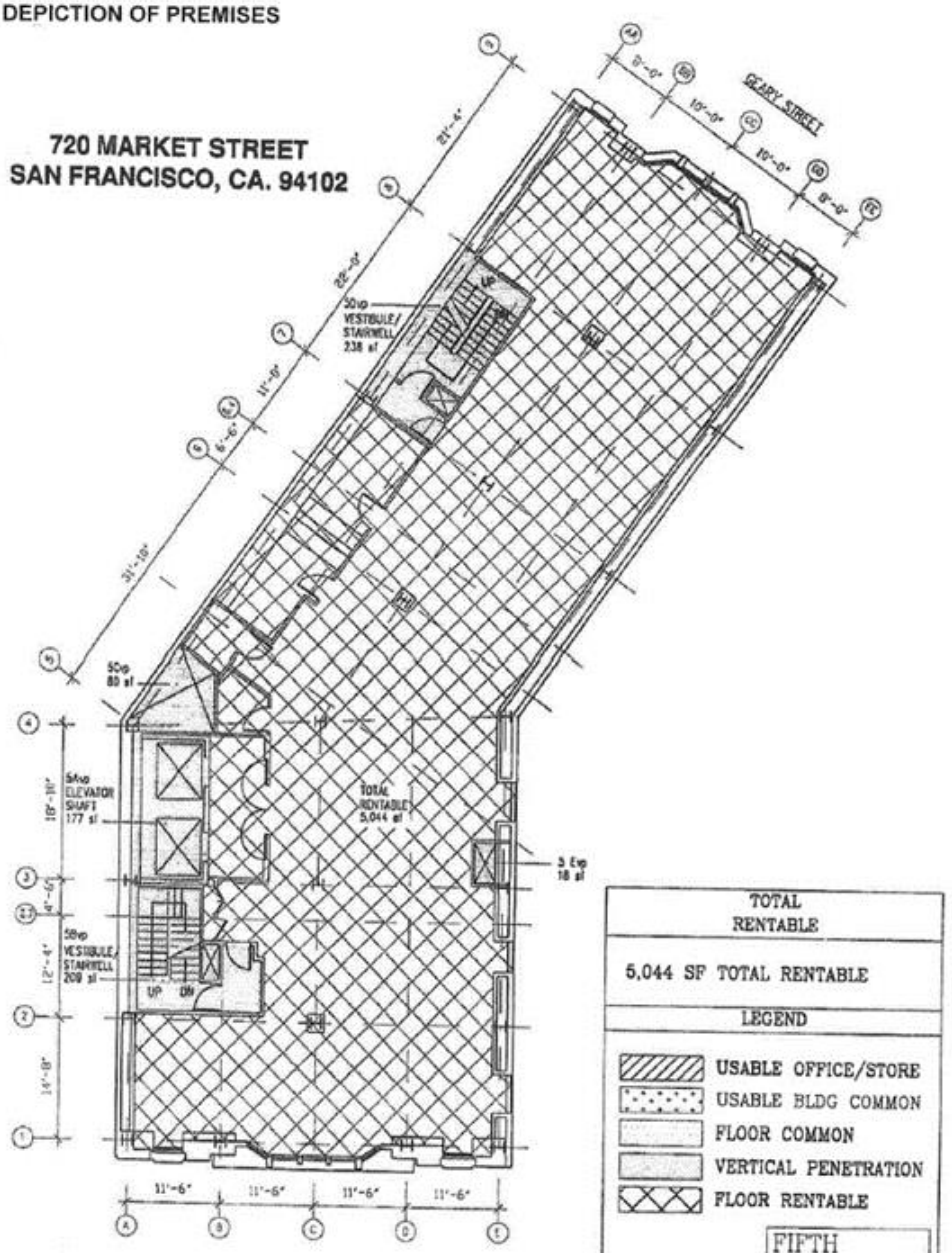

EXHIBIT B

RULES AND REGULATIONS

1. The sidewalks, halls, passages, exits, vestibules, entrances, public areas, elevators and stairways of the Building shall not be obstructed by any of the tenants or used by them for any purpose other than ingress to and egress from their respective Premises. The halls, passages, exits, entrances, elevators and stairways are not for the general public, and Landlord shall, in all cases, retain the right to control and prevent access thereto by all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom any tenant normally deals in the ordinary course of its business, unless such persons are engaged in illegal activities. No tenant and no employee or invitee of any tenant shall go upon the roof of the Building. If the Premises are situated on the ground floor with direct access to the street, then Tenant shall, at Tenant's expense, keep the sidewalks and curbs directly in front of the Premises clean and free from dirt, refuse and other obstructions.

2. No sign, placard, picture, name, advertisement, inside or outside the Building, or notice visible from the exterior of any tenant's Premises shall be inscribed, painted, affixed or otherwise displayed by any tenant on any part of the Building without the prior written consent of Landlord. Landlord shall have the right to remove, at tenant's expense and without notice or liability, any sign installed or displayed in violation of this rule. All approved signs or lettering on doors, windows and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person or entity selected by Landlord, using materials of Landlord's choice and in a style and format approved by Landlord. Written material visible from outside the Building will not be permitted. Landlord shall have the right to remove any such written material, at Tenant's expense and without notice or liability. Landlord shall place Tenant's name on the directory in the lobby of the Building and on the individual floor directory, if available. Landlord reserves the right to restrict the amount of directory space utilized by Tenant. Tenant shall not have the right to have additional names placed on the directory without Landlord's prior written consent. If such consent is given, the addition of such names shall be at Tenant's expense. The directory of the Premises will be provided for the display of the name and location of Tenants and a reasonable number of the principal officers and employees of Tenants, and Landlord reserves the right to exclude any other names therefrom. Any additional name that Tenant shall desire to place upon the directory must first be approved by Landlord and, if so approved, a charge will be made for each such name.

