

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

**FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Carbylan Therapeutics, Inc.**

*(Exact Name of Registrant as Specified in Its Charter)*

Delaware  
*(State or Other Jurisdiction of  
Incorporation or Organization)*

2834  
*(Primary Standard Industrial Classification  
Code Number)*

20-0915291  
*(I.R.S. Employer Identification Number)*

3181 Porter Drive  
Palo Alto, CA 94304  
(650) 855-6777

*(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)*

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(650) 855-6777

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

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

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

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

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

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

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

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Proposed maximum aggregate offering price <sup>(1)</sup>	Amount of registration fee
Common Stock, \$0.001 par value per share	\$	\$

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(o) under the Securities Act. Includes the offering price of the additional shares that the underwriters have the option to purchase.

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

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

Subject to completion, dated \_\_\_\_\_, 2014

PRELIMINARY PROSPECTUS

# Shares Carbylan Therapeutics, Inc.

Common Stock

\$ \_\_\_\_\_ per share

This is the initial public offering of our common stock. Prior to this offering, there has been no public market for our common stock. We currently expect the initial public offering price to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share of common stock.

We intend to apply for the listing of our common stock on The NASDAQ Global Market under the symbol "CBYL."

We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act of 2012, and, as such, we have elected to take advantage of certain reduced reporting requirements for this prospectus and may elect to comply with certain reduced public company reporting requirements for future filings.

Investing in our common stock involves risks. See "[Risk Factors](#)" beginning on page 10.

	<u>Per Share</u>	<u>Total</u>
Initial Public Offering Price	\$ _____	\$ _____
Underwriting Discount and Commissions <sup>(1)</sup>	\$ _____	\$ _____
Proceeds to Carbylan (before expenses)	\$ _____	\$ _____

(1) We refer you to "Underwriting" beginning on page 143 for additional information regarding underwriting discounts, commissions and estimated offering expenses.

We have granted the underwriters an option to purchase up to \_\_\_\_\_ additional shares of common stock. The underwriters can exercise this right at any time within 30 days after the date of this prospectus.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares to purchasers on or about \_\_\_\_\_, 2014 through the book-entry facilities of The Depository Trust Company.

**Leerink Partners**

**RBC Capital Markets**

**Wedbush PacGrow Life Sciences**

, 2014

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We are responsible for the information contained in this prospectus and in any free-writing prospectus we prepare or authorize. Neither we nor the underwriters have authorized anyone to provide you with different information, and we take no responsibility for any other information others may give you. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

### **Market, Industry and Other Data**

This prospectus also contains estimates, projections and other information concerning our industry, our business and the markets for osteoarthritis treatments, including data regarding the estimated size of those markets, their projected growth rates and the incidence of certain medical conditions. Information that is based on estimates, forecasts, projections, market research or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances that are assumed in this information. Unless otherwise expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources. In some cases, we do not expressly refer to the sources from which this data are derived. In that regard, when we refer to one or more sources of this type of data in any paragraph, you should assume that other data of this type appearing in the same paragraph are derived from the same sources, unless otherwise expressly stated or the context otherwise requires.

### **Trademarks**

This prospectus contains references to our trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this prospectus, including logos, artwork and other visual displays, may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

## Summary

*This summary highlights information contained in other parts of this prospectus. Because it is only a summary, it does not contain all of the information that you should consider before investing in shares of our common stock and it is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. You should read the entire prospectus carefully, especially “Risk Factors” and our financial statements and the related notes, before deciding to buy shares of our common stock. Unless the context requires otherwise, references in this prospectus to “Carbylan Therapeutics,” “we,” “us” and “our” refer to Carbylan Therapeutics, Inc.*

### Overview

We are a clinical-stage specialty pharmaceutical company focused on the development and commercialization of novel and proprietary combination therapies that address significant unmet medical needs. Our initial focus is on the development of Hydros-TA, our proprietary, potentially best-in-class intra-articular, or IA, injectable product candidate to treat pain associated with osteoarthritis, or OA, of the knee. Current intra-articular treatments for OA pain include corticosteroids, which provide short-term relief, and viscosupplements, which provide relief over the longer-term. In contrast, Hydros-TA utilizes our proprietary cross-linking technology to deliver both rapid pain relief with a low dose corticosteroid triamcinolone acetonide, or TA, and sustained pain relief from our novel hyaluronic acid viscosupplement. In our Phase 2b study, though not powered for statistical significance, Hydros-TA demonstrated better pain reduction at all time points measured than Synvisc-One, the U.S. market-leading viscosupplement.

We are currently studying Hydros-TA in our COR1.1 trial, a Phase 3, multi-center, international, randomized, double-blind, three-arm trial enrolling up to 510 patients with grade two and grade three OA of the knee, comparing treatment with Hydros-TA to treatment with Hydros and with TA, on a standalone basis. We expect to initiate COR1.2, our second Phase 3 trial, in the first quarter of 2015, and to open an investigational new drug application, or IND, and enroll U.S. patients in COR1.2 in the second quarter of 2015. We anticipate reporting primary endpoint results from COR1.1 by the end of 2015 and COR1.2 by mid-2016 and submitting our new drug application, or NDA, for Hydros-TA in late 2016. We believe that Hydros-TA will be well-positioned to become a leader in the OA injectable market, if we are able to demonstrate that Hydros-TA provides both rapid and sustained pain relief over a six month period.

We own the global development and commercialization rights to Hydros-TA, except in China, Taiwan, Hong Kong and Macau. We plan to commercialize Hydros-TA in the United States and, through partners, in the rest of the world. Following NDA approval in the United States, we expect to commercialize Hydros-TA using a small, 50 to 100 person specialty sales force targeting orthopedic surgeons, rheumatologists and pain specialists, the primary prescribers of IA steroids and viscosupplements. We have two issued U.S. patents and one issued non-U.S. patent, all of which will expire in 2030, and 26 patent applications worldwide covering our Hydros platform technology, including claims directed to composition of matter, methods of use and product-by-process.

### Osteoarthritis Overview

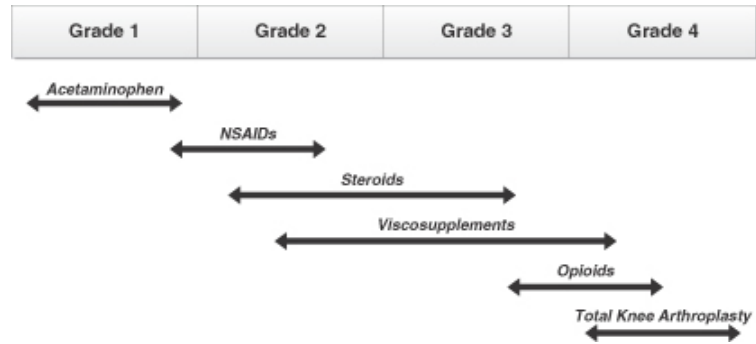
OA is a joint disorder involving the degradation of the IA cartilage, joint lining, ligaments and, ultimately, underlying bone. OA results in inflammation of the soft tissue and bony structures of the joint, which worsens over time and leads to progressive thinning of articular cartilage. Symptoms of this disease include pain, stiffness, swelling and limitation in the function of the joint. There is no known way to reverse the progression of OA and while there are a number of therapeutic options to treat the pain associated with OA, the disease typically continues to advance. We believe that the versatility provided by our proprietary cross-linking combination will

enable Hydros-TA to potentially address current shortcomings in the OA pain relief treatment spectrum for the knee, as well as address pain in other joints affected by OA, such as hip, shoulder, spine and ankle joints.

In the United States, there are over 27 million patients with OA, and approximately half of all adult patients will develop symptomatic OA of the knee. According to Millennium Research Group, in 2012, 1.65 million IA knee injections of hyaluronic acid, or HA, were administered. In the same year, worldwide sales of HA were approximately \$1.75 billion, \$726 million of which came from the United States.

**Limitations of Current Treatments**

OA severity is generally graded on a scale from one to four. When OA advances and oral or topical drug treatments are not sufficient to effectively address the associated pain, physicians often turn to IA treatments, such as corticosteroids, commonly known as steroids, and HA viscosupplements. While steroid injections can provide rapid pain relief, they generally provide only short-term pain relief of two to four weeks post injection. On the other hand, while HA injections can often provide long-term pain relief of up to approximately six months, they do not generally begin to provide peak pain relief until five weeks post injection. The following graph sets out what we believe to be the standard treatment progression for the treatment of OA pain in the knee:



Despite the use of currently available treatments, many OA patients experience persistent and worsening pain. Joint replacement surgery, often referred to as total knee arthroplasty, or TKA, is generally the last option for the treatment of OA. Compared to other treatments, this invasive surgery is an expensive option, with an initial surgical procedure cost of approximately \$33,000 to \$40,000. With patients receiving TKAs more frequently at a younger age, surgery to replace a previously performed TKA, known as a revision surgery, is increasingly common. Revision surgeries are not only more costly, at approximately \$74,000, they are also associated with significantly higher morbidity and failure rates than the initial TKA surgery. Due to the expense of surgery and the limitations of treatments administered to prevent such surgeries, there exists a need for an alternative treatment that could provide both rapid and sustained relief from OA pain and potentially delay the need for joint replacement surgery.