3. The Premises shall not be used for the storage of merchandise held for sale to the general public, for lodging or sleeping. No cooking shall be done or permitted by any tenant on the Premises, except the use by such tenant of Underwriter's Laboratory approved microwave oven or equipment for brewing coffee, hot chocolate and other similar beverages which shall be permitted, provided that the power required by such equipment shall not exceed that amount which can be provided by a 30-amp circuit and that such use is in accordance with all applicable federal, state and city laws, codes, ordinances, rules and regulations. Repair and maintenance of garbage disposals, dishwashers, ice makers and other similar equipment shall be at Tenant's expense.

4. If Tenant requires janitorial services in addition to such services provided by Landlord, no Tenant shall employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises, unless otherwise agreed to by Landlord in writing. Except with the written consent of the Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building by reason of such Tenant's carelessness or indifference in the preservation of good order and cleanliness. Janitorial services will not be furnished on nights when Tenant's premises are occupied after 10:00 p.m., unless Landlord and Tenant agree in writing that such service is to be provided at a later hour for specifically designated rooms. Landlord shall not be responsible to Tenant for any loss or damage to property on its Premises, however occurring.

5. Landlord will furnish each tenant with two keys to each door lock in its Premises free of charge. Landlord may make a reasonable charge for any additional keys. No Tenant shall have keys made except by Landlord's designated locksmith. No tenant shall alter any lock or install a new or additional lock or bolts on any door of its Premises without the prior written consent of Landlord. Tenant shall in each case furnish Landlord with a key for any such lock. Each tenant, upon the termination of its tenancy, shall deliver to Landlord all keys to doors in the Building which shall have been furnished to such tenant. Tenant shall not be reimbursed for excess keys returned at termination of Lease term. In the event of the loss of any key furnished to Tenant by Landlord, Tenant shall pay to Landlord the cost of replacing the same of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such a change. All locks and bolts installed in the Premises excluding Tenant's vaults and safes or specialty security areas (which shall be designated by Tenant in a written notice to Landlord) shall be keyed to the Building master key system.