**Our Solution — Hydros-TA**

Hydros-TA is a combination IA product, designed to provide both rapid and sustained pain relief. Rapid relief is provided from our low dose steroid component and sustained pain relief, up to six months, is provided from our proprietary HA component. Hydros-TA is comprised of bacterially-derived HA-based hydrogel particles suspended in a solution of hyaluronic acid. The hydrogel particles contain the steroid, TA, which is entrapped within these particles. The dose of TA used in Hydros-TA is 10 mg, which is one quarter of the dose of TA that is often given clinically for IA injections into the knee. We believe the incorporation of a low dose steroid into Hydros-TA provides a means of

rapid pain relief currently missing from commercially-available HA. We believe that a clinically-proven and FDA-approved combination Hydros-TA product will provide a compelling alternative to sequential injections of steroids and viscosupplements.

**Hydros-TA Clinical Program**

Our completed Phase 2b clinical trial of Hydros-TA, known as COR1.0, was a prospective, multicenter, randomized, double-blind feasibility study to evaluate the safety and performance of Hydros-TA in subjects with OA of the knee. As is typical for OA clinical studies, our studies are designed using the Western Ontario and McMaster Universities Osteoarthritis Index, or WOMAC, which is a validated and accepted instrument developed to assess and quantify pain, joint stiffness and disability related to OA of the knee and hip. Our studies also utilize standardized criteria to define the number and percentage of defined positive “strict responders” (>50% and >20 mm improvements in WOMAC A (pain) or WOMAC C (function) scores, respectively, over baseline) in our clinical studies.

Our COR1.0 trial was conducted in eight clinical centers in Canada, Europe and the Caribbean with a total of 98 enrolled subjects that were treated and followed for six months thereafter. These subjects were randomized 1:1:1 to three study treatment arms: Hydros-TA, Hydros (the viscosupplement without steroid) and Synvisc-One (the U.S. market leading HA viscosupplement). In our primary endpoint, WOMAC pain score, pain reduction from baseline was observed in all treatment groups, however, Hydros-TA provided greater pain reduction compared to Synvisc-One at all study time points, as well as over the full study follow-up period of 26 weeks. Though our COR1.0 trial was not powered for statistical significance, the separation between Hydros-TA and Synvisc-One represented approximately 10% of the baseline score, a numerical amount generally considered “clinically meaningful” and, we believe, not often seen in viscosupplementation trials with active comparators. For our secondary endpoints, WOMAC B (stiffness), WOMAC function, and responder rate, we saw a similar trend of improved outcomes with Hydros-TA compared to Synvisc-One. In addition, Hydros-TA was generally well-tolerated with fewer product-related adverse events reported than Synvisc-One.

The following table represents the COR1.0 trial baseline scores for each of the treatment groups, as well as the WOMAC pain score least square mean reductions from baseline over the full 26 week evaluation period, as well as at the 2, 6, 13 and 26 week time points post injection. The estimated difference between the treatment groups is also represented.

<b>Time Point</b>	<b>Synvisc-One n=32</b>	<b>Hydros n=32</b>	<b>Hydros-TA n=34</b>	<b>Extra Pain Reduction Hydros vs. Synvisc-One</b>	<b>Extra Pain Reduction Hydros-TA vs. Hydros</b>	<b>Extra Pain Reduction Hydros-TA vs. Synvisc-One</b>
Baseline	66.4	68.1	69.4	N/A	N/A	N/A
2 weeks	-28.5	-23.3	-35.6	5.2	-12.4	-7.2
6 weeks	-25.6	-32.4	-33.4	-6.7	-1.1	-7.8
13 weeks	-29.0	-33.9	-33.3	-4.9	0.6	-4.3
26 weeks	-28.9	-32.4	-35.2	-3.5	-2.8	-6.3
<b>Overall</b>	<b>-28.0</b>	<b>-30.5</b>	<b>-34.4</b>	<b>-2.5</b>	<b>-3.9</b>	<b>-6.4</b>

We have designed and implemented our Hydros-TA Phase 3 program in close communication with the FDA. Based upon these discussions, we are enrolling our COR1.1 trial and preparing to enroll our COR1.2 trial, based upon the following study designs:

- **COR1.1:** The first of our two pivotal Phase 3 trials began enrollment in mid-January 2014. We are actively enrolling up to 510 subjects at 30 to 40 sites in Australia, Canada, New Zealand, Europe and the Caribbean. Subjects with OA grade two and grade three are randomized equally between three treatment arms: Hydros-TA, Hydros and TA. The objective of the trial is to demonstrate the safety and efficacy of Hydros-TA and the contribution of each of the two components in the Hydros-TA therapy. Our inclusion and exclusion criteria are designed to reduce the potential for placebo effect and to screen out non-responders where possible. The primary comparisons measure changes in pain under the WOMAC pain scale of Hydros-TA versus Hydros at two weeks and Hydros-TA versus TA at 26 weeks. Secondary endpoints include WOMAC function changes, subject and physician global assessment and responder rate. We expect top-line data from this trial by the end of 2015.
- **COR1.2:** The second of our two Phase 3 trials is scheduled to begin in the first quarter of 2015. We plan to enroll approximately 340 subjects at 20 to 30 sites in the United States, Australia, Canada and Europe. Subjects with OA grade two and grade three will be randomized equally between two treatment arms: Hydros-TA and TA. The objective of the trial will be to demonstrate the superiority of Hydros-TA compared to TA at 26 weeks post injection by measuring the change from baseline on the WOMAC pain scale. Secondary endpoints will include changes in WOMAC function, subject and physician global assessment and responder rate. We expect top-line data from this trial by mid-2016.
- **COR1.3:** In addition to the COR1.1 and COR1.2 trials required for approval, we will need to collect safety data from an additional 400 to 450 patients, which will provide us with approximately 800 patients to make up our safety database. This trial will be conducted as a non-randomized, non-blinded trial. Patients who are screen failures for the COR1.1 and COR1.2 trials may be candidates for inclusion in this open-label trial.

### **Our Strategy**

We intend to develop and commercialize novel and proprietary combination therapies for patients with osteoarthritis. The core principles of our strategy are to:

- **Successfully complete our Phase 3 clinical trials for Hydros-TA and obtain FDA approval to market Hydros-TA.** We are actively enrolling patients internationally in COR1.1, our first Phase 3 clinical trial of Hydros-TA for the treatment of OA pain in the knee. During meetings with the FDA, we addressed elements of our development plan for Hydros-TA and the FDA indicated that COR1.1 appears adequately designed to constitute a Phase 3 trial. We expect to initiate COR1.2, our second Phase 3 trial, in the first quarter of 2015, and to open an IND and to enroll U.S. patients in COR1.2 in the second quarter of 2015. We anticipate reporting primary endpoint results from COR1.1 by the end of 2015 and COR1.2 by mid-2016 and submitting our NDA for Hydros-TA in late 2016.
- **Expand our Hydros-TA therapy to treat OA pain in additional joints.** We believe Hydros-TA is a platform therapy for treating OA pain in multiple joints in the body. While our initial focus is on OA pain in the knee, we intend to use a portion of the proceeds of this offering to accelerate our development of Hydros-TA for the treatment of OA pain in the hip, shoulder, ankle, spine and other joints in the body. We do not believe that Hydros-TA will require reformulation to be used in additional joints affected by OA.



- **Build commercial capabilities in the United States and selectively partner outside of the United States to maximize the value of Hydros-TA.** We intend to commercialize Hydros-TA, if approved, in the United States through our own focused sales force of approximately 50 to 100 sales people, which we will build in connection with U.S. approval of Hydros-TA. We have partnered commercial rights for Hydros-TA in China, Taiwan, Hong Kong, and Macau to Shanghai Jingfeng Pharmaceutical Co., Ltd. In other international markets, we intend to partner with established pharmaceutical companies to maximize the value of Hydros-TA without the substantial investment required to develop independent sales forces in those geographies.
- **Utilize our strong management team's expertise to develop and commercialize Hydros-TA and other novel combination products.** Our management team has extensive experience in designing and implementing efficient and effective drug development programs, and in building sales forces and bringing new therapies to market. We intend to maintain an organizational structure designed to allow us to cost-effectively advance our development and commercialization plans.

### **Risk Factors**

Our business is subject to many risks and uncertainties of which you should be aware before you decide to invest in our common stock. These risks are discussed more fully under "Risk Factors" in this prospectus. Some of these risks include:

- we have incurred significant losses since our inception, and we expect to incur substantial losses for the foreseeable future and may never achieve or maintain profitability, which, among other things, raises substantial doubt about our ability to continue as a going concern;
- we have not generated any product revenue from, or received regulatory approval for, Hydros-TA or any other product candidate;
- we are substantially dependent on the success of Hydros-TA, which may not be successful in clinical trials, receive regulatory approval or be successfully commercialized, and we do not currently have any other product candidates in clinical development;
- we are a clinical-stage company and will require additional capital beyond this offering, including potentially prior to completing our Phase 3 clinical trials for, or commercializing, Hydros-TA;
- we have limited experience conducting clinical trials for Hydros-TA and may be unable to successfully enroll or complete clinical trials for, obtain regulatory approval for, or commercialize, Hydros-TA on the timeline we anticipate, or at all;
- we rely on third parties to manufacture and carry out the clinical trials of Hydros-TA, which could delay or limit future development or regulatory approval;
- we currently do not have the infrastructure to commercialize Hydros-TA, if it receives regulatory approval; and
- we may be unable to adequately maintain and protect our proprietary intellectual property assets, which could impair our commercial opportunities.

### **Implications of Being an Emerging Growth Company**

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year following the fifth anniversary of the completion of this offering (December 31, 2019), (2) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.0 billion, (3) the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30 and (4) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We refer to the Jumpstart Our Business Startup Act of 2012 herein as the “JOBS Act,” and references herein to “emerging growth company” shall have the meaning associated with it in the JOBS Act.

### **Corporate and Other Information**

We were originally incorporated in Delaware in March 2004 under the name Sentrx Surgical, Inc. We changed our name to Carbylan Biosurgery, Inc. in December 2005 and to Carbylan Therapeutics, Inc. in March 2014. Our principal executive offices are located at 3181 Porter Drive, Palo Alto, California, and our telephone number is (650) 855-6777. Our corporate website address is [www.carbylan.com](http://www.carbylan.com). Information contained on or accessible through our website is not a part of this prospectus, and the inclusion of our website address in this prospectus is an inactive textual reference only.

**The Offering**

Common stock we are offering	shares
Common stock to be outstanding after this offering	shares
Option to purchase additional shares	shares
Use of proceeds	We intend to use the net proceeds from this offering to fund our ongoing COR1.1 and our future COR1.2 Phase 3 trials, for working capital and for other general corporate purposes. See “Use of Proceeds” on page 51 of this prospectus for more information.
Risk factors	You should read the “Risk Factors” section beginning on page 10 of this prospectus for a discussion of certain factors to consider carefully before deciding to purchase any shares of our common stock.
Proposed NASDAQ Global Market symbol	“CBYL”

The number of shares of our common stock to be outstanding after this offering is based on 35,725,913 shares of common stock outstanding as of June 30, 2014 and excludes the following:

- 3,953,242 shares of common stock issuable upon the exercise of outstanding stock options as of June 30, 2014, at a weighted average exercise price of \$0.1676 per share;
- 424,082 shares of common stock issuable upon the exercise of outstanding warrants as of June 30, 2014 at a weighted-average exercise price of \$1.2026 per share; and
- shares of common stock reserved for future issuance under our 2014 equity incentive plan, or the 2014 Equity Plan (including 2,143,082 shares of common stock reserved for issuance under our previously existing 2014 stock option plan, or the 2014 Plan), which will become effective immediately prior to the closing of this offering, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2014 Equity Plan.

Unless otherwise indicated, all information contained in this prospectus assumes:

- the automatic conversion of all our outstanding convertible preferred stock pursuant to a stockholder vote into an aggregate of 33,074,166 shares of common stock immediately prior to the closing of this offering;
- the conversion of all warrants exercisable for preferred stock into warrants exercisable for 424,082 shares of our common stock immediately prior to the closing of this offering;
- no exercise by the underwriters of their option to purchase up to an additional shares of our common stock;
- the filing and effectiveness of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and
- a -for- reverse stock split of our common stock to be effected prior to the closing of this offering.

### Summary Financial Data

The following table summarizes certain of our financial data. We derived the statement of operations data for the years ended December 31, 2012 and 2013 from our audited financial statements and related notes appearing elsewhere in this prospectus. The statement of operations data for the six months ended June 30, 2013 and 2014 and the balance sheet data as of June 30, 2014 were derived from our unaudited financial statements and the related notes appearing elsewhere in this prospectus. The unaudited financial data, in management's opinion, have been prepared on the same basis as the audited financial statements and related notes included elsewhere in this prospectus, and include all adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair statement of the financial information as of and for the periods presented. Our historical results are not necessarily indicative of the results that may be expected in the future and results of interim periods are not necessarily indicative of the results for the entire year. The summary financial data should be read together with our financial statements and related notes, "Selected Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
	(in thousands, except for share and per share amounts)			
<b>Statement of Operations Data:</b>				
License revenue	\$ 1,538	\$ 415	\$ 11	\$ 11
Operating expenses:				
Research and development	1,959	4,229	1,786	3,175
General and administrative	1,412	1,402	624	1,128
Total operating expenses	3,371	5,631	2,410	4,303
Loss from operations	(1,833)	(5,216)	(2,399)	(4,292)
Other income (expense), net				
Interest income	1	2	1	1
Interest expense	(256)	(405)	(289)	(163)
Other income (expense), net	35	(59)	4	(196)
Total other income (expense)	(220)	(462)	(284)	(358)
Net loss	<u>\$ (2,053)</u>	<u>\$ (5,678)</u>	<u>\$ (2,683)</u>	<u>\$ (4,650)</u>
Net loss attributable to common stockholders	<u>\$ (2,164)</u>	<u>\$ (5,678)</u>	<u>\$ (2,683)</u>	<u>\$ (4,650)</u>
Net loss per share attributable to common stockholders, basic and diluted <sup>(1)</sup>	\$ (1.28)	\$ (3.36)	\$ (1.59)	\$ (2.16)
Weighted average common shares outstanding, basic and diluted <sup>(1)</sup>	1,684,649	1,692,279	1,684,649	2,157,261
Pro forma net loss per share attributable to common stockholders, basic and diluted (unaudited) <sup>(2)</sup>		\$ (0.17)		\$ (0.13)
Pro forma weighted average common shares outstanding, basic and diluted (unaudited) <sup>(2)</sup>		32,659,252		35,231,427

(1) See Note 2 to our financial statements appearing elsewhere in this prospectus for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

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- (2) The calculations for the unaudited pro forma net loss per share attributable to common stockholders, basic and diluted, assume the automatic conversion of all of our outstanding shares of convertible preferred stock pursuant to a stockholder vote into shares of our common stock, as if the conversion had occurred at January 1, 2013, or as of the issuance date of the convertible preferred stock, if later, and the conversion of all of our warrants exercisable for convertible preferred stock into warrants exercisable for shares of our common stock. See Note 2 to our financial statements appearing elsewhere in this prospectus.

The table below presents our balance sheet data as of June 30, 2014:

- on an actual basis;
- on a pro forma basis, giving effect to (i) the automatic conversion of all our outstanding shares of convertible preferred stock pursuant to a stockholder vote into an aggregate of 33,074,166 shares of our common stock and (ii) the conversion of all of our warrants exercisable for convertible preferred stock into warrants exercisable for shares of our common stock and the related reclassification of the preferred stock warrant liability to additional paid-in-capital, in each case, immediately prior to the closing of this offering; and
- on a pro forma as adjusted basis, giving further effect to the sale by us of \_\_\_\_\_ shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the mid-point of the price range set forth on the cover page of this prospectus), and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	As of June 30, 2014		
	Actual	Pro Forma	Pro Forma As Adjusted <sup>(1)</sup>
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 7,176	\$	\$
Working capital	1,740		
Total assets	7,635		
Loans payable	4,107		
Preferred stock warrant liability	394		
Convertible preferred stock	39,556		
Accumulated deficit	(39,066)		
Total stockholders' (deficit) equity	(38,045)		

- (1) Each \$1.00 increase or decrease in the assumed initial public offering price of \$ \_\_\_\_\_ per share would increase or decrease, respectively, the amount of cash and cash equivalents, working capital, total assets and total stockholders' equity by \$ \_\_\_\_\_ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase or decrease of 1,000,000 in the number of shares we are offering would increase or decrease, respectively, the amount of cash and cash equivalents, working capital, total assets and stockholders' equity by approximately \$ \_\_\_\_\_ million, assuming the assumed initial public offering price per share, as set forth on the cover page of this prospectus, remains the same. The pro forma as adjusted information is illustrative only, and we will adjust this information based on the actual initial public offering price and other terms of this offering determined at pricing.