6. The carrying in or out of freight, furniture or bulky material of any description must take place during such hours as Landlord may from time to time reasonably determine, which shall not include peak hours of elevator usage. Landlord shall designate appropriate entrances and a "freight" elevator for deliveries or other transportation of goods to or from the Premises and Tenant shall not use any other entrances or elevators for such purposes. The installation and moving of such freight, furniture or bulky material shall be made upon fortyeight (48) business hours previous notice to the Building Manager and the persons employed by Tenant for such work must be reasonably acceptable to Landlord. Certificates of Insurance from Tenant's movers, with terms acceptable to Landlord, must be provided to the Building Office in advance of the move. Tenant may, subject to the provisions of the immediately preceding sentence, move freight, furniture, bulky matter and other material into or out of the Premises after Building hours; provided Tenant pays the additional costs, if any, incurred by Landlord for elevator operators, security guards, maintenance supervision and other expenses arising by reason of such move by Tenant. If, at least two days prior to such move, Landlord requests Tenant to deposit with Landlord, as security for Tenant's obligation to pay such additional costs, a sum which Landlord reasonably estimates to be the amount of such additional costs, then Tenant shall deposit such sum with Landlord as security for such costs. The persons employed by Tenant to move equipment or other items in and out of the Building must be acceptable to Landlord. The floors, corners and walls of elevators and corridors used for the moving of equipment or other items in and out of the Building must be adequately covered, padded and protected, and Landlord may provide such padding and protection at Tenant's expense, if Landlord determines that such measures undertaken by Tenant or Tenant's movers are inadequate. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, furniture or other property brought into the Building and placed in the Premises. Heavy objects, as considered necessary by Landlord, shall stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such property from any cause, and all damage done to the Building by moving or maintaining such property shall be repaired at the expense of Tenant. Business machines and other equipment shall be placed and maintained by Tenant at Tenant's expense in settings sufficient, in Landlord's reasonable judgment, to absorb and prevent unreasonable vibration and prevent noise and annoyance.

7. No tenant shall use or keep in the Premises or the Building any kerosene, gasoline or flammable or combustible fluid or any other chemical substance or material other than limited quantities thereof reasonably necessary for the operation or maintenance of office equipment; or, without Landlord's prior written approval, use any method of heating or air conditioning, including, without limitation, portable floor heaters and fans, other than those supplied by Landlord. No tenant shall use or keep or permit to be used or kept any hazardous or toxic materials or any foul or noxious gas or substance in the Premises or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors, vibrations, or interfere in any way with other tenants or those having business therein.

8. Landlord reserves the right to select the name of the Building and to make such change or changes of name as it may deem appropriate from time to time and Tenant shall not refer to the Building by any name other than: (a) the name selected by Landlord (as same may be changed from time to time) or (b) the postal address approved by the United States Post Office. Tenant shall not use the name of the Building in any respect other than as an address of its operation in the Building without the prior written consent of Landlord.

9. In the case of invasion, mob, riot, public excitement or other circumstances rendering such action advisable in Landlord's opinion, Landlord reserves the right to prevent access to the building during the continuance of the same by such action as Landlord may deem appropriate including closing doors. Landlord also reserves the right to exclude or expel from the Building any person who, in Landlord's judgment, is intoxicated or under the influence of liquor or drugs or who is in violation of any of the Rules and Regulations of the Building. Tenants serving alcohol to the public for specials functions, parties, or events must carry a "Liquor Liability Endorsement" with their Insurance policy and provide proof of Insurance coverage to Landlord.

10. No curtains, draperies, blinds, shutters, shades, screens or other coverings, hangings or decorations shall be attached to, hung or placed in, or used in connection with any window of the Building without the prior written consent of Landlord. No files, cabinets, boxes, containers or similar items shall be placed in, against or adjacent to any window of the Building so as to be visible from the outside of the Building. Tenant shall cooperate fully with Landlord in obtaining maximum effectiveness of the cooling system of the Building by closing draperies and other window coverings when the sun's rays fall upon windows of the Premises. Tenant shall not obstruct, alter or in any way impair the efficient operation of Landlord's heating, ventilating, air conditioning, electrical, fire, safety or lighting systems, nor shall Tenant tamper with or change the setting of any thermostat or temperature control valves in the Building other than room thermostats installed for Tenant's use. Landlord reserves the right to install solar film on the windows of the Building to aid the efficiency of the HVAC system and to reduce energy costs. Tenant shall not remove solar film from any window. Tenant shall also cooperate with Landlord to comply with any governmental energy-saving rules, laws or regulations. No bottles, parcels or other articles may be placed in the halls or any other part of the Building, nor shall any article be thrown out of the doors or windows of the Premises.

11. No tenant shall obtain for use in the Premises ice, drinking water, food, beverage, towel, barbering, shoe polishing, or vending machines, or other similar services except at such reasonable hours and under such reasonable regulations as may be fixed by Landlord. If the Premises or any part of the Building become infested with vermin as a result of Tenant's use, Tenant shall reimburse Landlord for the expense of extermination.

12. Each tenant shall see the doors of its Premises are closed and locked, that all water faucets, water apparatus, equipment, lights and other utilities are shut off before such tenant or its employees leave the Premises, so as to prevent waste or damage; and for any default or carelessness in this regard. Tenant shall keep Suite entry doors (fire doors) closed at all times unless an electronic hold open devise connected to the main Fire Safety System is installed (at Tenant's cost). In no event shall Tenant prop open their entry fire door.

13. The lavatory rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed; no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant, who, or whose employees or invitees, shall have caused it.

14. No tenant shall install any radio or television antenna, loud speaker or other device on the roof or the exterior walls of the Building without the prior written consent of Landlord. No awnings, air conditioning units or other projections shall be attached to the outside walls or window sills of the Building or otherwise project from the Building, without the prior written consent of Landlord.

15. Tenant shall immediately, upon request from Landlord (which request need not be in writing), reduce its lighting in the Premises for temporary periods designated by Landlord, when required in Landlord's judgment to prevent overloads of the mechanical or electrical systems of the Premises.

16. There shall not be used in any space or public halls of the Building, either by any tenant or any others, any hand trucks except those equipped with rubber tires and side guards or such other material-handling equipment as Landlord may approve. No other vehicle of any kind except wheelchairs or other similar devices shall be brought by any tenant into the Building or kept in or about its Premises.

17. Each tenant shall store all its trash, garbage and recyclable materials within the Premises. No material shall be placed in corridors, hallways or elevator lobbies or in the trash boxes or receptacles of such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the city where the Building is located without being in violation of any law or ordinance governing such disposal. All garbage and refuse removal shall be made only through entry ways and elevators provided for such purposes and at such times as Landlord shall designate.

18. Canvassing, peddling, soliciting and distribution of handbills or other written materials in the Building are prohibited and each tenant shall cooperate to prevent the same.

19. Tenant and its authorized representatives and invitees shall not make or permit any noise in the Building that is annoying, unpleasant or distasteful, interfering in any way with other tenants or those having business with them, or bring into or keep within the Building or common areas, any animal (except for service animals), bird, bicycle or other vehicle except wheelchairs or other similar devices or such vehicles as are permitted to park in parking areas, in accordance with these Rules and Regulations.

20. Tenant shall not make, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof, except to install normal wall hangings. Tenant shall repair any damage resulting from non-compliance with this rule.