## Risk Factors

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this prospectus, including our financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” before deciding whether to invest in our common stock. The occurrence of any of the events or developments described below could harm our business, financial condition, results of operations and growth prospects. In such an event, the market price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.*

### **Risks Related to Our Limited Operating History, Financial Condition and Capital Requirements**

***We have a limited operating history, have incurred significant losses since our inception and we will incur losses in the future. We have only one product candidate in clinical trials and no product sales, which, together with our limited operating history, makes it difficult to assess our future viability.***

We are a clinical-stage specialty pharmaceutical company with a limited operating history. Pharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. To date, we have focused substantially all of our efforts on our research and development activities on our lead product candidate, Hydros-TA. To date, we have not commercialized any products or generated any revenue from product sales. We are not profitable and have incurred losses in each year since our inception in 2004, and we do not know whether or when we will become profitable. We have only a limited operating history upon which you can evaluate our business and prospects. We continue to incur significant research and development and other expenses related to our ongoing operations. Our net losses for the years ended December 31, 2012 and 2013 was \$2.1 million and \$5.7 million, respectively, and \$4.7 million for the six months ended June 30, 2014. As of June 30, 2014, we had an accumulated deficit of \$39.1 million. To date, we have financed our operations primarily through the sale of equity securities and debt facilities. The amount of our future net losses will depend, in part, on the rate of our future expenditures and our ability to obtain funding through equity and/or debt financings and strategic collaborations. We have not completed a pivotal clinical study for Hydros-TA and it will be several years, if ever, before Hydros-TA is ready for commercialization.

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

- continue our ongoing Phase 3 clinical trial of Hydros-TA and commence our second Phase 3 clinical trial of Hydros-TA;
- seek regulatory approvals for Hydros-TA;
- seek to expand the potential indications that we may treat with Hydros-TA, including performing pre-clinical studies and clinical trials evaluating the safety and effectiveness of Hydros-TA in treating OA in other joints;
- maintain, protect and expand our intellectual property portfolio;
- create additional infrastructure to support our operations as a public company and our product development and planned future commercialization efforts;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain marketing approval;

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- seek to discover and develop additional product candidates;
- acquire or in-license other product candidates and technologies; and
- attract and retain skilled personnel.

Our history of net losses and our expectation of future losses, together with our limited operating history, may make it difficult to evaluate our current business and predict our future performance. In addition, the net losses we incur may fluctuate significantly from quarter to quarter and year to year, such that a period-to-period comparison of our results of operations may not be a good indication of our future performance. In any particular quarter or quarters, our operating results could be below the expectations of securities analysts or investors, which could cause our stock price to decline.

***We have never generated any revenue from product sales and may never be profitable.***

We have no products approved for sale and have never generated any revenue from product sales. Our ability to generate revenue from product sales and achieve profitability depends on our ability to successfully enroll and complete our clinical trials and obtain the regulatory and marketing approvals necessary to commercialize Hydros-TA. Even if we, or a collaboration partner, are successful in obtaining regulatory approvals to market Hydros-TA, our future revenue will depend upon many factors, including the size of any markets in which Hydros-TA has received approval, the accepted price for Hydros-TA, our ability to achieve sufficient market acceptance, reimbursement from third-party payors, the attractiveness of competing products and therapies, and whether we have royalty and/or co-promotion rights for that territory. We do not anticipate generating revenue from product sales until at least 2017 and may never realize any significant revenue from sales of Hydros-TA.

To become and remain profitable, we must succeed in developing and eventually commercializing products that generate significant revenue. This will require us to be successful in a range of challenging activities, which may include completing clinical trials of Hydros-TA, discovering additional product candidates, obtaining regulatory approval for such product candidates and manufacturing, marketing and selling any products for which we may obtain regulatory approval. We may never succeed in these activities and, even if we do, may never generate revenue that is significant enough to achieve profitability.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. If we are required by the Food and Drug Administration, or FDA, or comparable foreign regulatory bodies to perform studies in addition to those currently expected, or if there are any delays in completing our clinical trials or the development of Hydros-TA, or any future product candidates, our expenses could increase.

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 depress the value of our company and could impair our ability to raise capital, expand our business, maintain our research and development efforts, diversify our product offerings or even continue our operations. A decline in the value of our company could also cause you to lose all or part of your investment.

***We will require substantial additional financing to operate our business, and a failure to obtain this necessary capital when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our product development or other operations.***

Since our inception, substantially all of our resources have been dedicated to our research and development activities, including developing our lead product candidate, Hydros-TA. As of June 30, 2014, we had working capital of \$1.7 million and capital resources consisting of cash and cash equivalents of \$7.2 million. We believe

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that we will continue to expend substantial resources for the foreseeable future, including costs associated with research and development, conducting pre-clinical studies and clinical trials, obtaining regulatory approvals and sales and marketing. Because the outcome of any clinical trial and/or regulatory approval process is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development, regulatory approval process and commercialization of Hydros-TA.

We estimate that net proceeds from this offering will be approximately \$        million, assuming an initial public offering price of \$        per share (the midpoint of the price range set forth on the cover page of this prospectus) and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. Based on our current operating plan, we believe that our existing capital resources, along with the proceeds of this offering, will allow us to fund our operating plan through at least the next 12 months. However, our operating plan may change as a result of many factors currently unknown to us, and we may need to seek additional funds sooner than planned. Our future funding requirements will depend on many factors, including, but not limited to:

- the progress, rate of enrollment, timing, scope, results and costs of our nonclinical and clinical trials for Hydros-TA, including the ability to enroll patients in a timely manner for clinical trials;
- the time and cost necessary to obtain regulatory approvals for Hydros-TA and the costs of post-marketing studies that could be required by regulatory authorities;
- our ability to successfully commercialize Hydros-TA;
- the manufacturing, selling and marketing costs associated with Hydros-TA, including the cost and timing of building our sales and marketing capabilities;
- our ability to establish and maintain collaboration partnerships, in-license/out-license or other similar arrangements and the financial terms of such agreements;
- the scope of our research and clinical development activities to expand the use of Hydros-TA for treating OA in other joints;
- the sales price and the availability of adequate third-party reimbursement for Hydros-TA;
- the cash requirements of any future acquisitions or discovery of future product candidates;
- the number and scope of nonclinical, pre-clinical and discovery programs that we decide to pursue or initiate;
- the time and cost necessary to respond to technological and market developments; and
- the costs of filing, prosecuting, maintaining, defending and enforcing any patent claims and other intellectual property rights, including litigation costs and the outcome of such litigation, including costs of defending any claims of infringement brought by others in connection with the development, manufacture or commercialization of Hydros-TA or any other future product candidates.

Additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available to us on a timely basis, we may be required to delay, limit, reduce or terminate our research and development activities, clinical trials for Hydros-TA for which we retain such responsibility and our establishment and maintenance of sales and marketing capabilities or other activities that may be necessary to commercialize Hydros-TA.



***Our independent registered public accounting firm has expressed doubt about our ability to continue as a going concern.***

Based on our cash balances, recurring losses since inception and our existing capital resources to fund our planned operations for a twelve month period, our independent registered public accounting firm has included an explanatory paragraph in its report on our financial statements as of and for the year ended December 31, 2013 expressing substantial doubt about our ability to continue as a going concern. We will, during the remainder of 2014, require significant additional funding to continue operations. If we are unable to continue as a going concern, we may be unable to meet our obligations under our existing debt facility, which could result in an acceleration of our obligation to repay all amounts thereunder, and we may be forced to liquidate our assets. In such a scenario, the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements.

**Risks Related to Our Business**

***We are substantially dependent on the success of our lead product candidate, Hydros-TA, which may not be successful in clinical trials, receive regulatory approval or be successfully commercialized.***

To date, we have invested substantially all of our efforts and financial resources in the research and development of Hydros-TA, which is our lead product candidate and only product candidate in clinical trials. Hydros-TA is a new approach to treating osteoarthritis, or OA, pain in the knee by using a combination therapy treatment. Our near-term prospects, including our ability to finance our operations and generate revenue from product sales, will depend heavily on our ability to successfully develop, obtain regulatory approval for, and commercialize Hydros-TA. Our planned development, approval and commercialization of Hydros-TA may not be completed in a timely manner or at all. The clinical and commercial success of Hydros-TA will depend on a number of factors, many of which are beyond our control, including the following:

- the timely completion of the ongoing COR1.1 Phase 3 clinical trial and the initiation and timely completion of our planned COR1.2 Phase 3 clinical trial, both of which will depend substantially upon sufficient and timely patient enrollment, as well as the satisfactory performance of third-party contractors;
- whether Hydros-TA's safety and efficacy profile is satisfactory to the FDA to warrant marketing approval;
- whether FDA requires additional clinical trials prior to approval to market Hydros-TA;
- the timely receipt of necessary marketing approvals from the FDA;
- our ability to successfully commercialize Hydros-TA, if approved for marketing and sale by the FDA, including educating physicians and patients about the benefits, administration and use of Hydros-TA;
- achieving and maintaining compliance with all regulatory requirements applicable to Hydros-TA;
- the prevalence and severity of any side effects and overall safety profile of Hydros-TA and the acceptance of Hydros-TA as safe and effective by patients and the medical community;
- the availability, perceived advantages, relative cost, relative convenience and ease of administration, relative safety and relative efficacy of alternative and competing treatments;
- obtaining and sustaining an adequate level of coverage and reimbursement for Hydros-TA by third-party payors;
- the effectiveness of our marketing, sales and distribution strategy and operations and of those of any of our current or future collaborators;

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- our ability, or any third-party manufacturer we contract with, to successfully scale up the manufacturing process for Hydros-TA, which has not yet been demonstrated, and to manufacture supplies of Hydros-TA and to develop, validate and maintain a commercially viable manufacturing process that is compliant with current good manufacturing practice, or cGMP, requirements;
- enforcing intellectual property rights;
- avoiding third-party interference, opposition, derivation or similar proceedings with respect to our patent rights, and avoiding other challenges to our patent rights and patent infringement claims; and
- a continued acceptable safety profile of Hydros-TA following approval.

Further, as of August 31, 2014, Hydros-TA has been evaluated in fewer than 100 human subjects and, as such, previously unseen results may appear as we obtain results in our ongoing COR1.1 Phase 3 clinical trial and our future COR1.2 Phase 3 clinical trial. We have not yet filed an IND for Hydros-TA and will not be able to commence any clinical trials in the United States until we have submitted our IND filing and the FDA has not objected to our commencement of such trials. As such, we do not anticipate filing a new drug application, or NDA, with the FDA until late 2016.

If the number of patients in the market for Hydros-TA or the price that the market can bear is not as significant as we estimate, we may not generate significant revenue from sales of Hydros-TA, even if the above factors are overcome. Accordingly, we cannot assure you that Hydros-TA will ever be successfully commercialized or that we will ever generate revenue from sales of Hydros-TA. If we are not successful in completing the development of, obtaining approval for, and commercializing Hydros-TA, or are significantly delayed in doing so, our business will be materially harmed.

***Clinical drug development involves a lengthy and expensive process with an uncertain outcome, and we may encounter substantial delays in our clinical studies. Furthermore, results of earlier studies and trials may not be predictive of future trial results.***

Before obtaining marketing approval from regulatory authorities for the sale of Hydros-TA, we must conduct extensive clinical studies to demonstrate the safety and efficacy of Hydros-TA in humans. Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. The results of pre-clinical and clinical studies of Hydros-TA may not be predictive of the results of later-stage clinical trials. For example, the positive results generated in our COR1.0 Phase 2b clinical study of Hydros-TA, which was not powered for statistical significance, do not ensure that the ongoing COR1.1 clinical trial, or future clinical trials, will demonstrate similar results. Hydros-TA may fail to show the desired safety and efficacy despite having progressed through pre-clinical studies and initial clinical trials. A number of companies in the pharmaceutical, biopharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier studies, and we cannot be certain that we will not face similar setbacks. Even if our clinical trials are completed, the results may not be sufficient to obtain regulatory approval for Hydros-TA.

We are actively enrolling patients internationally in our COR1.1 clinical trial, which is our first Phase 3 clinical trial of Hydros-TA, and we expect to initiate COR1.2, our second Phase 3 clinical trial of Hydros-TA, in the first quarter of 2015. However, we may experience delays in our ongoing COR1.1 or any other future clinical trials including COR1.2, and we do not know whether future clinical trials will begin on time, need to be redesigned, enroll an adequate number of patients on time or be completed on schedule, if at all.

Clinical trials can be delayed or terminated for a variety of reasons, including delay or failure to:

- obtain regulatory approval to commence a trial, if applicable;
- reach agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

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- obtain institutional review board, or IRB, approval at each site;
- recruit suitable patients in a timely manner to participate in our trials;
- have patients complete a trial or return for post-treatment follow-up;
- ensure that clinical sites observe trial protocol, comply with good clinical practices, or GCPs, or continue to participate in a trial;
- ensure adequate control of the clinical product handling and storage conditions;
- address any patient safety concerns that arise during the course of a trial;
- address any conflicts with new or existing laws or regulations;
- initiate or add a sufficient number of clinical trial sites; or
- manufacture sufficient quantities of Hydros-TA for use in our COR1.1 and COR1.2 trials or other future clinical trials.

Patient enrollment is a significant factor in the timing of clinical trials and is affected by many factors, including, in respect of our COR1.1 and COR1.2 trials, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the IRBs of the institutions in which such trials are being conducted, by an independent data safety monitoring board, or DSMB, for such trial or by the FDA or other regulatory authorities. Such authorities may suspend or terminate a clinical trial due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial.

Further, conducting our COR1.1 and a portion of our COR1.2 clinical trials in foreign countries presents additional risks that may delay completion of clinical trials. These risks include the failure of physicians or enrolled patients in foreign countries to adhere to clinical protocol as a result of differences in healthcare services or cultural customs, managing additional administrative burdens associated with foreign regulatory schemes and political and economic risks relevant to such foreign countries. In addition, the FDA may determine that the clinical trial results obtained in foreign subjects do not represent the safety and efficacy of Hydros-TA when administered in U.S. patients and are thus not supportive of an NDA approval in the United States.

If there are delays in the completion of, or termination of, any clinical trial of Hydros-TA, the commercial prospects of Hydros-TA may be harmed, and our ability to generate revenue from product sales will be delayed. In addition, any delays in completing the clinical trials will increase costs, slow down the development and approval process of Hydros-TA and jeopardize the ability to commence product sales and generate revenue from product sales. Any of these occurrences may significantly harm our business, financial condition and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of Hydros-TA.

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***We rely on third parties to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may be unable to obtain regulatory approval for or commercialize Hydros-TA.***

We do not have the ability to independently conduct clinical trials. We currently, and will continue to, rely on medical institutions, clinical investigators, contract laboratories and other third parties, such as CROs, to conduct our clinical trials of Hydros-TA. The third parties with whom we contract for execution of the clinical trials we are conducting play a significant role in the conduct of these trials and the subsequent collection and analysis of data. However, these third parties are not our employees, and except for contractual duties and obligations, we control only certain aspects of their activities and have limited ability to control the amount or timing of resources that they devote to our programs. Although we rely, and will continue to rely, on third parties to conduct our clinical trials, we remain responsible for ensuring that each of our clinical trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards and our reliance on third parties does not relieve us of our regulatory responsibilities. We and these third parties are required to comply with current GCPs for clinical studies. GCPs are regulations and guidelines enforced by the FDA through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our third-party contractors fail to comply with applicable regulatory requirements, including GCPs, 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 marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP regulations. In addition, our clinical trials must be conducted with product produced under cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process and increase cost.

***Our product candidates may cause undesirable side effects or have other properties that could delay our clinical trials, or delay or prevent regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following regulatory approval, if any. If any of our product candidates receives marketing approval and we or others later identify undesirable side effects caused by the product candidate, the ability to market such product candidate could be compromised.***

Undesirable side effects caused by a product candidate could cause us or regulatory authorities to interrupt, delay or halt clinical trials of the product candidate, result in the delay or denial of regulatory approval by the FDA or limit the commercial profile of an approved label. Some examples of drug-related side effects experienced by patients treated with Hydros-TA include injection site pain, arthralgia and injection site warmth. In the event that trials conducted by us of Hydros-TA or of future product candidates reveal an unacceptable severity and prevalence of these or other side effects, such trials could be suspended or terminated and the FDA could order us to cease further development of or deny approval of Hydros-TA, or any future product candidate, for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

In addition, in the event that Hydros-TA or any future product candidates receive regulatory approval and we or others later identify undesirable side effects caused by the product, a number of potentially significant negative consequences could occur, including:

- regulatory authorities may withdraw their approval of the product or seize the product;
- we, or our collaboration partners, may be required to recall the product;
- additional restrictions may be imposed on the marketing of the particular product or the manufacturing processes for the product or any component thereof, including the imposition of a Risk Evaluation and

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Mitigation Strategies, or REMS, plan that may require creation of a Medication Guide outlining the risks of such side effects for distribution to patients, as well as elements to assure safe use of the product, such as a patient registry and training and certification of prescribers;

- we, or our collaboration partners, 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 could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

Any of the foregoing events could prevent us or a collaboration partner from achieving or maintaining market acceptance of a particular product candidate, if approved, and could result in the loss of significant revenue to us, which would materially and adversely affect our results of operations and business.

***If we are unable to differentiate Hydros-TA from steroid injections, viscosupplements or other combination therapies for the treatment of OA pain, or if the FDA or other applicable regulatory authorities approve generic products that compete with Hydros-TA, the ability to successfully commercialize Hydros-TA would be adversely affected.***

Currently available steroid injections are effective at providing pain relief within a couple of days, but they do not last for more than two to four weeks and can have a damaging effect on the healthy cartilage. Most of these steroid injections are interchangeable with the choice usually stemming from cost to the patient and physician preference. These generic steroids also have well-established market positions and familiarity with physicians, healthcare payors and patients. There are five multi-injection viscosupplements (Hyalgan, Orthovisc, Supartz, Synvisc and Euflexxa) and three single-injection products (Synvisc-One, Gel-One and Monovisc) that are currently on the market, many of which are produced by large biopharmaceutical or pharmaceutical companies that have significant resources that they can devote to the development and promotion of their drug products. Of these viscosupplements, Synvisc-One represents over 50% of the U.S. viscosupplement market. Moreover, we believe that in at least some cases patients are treated with both a steroid injection and a viscosupplement injection within a relatively short proximity with an aim to achieve both rapid and sustained pain relief.