21. Landlord shall direct licensed electricians as to where and how telephone and electrical wires are to be introduced. If Landlord's consent is given for such installation, Tenant and/or its electrician shall be solely responsible, at Tenant's sole expense, for the patching, fireproofing or other building integrity installation as shall be deemed necessary by Landlord. No cutting or boring for wires shall be allowed without Landlord's consent. The location of telephones, call boxes and office equipment affixed to the Premises shall be subject to Landlord's approval. No equipment may be installed in the Building Main Telephone Closet or Floor Telephone Closets. Tenant shall not lay linoleum tile, carpet or other floor covering to the floor of the Premises, except as approved by Landlord.

22. The requirements of Tenant will be attended to only upon appropriate application by an authorized individual to the office of the Building manager by telephone or in person.

23. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord.

24. Tenant shall comply with all safety, maximum occupancy and fire protection and evacuation procedures and regulations established by Landlord or any governmental agency and, upon Landlord's request, shall post appropriate signs and placards regarding such safety, maximum occupancy and fire protection and evacuation procedures and regulations.

25. Tenant assumes any and all responsibility for protecting its Premises from theft, robbery and pilferage, which includes keeping doors and other means of entry to the Premises closed and locked when the Premises are unattended.

26. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenants, nor prevent Landlord from thereafter enforcing any such rules and regulations against any or all of the tenants of the Building.

27. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Building.

28. Landlord reserves the right to make such other reasonable Rules and Regulations as, in its judgment, may from time to time be needed for the safety, care and cleanliness of the Building, and for the preservation of the order therein.

29. Landlord shall not be responsible to Tenant or to any other person for the non-observance or violation of the Rules and Regulations by any other tenant or other person. Tenant shall be deemed to have read these rules and have agreed to abide by them as a condition to its occupancy of the space leased.

30. The *"Ordinary Business Hours"* of the Building shall be 8:00 a.m. to 5:00 p.m. Monday through Friday (Saturday, Sunday and holidays excluded).

31. Use of aquariums, water beds or other water containing vessels in excess of one gallon, aside from UL listed bottled water dispensers, is prohibited without the prior written consent of Landlord.

EXHIBIT C

Breakdown of Building Operating Expenses

These expenses relate of the entire building, the building common areas, and Tenant repairs and maintenance for building standard services provided. Specific services above building standard shall be billed directly to Tenants as an additional charge on a monthly basis.

Taxes and Operating expenses relating to the entire building:

Cleaning exterior
Exterior painting - graffiti removal
R&M Payroll
R&M Fire Safety Security
Admin - Professional fees
Admin - Supplies and Materials
Admin - Association Dues
Admin - Miscellaneous
Admin – Payroll
Admin - Telephone
Admin - Management Fees
Utilities - Water
Insurance
Property Taxes
Building Office Rent

Operating expenses relating to Office Tenants only:

Cleaning/Janitorial
R&M Elevator
R&M HVAC
R&M Electrical
R&M Structural/Roof
R&M Plumbing
R&M Other Building Maintenance
R&M Waste Removal
R&M General Supplies
Lobby Plants
Utilities – Electrical
Utilities - Gas

Amortized Capital Improvements to Common Areas

SCHEDULE 1

TENANT CONSTRUCTION RULES AND REGULATIONS

The rules and regulations governing construction by Tenant in the Building at the time of the execution of the Lease to which this Schedule is attached are as follows (capitalized terms used without being defined in this Schedule shall have the meanings given them in the Lease):

1. Prior to commencement of any construction, Tenant's Contractor shall coordinate with Landlord's representatives to ensure that all employees and subcontractors of Tenant's Contractor have received instruction regarding Landlord's requirements for safety, security and fire prevention. During construction, Tenant shall coordinate all construction activities with Landlord so as to minimize the disruption caused by such construction, and so as not to interfere with other construction in the Building or the rights of Landlord, other tenants or occupants. Tenant and Tenant's Construction Agents shall take all safety measures necessary to protect Landlord, its employees and contractors, other tenants and users of the Building and the general public, and the property of each, from injury or damage resulting from the performance of the Tenant Improvement Work.