In addition to steroid injections and viscosupplements there are also a number of combination viscosupplement/steroid therapies currently in development. To our knowledge the most advanced of these candidates is currently in Phase 3 trials. To the extent that any of these therapies receive approval prior to Hydros-TA these competitors will have a first-mover advantage over us and, as such, will have the ability to begin developing brand recognition and customer loyalty that will increase the barriers that we will be required to overcome in order to gain commercial success.

Although we believe Hydros-TA has the potential for clinically meaningful differentiation in sustained pain relief as compared to currently available steroid injections and rapid pain relief as compared to viscosupplements, as clinical development of Hydros-TA advances and we receive data from additional clinical trials, it is possible that the data will not support such differentiation, which would adversely affect our ability to successfully commercialize Hydros-TA. Further, our ability to achieve commercial success will, at least in part, depend on our ability to differentiate ourselves from these existing therapies in such a way that physicians and patients will

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be willing to switch from existing therapies with which they are familiar to Hydros-TA. Once physicians incorporate a particular treatment into their practice they may not alter their practice absent compelling clinical evidence of safety and/or effectiveness and/or significant pricing reimbursement advantages.

The FDA or other applicable regulatory authorities may approve generic products that could compete with Hydros-TA. Once an NDA, including a Section 505(b)(2) application, is approved, the product covered thereby becomes a “listed drug” which can, in turn, be cited by potential competitors in support of approval of an abbreviated new drug application, or ANDA. The Federal Food, Drug and Cosmetic Act, FDA regulations and other applicable regulations and policies provide incentives to manufacturers to create modified, non-infringing versions of a drug to facilitate the approval of an ANDA or other application for generic substitutes. These manufacturers might only be required to conduct a relatively inexpensive study to show that their product has the same active ingredient(s), dosage form, strength, route of administration and conditions of use, or labeling, as Hydros-TA and that the generic product is bioequivalent to ours, meaning it is absorbed in the body at the same rate and to the same extent as Hydros-TA. These generic equivalents, which must meet the same quality standards as branded pharmaceuticals, would be significantly less costly than ours to bring to market and companies that produce generic equivalents are generally able to offer their products at lower prices. Thus, after the introduction of a generic competitor, a significant percentage of the sales of any branded product is typically lost to the generic product. Accordingly, competition from generic equivalents to Hydros-TA would materially adversely impact our ability to successfully commercialize Hydros-TA.

***We face substantial competition and our competitors may discover, develop or commercialize products faster or more successfully than us.***

The pharmaceutical, biotechnology and specialty pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. In addition, the competition in the OA pain market is intense. We have competitors in the United States and internationally, including major multinational pharmaceutical companies, biotechnology companies and universities and other research institutions. In addition, we expect that injectable therapies such as Hydros-TA will continue to be used primarily after oral medications no longer provide adequate pain relief.

It is possible that our competitors will be able to leverage their large market share (for example, Sanofi S.A., the developer of Synvisc-One, holds more than 50% of the viscosupplement market as of 2012) to set prices at a level below that which is profitable for us. Our competitors may also be able to develop and market drugs or other treatments that are less expensive and more effective than Hydros-TA, or that will render Hydros-TA obsolete. It is also possible that our competitors will commercialize competing drugs or treatments before we can commercialize Hydros-TA. We also anticipate that we will face increased competition in the future as new companies enter into our target markets.

In addition to competitors in the viscosupplement market, as a result of the 2013 clinical practice guidelines released by the American Association of Orthopedic Surgeons, or AAOS, clinicians have been searching for alternatives to hyaluronic acid, or HA. To the extent additional alternative therapies are developed and receive positive support from AAOS, other professional medical societies and governmental agencies, these therapies would compete with Hydros-TA, if approved. For additional information regarding the AAOS guidelines, see the risk factor below “—Third-party payor coverage and reimbursement status of newly-approved products is uncertain and such coverage for viscosupplementation may be hampered by recommendations from AAOS. Failure to obtain or maintain adequate coverage and reimbursement for Hydros-TA, if approved, could limit our ability to market Hydros-TA and decrease our ability to generate revenue.”

Many of our competitors have materially greater name recognition and financial, manufacturing, marketing, research and drug development resources than we do, as well as a significant share of the existing market for OA

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pain treatments. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. Large pharmaceutical companies in particular have extensive expertise in pre-clinical and clinical testing and in obtaining regulatory approvals for drugs. In addition, academic institutions, government agencies and other public and private organizations conducting research may seek patent protection with respect to potentially competitive products or technologies. These organizations may also establish exclusive collaboration partnerships or licensing relationships with our competitors.

For additional information regarding the competitive landscape for Hydros-TA, see “Business — Competition.”

***We currently have no sales organization. If we are unable to establish sales capabilities on our own, we may not be able to commercialize Hydros-TA, if approved, or commercialize any future product candidates.***

We currently do not have a sales organization. In order to commercialize Hydros-TA or any future product candidates, we must build our marketing, sales, distribution, managerial and other non-technical capabilities or make arrangements with third parties to perform these services, and we may not be successful in doing so. If one or more of our product candidates receives regulatory approval, we expect to establish a specialty sales organization with technical expertise and supporting distribution capabilities to commercialize such product candidate, which will be expensive and time consuming. As a company, we have no prior experience in the marketing, sale and distribution of pharmaceutical products and there are significant risks involved in building and managing a sales organization, including our ability to hire, retain and incentivize qualified individuals, generate sufficient sales leads, provide adequate training to sales and marketing personnel, comply with regulatory requirements applicable to the marketing and sale of drug products and effectively manage a geographically dispersed sales and marketing team. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of Hydros-TA or any future product candidates.

***We rely completely on third parties, and in some cases a single third-party, to manufacture our clinical drug supplies, and we intend to rely on third parties to produce commercial supplies of any approved product candidate. Our business would be harmed if those third parties fail to maintain approval from the FDA, fail to provide us with sufficient quantities of drug product or fail to do so at acceptable quality levels or prices.***

We do not currently have, nor do we plan to acquire, the infrastructure or capability internally to manufacture our clinical drug supplies for use in the conduct of our clinical studies of Hydros-TA, and we lack the resources and the capability to manufacture Hydros-TA on a clinical or commercial scale. The facilities used by our contract manufacturers to manufacture any drug products must be approved by the FDA pursuant to inspections that will be conducted after an NDA is submitted to the FDA. We do not control the manufacturing process of Hydros-TA, and we are completely dependent on our contract manufacturing partners for compliance with the regulatory requirements, known as cGMPs, for manufacture of both active drug substances and finished drug products.

If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or others, they will not be able to maintain regulatory approval for their manufacturing facilities. In addition, we have no control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel. If the FDA withdraws approval of these facilities for the manufacture of Hydros-TA, we may need to find alternative manufacturing facilities, which would significantly impact our ability to develop, obtain regulatory approval for or market Hydros-TA, if approved.

We rely on our manufacturers to purchase from third-party suppliers the materials necessary to produce Hydros-TA for our clinical studies. There are a limited number of suppliers for raw materials that we use to manufacture our drugs, and there may be a need to identify alternate suppliers to prevent a possible disruption of the manufacture of the materials necessary to produce Hydros-TA for our clinical studies, and, if approved,

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ultimately for commercial sale. We do not have any control over the process or timing of the acquisition of these raw materials by our manufacturers. Although we generally do not begin a clinical study unless we believe we have on hand, or will be able to manufacture, a sufficient supply of Hydros-TA to complete such study, any significant delay or discontinuity in the supply of Hydros-TA, or the raw material components thereof, for an ongoing clinical study due to the need to replace a third-party manufacturer could considerably delay completion of our clinical studies, product testing and potential regulatory approval of Hydros-TA, which could harm our business and results of operations.

### ***We may not be successful in our efforts to develop Hydros-TA for indications beyond our initial target indication of treating the pain from OA in the knee.***

Hydros-TA is our only product candidate in clinical trials (currently taking place outside of the United States) with a proposed initial indication for OA pain in the knee. While our primary focus is on developing Hydros-TA for this indication, a key element of our strategy is also to expand the use of Hydros-TA into other joints in the body that are afflicted by pain associated with OA. We intend to use a portion of the proceeds from this offering to develop Hydros-TA for the treatment of OA pain in other joints in the body; however, there is no guarantee that our development efforts will be successful and the potential indications of Hydros-TA would be expanded beyond that of OA pain in the knee.