2. Tenant acknowledges that certain construction activities (including, without limitation, painting, core drilling, use of "shot" type mechanical fasteners, major demolition, use of materials that may release noxious fumes or use of any equipment that produces objectionable noise levels) must be completed, on a daily basis, not later than 6:30 a.m. on weekdays, and may not resume until at least 6:30 p.m. on weekdays. Tenant shall make prior arrangements with Landlord's representatives if any construction work is to be performed between 6:30 p.m. and 6:30 a.m. or on weekends.

3. All construction work and all storage and staging of materials, tools and equipment shall be confined to the Premises, unless Landlord gives written permission to use areas outside the Premises. Common and public areas of the Building and the sidewalk and curbs in front of or adjacent to the Building shall not be used or obstructed by Tenant or by Tenant's Construction Agents without written approval of Landlord. All storage of materials, tools and equipment within the Premises or the Building shall be at Tenant's risk. Tenant shall immediately relocate, at Tenant's expense, any materials found by Landlord to be stored in an unsafe manner. Landlord shall not be responsible for lost, stolen or damaged materials, tools or equipment stored or staged in the Building.

4. Workers will be permitted to use the restrooms within the Premises, once such restrooms have been completed and placed in service. Restrooms are not to be used for purposes related to Tenant's construction, including, without limitation, for the cleaning of tools, or any other purposes other than the use for which they are intended. Tenant will be back charged if extraordinary cleanup of bathrooms is required.

5. All deliveries shall be scheduled so that materials are stocked in Tenant's Premises prior to normal business hours of the Building. No deliveries shall be made through the common or public areas of the Building, or to the sidewalk in front of or adjacent to the Building during business hours. No hand trucks shall be used in any portion of the Building, including common areas, except those equipped with rubber tires and side guards.

6. Landlord will not provide off-street parking for Tenant's Construction Agents' vehicles. Loading zones are for loading and unloading purposes only, and no parking in loading zones is permitted. Vehicles parked illegally will be subject to towing at the expense of Tenant or the vehicle owner.

7. Tenant and Tenant's Contractor shall be responsible for ensuring that all doors, gates and windows are closed and locked at all times when not in immediate use.

8. Tenant's Construction Agents are not permitted to transport tools or materials in wheelbarrows or wheeled vehicles in the interior common or public areas of the Building at any time, or in the exterior common or public areas of the Building during normal business hours.

9. All construction shall be performed so as to prevent dust from filtering through to other parts of the Building. All painting shall be shielded and other parts of the Building shall be protected from all fumes and spray. All temporary partitions and dust-proof barriers shall be furnished and installed by Tenant and shall remain intact at all times. Should any panel be removed, torn or otherwise displaced or damaged, it will be reattached or repaired and Tenant will be back charged at a reasonable labor and material charge.

10. Hazardous and/or inflammable materials brought onto the Premises or into the Building in connection with Tenant's construction shall be used and stored in containers which conform to all applicable laws and regulations, and shall be used in a manner which prevents their accidental release. Toxic substances, including empty containers and hazardous wastes, shall not be discarded in the Premises or the Building, but shall be removed immediately and disposed of in a proper, lawful manner. Tenant's Contractor shall comply with all federal and state O.S.H.A. Safety Regulations.

11. Tenant and Tenant's Contractor shall maintain the Premises and related Building facilities, surfaces and glass in a clean, orderly condition during the progress of construction, and shall clean up debris and remove trash daily, to the satisfaction of Landlord. Tenant shall make arrangements to remove dirt and debris from work after the end of each workday. No trash or storage containers will be allowed in the common or public areas of the Building. Tenant or Tenant's Contractor shall arrange for trash removal service by a debris or scavenger service approved by Landlord and the location of any debris box shall be approved by Landlord. Tenant and Tenant's Construction Agents shall not use the Building's trash compactor. Any dirt, debris, construction materials or equipment remaining in the common or public areas of the Building, or in service corridors or adjoining unoccupied spaces, after commencement of normal business hours, may be removed by Landlord at Tenant's expense.