### ***We may not be successful in our efforts to expand our pipeline of other product candidates.***

Another key element of our strategy is to develop a pipeline of other product candidates. Of the large number of drugs in development, only a small percentage of such drugs successfully complete the FDA regulatory approval process and are commercialized. Accordingly, even if we are able to fund the initiation of other product development programs, we cannot assure you that any product candidates will reach the clinical-stage or be successfully developed or commercialized. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development or commercialization for many reasons, including the following:

- the research methodology used and our drug discovery and design platform may not be successful in identifying potential product candidates;
- competitors may develop alternatives that render our product candidates obsolete or less attractive;
- product candidates we develop may nevertheless be covered by third parties' patents or other exclusive rights;
- the market for a product candidate may change during our program so that the continued development of that product candidate is no longer reasonable;
- a product candidate may on further study be shown to have harmful side effects or other characteristics that indicate it is unlikely to be effective or otherwise does not meet applicable regulatory criteria;
- a product candidate may not be capable of being produced in commercial quantities at an acceptable cost, or at all; and
- a product candidate may not be accepted as safe and effective by patients, the medical community or third-party payors, if applicable.



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Even if we are successful in expanding our pipeline, through our own research and development efforts or by pursuing in-licensing or acquisition of product candidates, the potential product candidates for which we identify or acquire rights may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to receive marketing approval and achieve market acceptance. If we do not successfully develop and commercialize a product pipeline, we may not be able to generate revenue from product sales in future periods or ever achieve profitability.

### ***If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of Hydros-TA.***

We face an inherent risk of product liability as a result of the clinical testing of Hydros-TA and will face an even greater risk if we commercialize Hydros-TA. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product 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 and 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 Hydros-TA. Even a successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for Hydros-TA;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- regulatory investigations, product recalls or withdrawals, or labeling, marketing or promotional restrictions;
- loss of revenue; and
- the inability to commercialize or co-promote Hydros-TA.

Our inability to obtain and maintain sufficient product liability insurance at an acceptable cost and scope of coverage to protect against potential product liability claims could prevent or inhibit the commercialization of any products we develop. We currently carry product liability insurance covering use in our clinical trials in amounts that we believe are customary and adequate for a clinical-stage biopharmaceutical company. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions and deductibles, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts. Moreover, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses.

***If we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.***

Our ability to compete in the highly competitive biopharmaceutical industry depends in large part on our ability to attract and retain highly qualified managerial, scientific and medical personnel. In order to induce valuable employees to remain with us, we have, among other things, provided stock-based compensation that vests over time. The value to employees of stock-based compensation will be significantly affected by movements in our stock price that we cannot control and may at any time be insufficient to counteract more lucrative offers from other companies. Despite our efforts to retain valuable employees, members of our management, scientific and medical teams may terminate their employment with us on short notice. The loss of the services of any of our executive officers or other key employees could potentially harm our business, operating results and financial condition. Our success also depends on our ability to continue to attract, retain, and motivate highly skilled scientific and medical personnel.

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

Because we have limited financial and managerial resources, we may forego or delay pursuit of opportunities with other product candidates or for other indications of Hydros-TA that later prove to have greater commercial potential than the use of Hydros-TA for the treatment of pain associated with OA in the knee. 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 for future product candidates and for specific indications of Hydros-TA may not yield any commercially viable products. 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 partnerships, 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 such product candidate.

***We may encounter difficulties in managing our growth and expanding our operations successfully.***

As we seek to advance Hydros-TA through clinical trials and commercialization, we will need to expand our development, regulatory, manufacturing, marketing and sales capabilities or contract with third parties to provide these capabilities for us. As our operations expand, we expect that we will need to manage additional relationships with various strategic partners, suppliers and other third parties. Future growth will impose significant added responsibilities on members of management. Our future financial performance and our ability to commercialize Hydros-TA and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to manage our development efforts and clinical trials effectively and hire, train and integrate additional management, administrative and, if necessary, sales and marketing personnel. We may not be able to accomplish these tasks, and our failure to accomplish any of them could prevent us from successfully growing our company.

***We may not realize the benefit of our existing collaboration partnership, may fail to form additional collaboration partnerships in the future and may not realize the benefits of such collaborations.***

Our license agreement with Shanghai Jingfeng Pharmaceutical Co., Ltd., or Jingfeng, provides Jingfeng with the exclusive right and license to develop and commercialize Hydros-TA, or any improvements or modifications to Hydros-TA, for use in China, Taiwan, Hong Kong and Macau. Pursuant to the terms of the license agreement, Jingfeng is responsible for the manufacture and supply of Hydros-TA and the management

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and funding of all development activities, regulatory submissions and regulatory approvals for Hydros-TA within the applicable territory. Our ability to realize any of the approximately \$6.5 million in remaining milestone payments pursuant to the terms of the license agreement is therefore outside of our control and as a result we can make no guaranty or assurance that all or a portion of such payments will be made. We may form additional collaboration partnerships, create joint ventures or enter into licensing arrangements with third parties with respect to our programs that we believe will complement or augment our existing business. We have historically engaged, and intend to continue to engage, in partnering discussions with a range of pharmaceutical and biotechnology companies and could enter into new collaboration partnerships at any time. We face significant competition in seeking appropriate collaboration partners, and the negotiation process to secure appropriate terms is time-consuming and complex. Any delays in identifying suitable collaboration partners and entering into agreements to develop Hydros-TA could also delay the commercialization of Hydros-TA, which may reduce its competitiveness even if it reaches the market. Moreover, we may not be successful in our efforts to establish such a collaboration partnership for any future product candidates and programs on terms that are acceptable to us, or at all. This may be because such future product candidates and programs may be deemed to be at too early of a stage of development for collaborative effort, our research and development pipeline may be viewed as insufficient and/or third parties may not view such product candidates and programs as having sufficient potential for commercialization, including the likelihood of an adequate safety and efficacy profile.

Even if we are successful in entering into a collaboration partnership or license arrangement, there is no guarantee that the collaboration partnership will be successful. Collaborations may pose a number of risks, including:

- collaborators often have significant discretion in determining the efforts and resources that they will apply to the collaboration, and may not commit sufficient resources to the development, marketing or commercialization of the product or products that are subject to the collaboration;
- collaborators may not perform their obligations as expected;
- any such collaboration may significantly limit our share of potential future profits from the associated program, and may require us to relinquish potentially valuable rights to product candidates, potential products or proprietary technologies or grant licenses on terms that are not favorable to us;
- collaborators may cease to devote resources to the development or commercialization of Hydros-TA or future product candidates if the collaborators view such product candidates as competitive with their own products or product candidates;
- disagreements with collaborators, including disagreements over proprietary rights, contract interpretation or the course of development, might cause delays or termination of the development or commercialization of product candidates, and might result in legal proceedings, which would be time-consuming, distracting and expensive;
- collaborators may be impacted by changes in their strategic focus or available funding, or business combinations involving them, which could cause them to divert resources away from the collaboration;
- collaborators may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- the collaborations may not result in us achieving revenues to justify such transactions; and
- collaborations may be terminated and, if terminated, may result in a need for us to raise additional capital to pursue further development or commercialization of the applicable product candidate.

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***If we seek and obtain approval to commercialize Hydros-TA outside of the United States, or otherwise engage in business outside of the United States, a variety of risks associated with international operations could materially adversely affect our business.***

We may decide to seek marketing approval for Hydros-TA outside the United States or otherwise engage in business outside the United States, including entering into contractual agreements with third-parties. We expect that we will be subject to additional risks related to entering into these international business markets and relationships, including:

- different regulatory requirements for drug approvals in foreign countries;
- differing United States and foreign drug import and export rules;
- reduced protection for intellectual property rights in foreign countries;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- different reimbursement systems, and different competitive drugs;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad;
- potential liability resulting from development work conducted by these distributors; and
- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters.

***Our business involves the use of hazardous materials and we and third-parties with whom we contract must comply with environmental laws and regulations, which can be expensive and restrict how we do business.***

Our research and development activities involve the controlled storage, use and disposal of hazardous materials, including the components of Hydros-TA and other hazardous compounds. We and manufacturers and suppliers with whom we may contract are subject to laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. In some cases, these hazardous materials and various wastes resulting from their use are stored at our and our manufacturers' facilities pending their use and disposal. We cannot eliminate the risk of contamination, which could cause an interruption of our commercialization efforts, research and development efforts and business operations, environmental damage resulting in costly

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clean-up and liabilities under applicable laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. We cannot guarantee that the safety procedures utilized by third-party manufacturers and suppliers with whom we may contract will comply with the standards prescribed by laws and regulations or will eliminate the risk of accidental contamination or injury from these materials. In such an event, we may be held liable for any resulting damages and such liability could exceed our resources and state or federal or other applicable authorities may curtail our use of certain materials and/or interrupt our business operations. Furthermore, environmental laws and regulations are complex, change frequently and have tended to become more stringent. We cannot predict the impact of such changes and cannot be certain of our future compliance. We do not currently carry biological or hazardous waste insurance coverage.

***Our internal computer systems, or those of our CROs or other contractors or consultants, may fail or suffer security breaches, which could result in a material disruption of our product development programs.***

Despite the implementation of security measures, our internal computer systems and those of our CROs and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our programs. For example, the loss of clinical trial data from completed or ongoing clinical trials for Hydros-TA could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach results in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of Hydros-TA or future product candidates could be delayed.