12. All temporary electrical connections must be approved in advance by Landlord's representatives prior to installation. Tenant and Tenant's Construction Agents shall use their respective best efforts to use the minimal amount of water necessary for work and cleanup of the Premises.

13. Construction workers are not permitted to eat in the common or public areas of the Building. Smoking is prohibited in all areas of the Building at all times.

14. Tenant shall not attach or cause to be attached to any wall or structural member of the Building any equipment that may, by virtue of its size or weight, cause structural damage. Tenant shall not exceed the load as set forth in the plans and specifications for the floor of the Building and shall not do anything that might in any way alter or affect the structural strength of the Building.

15. If appropriate, as determined by Landlord or as required by any applicable Laws, a smoke and/or heat detector shall be installed in Tenant's space, at Tenant's expense, during the time any construction work is being performed in the Premises. The smoke and/or heat detector shall be connected by Landlord's specified contractor, at Tenant's expense, to the central system, if such control system is available.

16. Except to the extent provided in the Lease or the Work Letter to the contrary, expenses incurred by Landlord in respect of the work performed by or on behalf of Tenant shall be paid by Tenant immediately upon receipt of an invoice from Landlord and shall be delinquent if not paid within thirty (30) days. Late charges, interest and collection expenses on delinquent payments shall be charged to Tenant in the manner set forth in the Lease for delinquent payment of rents

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April 13, 2018

Dr. Lukas Scheibler
469 Saddle Horn Ln
Telluride,CO, 81435

VIA EMAIL

Dear Lukas,

We are pleased to extend you an offer to join Apellis Pharmaceuticals, Inc. (the "Company") as its Executive Vice President of Research and Translational Medicine on the terms and conditions set forth in this letter. Subject to satisfaction of the conditions described in this letter, you will begin employment on Friday, April 13, 2018 (or another mutually acceptable start date) (the "Start Date"). You agree to devote your full business time, attention and best efforts to the performance of your duties and to the furtherance of the Company's interests, and shall not engage in any other employment, consulting or other business activity without the prior written consent of the Company. Any exceptions must be first approved in writing by the Chief Executive Officer after consultation with the Board of Directors.

You will be expected to spend approximately two-thirds of your time working from our offices in Waltham, Massachusetts, San Francisco, California, or Crestwood, Kentucky, or traveling as may be reasonably required to properly fulfill your employment duties and responsibilities. Otherwise you will be permitted to work from your home office in Telluride, Colorado.

Your job responsibilities will include defining the Company's overall strategy for research and pipeline development; assisting in leadership and strategic direction for the Company's clinical programs; planning, supervising and executing the Company's translational medicine projects; serving as the Company's scientific point of reference for internal and external communications; and such other responsibilities as may be delegated to you by the Chief Executive Officer, all as may be modified from time to time by the Chief Executive Officer. You will report to the Chief Executive Officer.

Your initial salary will be $29,166 per month, equivalent to an annualized base salary of $350,000, paid in accordance with our standard payroll practices and subject to all withholdings and deductions as required by law, for your full-time efforts, of at least 40 hours per week. Your base salary will be subject to adjustment as determined by the Board of Directors in its sole discretion. You will also be eligible for annual bonus compensation of up to 35% of your annualized base salary, based upon company, departmental and individual performance against the applicable performance goals established by the Board of Directors. For 2018, you will receive a pro-rated annual bonus based on the number of days you are employed during the year. You must remain continuously employed with the Company through the date of the bonus payment to receive such payment. All bonus payments, if any, are subject to the approval of the Board of Directors in its sole discretion.

You will be eligible for Apellis' standard benefits package offered to every full-time employee, which currently includes health insurance, LTD/ADD/life insurance, and 401(k), provided that you are eligible under, and subject to all provisions of, the plan documents that govern those programs. You will be reimbursed for reasonable travel and other expenses incurred by you in performing your services to the Company in accordance with our reimbursement policy. You will be entitled to 20 days paid time off (PTO) for vacation, illness or personal business each full calendar year (i.e., accruing at the rate of 13.33 hours per month) in accordance with our PTO policy. You will also receive a technology allowance of $2,000 for the purchase of a work computer and a monthly telecommunications allowance of $100. Apellis reserves the right to amend, modify or terminate any of its benefit plans, policies or programs at any time and for any reason.

Subject to the approval of the Board of Directors, you will receive an option to purchase 145,000 shares of Common Stock at an exercise price equal to the fair market value as determined by the Board of Directors at the time of the grant, with such option to vest as to 25% of the underlying shares on the first anniversary of the Start Date and to vest as to the balance in equal monthly installments of 2.08% thereafter until the fourth anniversary of the Start Date. The vesting under your option will accelerate in accordance with the "double trigger" vesting provision generally applicable to the executives of the Company, where 50% of the unvested shares underlying the option shall vest if you are terminated without cause or resign for good reason within 12 months after a change of control event.

All forms of compensation paid to you as an employee shall be less all applicable withholdings.

On your first day of employment, you will be given additional information about our procedures, policies, benefit programs and more. We will require you, as conditions of employment, to verify your right to work in the United States and to enter into the standard noncompetition, nondisclosure and intellectual property assignment agreement on your first day of employment and to provide proof of your eligibility to work in the United States.

By signing below, you represent that (i) your employment with the Company and this offer letter does not and will not violate or conflict with any obligations you may have to or any agreements you may have with any former employer and (ii) you have provided the Company with all written agreements that describe any continuing post-employment obligations to any former employer.

Your employment will be at-will, and this letter does not represent any guarantee of employment for any period. If you wish to resign from your employment with the Company, we request not less than 15 calendar days' written notice.

This offer letter, along with the option agreement and the noncompetition, nondisclosure and development agreement, constitute the complete agreement between you and the Company, contain all the terms of your employment, and supersede any prior agreements, representations or understandings (whether written, oral or implied) between you and the Company. The terms of this offer letter and the resolution of any disputes as to the meaning, effect, performance or validity of this offer letter or arising out of, related to, or in any way connected with, this offer letter, your employment with the Company or any other relationship between you and the Company (the "Disputes") will be governed by Massachusetts law, excluding laws relating to conflicts or choice of law. You and the Company submit to the exclusive personal jurisdiction of the federal and state courts

located in the Commonwealth of Massachusetts in connection with any Dispute or any claim related to any Dispute. This offer is contingent upon the successful completion of a background check and satisfactory reference check.

We are excited at the prospect of your joining our team. If this letter correctly sets forth the terms under which you will be employed by the Company, please sign the enclosed duplicate of this letter in the space provided below and return it to me. If you do not accept this offer by Monday, April 16, 2017, this offer will be deemed revoked. Please let me know if you have any questions.

Sincerely,

Cedric Francois, M.D., Ph.D
Chief Executive Officer
Apellis Pharmaceuticals Inc.
(502) 295-4607 -- cedric@apellis.com

ACCEPTED AND AGREED:

/s/ Lukas Scheibler
Name : Lukas Scheibler

Date : April 13, 2019

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a), AS ADOPTED PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Cedric Francois, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Apellis Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

By: /s/ Cedric Francois
Cedric Francois
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A), AS ADOPTED PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Timothy Sullivan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Apellis Pharmaceuticals, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

By: /s/ Timothy Sullivan
Timothy Sullivan
Chief Financial Officer and Treasurer

Exhibit 32.1

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

In connection with the Quarterly Report of Apellis Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Cedric Francois, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

By: /s/ Cedric Francois
Cedric Francois
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

In connection with the Quarterly Report of Apellis Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy Sullivan, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2019

By: /s/ Timothy Sullivan
Timothy Sullivan
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.