***We may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.***

Our corporate headquarters and other facilities are located in the San Francisco Bay Area, which in the past has experienced severe earthquakes. We do not carry earthquake insurance. Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as our enterprise financial systems or manufacturing resource planning and enterprise quality systems, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place currently are limited and are unlikely to prove adequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which, particularly when taken together with our lack of earthquake insurance, could have a material adverse effect on our business.

***The terms of our loan and security agreement may restrict our ability to engage in certain transactions.***

In October 2011, we entered into a loan and security agreement with Silicon Valley Bank, or SVB. Pursuant to the terms of the loan and security agreement subject to certain exceptions, we cannot engage in certain transactions, unless certain conditions are met or we receive the prior approval of SVB. Such transactions include:

- disposing of our business or certain assets;
- changing our business, management, ownership or business locations;

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- incurring additional debt or liens or making payments on other debt;
- making certain investments and declaring dividends;
- acquiring or merging with another entity;
- engaging in transactions with affiliates; or
- encumbering intellectual property.

If SVB does not provide its consent to such actions we could be prohibited from engaging in transactions that could be beneficial to our business and our stockholders unless we were to repay the loans, which may not be desirable or possible. The loan and security agreement is secured by a pledge of substantially all of our assets, except for intellectual property. If we were to default under the loan and security agreement, including for an inability to repay amounts as they become due, and were unable to obtain a waiver for such a default, SVB would have a right to accelerate our obligation to repay the entire loan and foreclose on these assets in order to satisfy our obligations under the loan and security agreement. In addition, SVB would also have the right to place a hold on the on our accounts maintained at SVB and refuse to fund any then unfunded commitments under the loan and security agreement. Any such action on the part of SVB against us could have a materially adverse impact on our business, financial condition and results of operations.

### **Risks Related to Government Regulation**

***The regulatory approval processes of the FDA are lengthy, time consuming and inherently unpredictable. If we are ultimately unable to obtain regulatory approval for Hydros-TA, our business will be substantially harmed.***

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States. We are not permitted to market any drug product in the United States until we receive marketing approval from the FDA. We have not submitted an application or obtained marketing approval for Hydros-TA anywhere in the world. Obtaining regulatory approval of a new drug application, or NDA, can be a lengthy, expensive and uncertain process. In addition, failure to comply with FDA and other applicable United States regulatory requirements may subject us to administrative or judicially imposed sanctions or other actions, including:

- warning letters;
- civil and criminal penalties;
- injunctions;
- withdrawal of regulatory approval of products;
- product seizure or detention;
- product recalls;
- total or partial suspension of production; and
- refusal to approve pending NDAs or supplements to approved NDAs.

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Prior to obtaining approval to commercialize a drug candidate in the United States or abroad, we or our collaboration partners must demonstrate with substantial evidence from well-controlled clinical trials, and to the satisfaction of the FDA, that such drug candidates are safe and effective for their intended uses. We are actively enrolling patients internationally in COR1.1, which is our first Phase 3 clinical trial of Hydros-TA, and we expect to initiate COR1.2, our second Phase 3 clinical trial of Hydros-TA, in the first quarter of 2015. We expect to submit an IND for COR1.2 and to begin enrollment of patients in the United States in the second quarter of 2015, to report primary endpoint results from COR1.1 by the end of 2015 and from COR1.2 by mid-2016, and to submit our NDA for Hydros-TA in late 2016. The number of nonclinical studies and clinical trials that will be required for FDA approval varies depending on the drug candidate, the disease or condition that the drug candidate is designed to address, and the regulations applicable to any particular drug candidate and, as such, we may be required to perform additional clinical trials beyond our ongoing COR1.1 trial and our expected COR1.2 trial. Results from nonclinical studies and clinical trials can be interpreted in different ways. Even if we believe the nonclinical or clinical data for our drug candidates are promising, such data may not be sufficient to support approval by the FDA and other regulatory authorities. Administering drug candidates to humans may produce undesirable side effects, which could interrupt, delay or halt clinical trials and result in the FDA or other regulatory authorities denying approval of a drug candidate for any or all targeted indications.

Regulatory approval of an NDA is not guaranteed and the time required to obtain approval is unpredictable, typically takes many years following the commencement of clinical studies, and depends upon numerous factors. The FDA has substantial discretion in the approval process and we may encounter matters with the FDA that require us to expend additional time and resources and which may delay or prevent the approval of Hydros-TA. For example, the FDA may require us to conduct additional studies or trials for Hydros-TA either prior to or post-approval, such as additional drug-drug interaction studies or safety or efficacy studies or trials, or it may object to elements of our clinical development program such as the number of subjects in our current clinical trials from the United States. In addition, approval policies, regulations or the type and amount of clinical data necessary to gain approval may change during the course of Hydros-TA's clinical development, which may cause delays in the approval or result in a decision not to approve an application for regulatory approval. Despite the time and expense exerted, failure can occur at any stage. An NDA for Hydros-TA could fail to receive FDA approval for many reasons, including but not limited to the following:

- the FDA may disagree with the design or implementation of our clinical studies;
- the population studied in the clinical program may not be sufficiently broad or representative to assure safety in the full population for which approval is sought;
- the FDA may disagree with the interpretation of data from pre-clinical studies or clinical studies;
- the data collected from clinical studies of Hydros-TA may not be sufficient to support the submission of a NDA or to obtain FDA approval;
- we may be unable to demonstrate to the FDA that Hydros-TA's risk-benefit ratio for its proposed indication is acceptable;
- the FDA may fail to approve the manufacturing processes, test procedures and specifications, or facilities of third-party manufacturers responsible for clinical and commercial supplies; and
- the approval policies or regulations of the FDA may significantly change in a manner rendering our clinical data insufficient for approval.

This lengthy approval process, as well as the unpredictability of the results of clinical studies, may result in our failure and/or that of a collaboration partner to obtain regulatory approval to market Hydros-TA, which would significantly harm our business, results of operations, and prospects. Additionally, if the FDA requires that we conduct additional clinical studies or delays or refuses approval to market Hydros-TA, our business and results of operations may be harmed.

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In addition, even if we were to obtain approval, the FDA may approve Hydros-TA for fewer or more limited indications than we request, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve Hydros-TA with a label that does not include the labeling claims necessary or desirable for successful commercialization. Any of the foregoing scenarios could materially harm the commercial prospects for Hydros-TA.

***Third-party payor coverage and reimbursement status of newly-approved products is uncertain and such coverage for viscosupplementation may be hampered by recommendations from AAOS. Failure to obtain or maintain adequate coverage and reimbursement for Hydros-TA, if approved, could limit our ability to market Hydros-TA and decrease our ability to generate revenue.***

The pricing, coverage and reimbursement of Hydros-TA, if approved, must be adequate to support a commercial infrastructure. The availability and adequacy of coverage and reimbursement by governmental and private payors are essential for most patients to be able to afford treatments such as ours, assuming approval. Sales of Hydros-TA will depend substantially, on the extent to which the costs of Hydros-TA will be paid for by health maintenance, managed care, pharmacy benefit, and similar healthcare management organizations, or reimbursed by government authorities, private health insurers, and other third-party payors. If coverage and reimbursement are not available, or are available only to limited levels, we may not be able to successfully commercialize Hydros-TA. Even if coverage is provided, the approved reimbursement amount may not be high enough to allow us to establish or maintain pricing sufficient to realize a return on our investment.

There is significant uncertainty related to the insurance coverage and reimbursement of newly approved products. In the United States, third-party payors, including private and governmental payors, such as the Medicare and Medicaid programs, play an important role in determining the extent to which new drugs and biologics will be covered and reimbursed. The Medicare and Medicaid programs increasingly are used as models for how private payors and other governmental payors develop their coverage and reimbursement policies established. It is difficult to predict at this time what third-party payors will decide with respect to the coverage and reimbursement for our product candidates.

In addition to the risks faced by all newly-approved products, we face additional risks as a result of the current clinical practice guidelines issued by AAOS relating to viscosupplementation in OA of the knee. AAOS's current clinical practice guidelines, which many payors rely upon when developing their coverage policies relating to viscosupplementation, do not recommend intra-articular use of HA in patients with symptomatic OA of the knee. While most third-party payors continue to cover HA for the treatment of OA of the knee after the publication of these guidelines, a small number of third-party payors have reversed their coverage policies and no longer cover the use of HA for the treatment of OA of the knee. If AAOS does not revise these guidelines to reflect a more positive recommendation with respect to viscosupplementation or Hydros-TA, and/or other organizations (including, but not limited to, governmental agencies, other professional societies, private health and science foundations and practice management groups) release similar guidelines suggesting reduced use of HA or promote competitive or alternative therapies, payors may reverse currently positive coverage policies or refuse to approve Hydros-TA for coverage and reimbursement which could limit our ability to market Hydros-TA and decrease our ability to generate revenue.

Moreover, a payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Reimbursement rates may vary depending on the payor, the insurance plan, and other factors. A current trend in the United States health care industry is toward cost containment. Large public and private payors, managed care organizations, group purchasing organizations and similar organizations are exerting increasing influence on decisions regarding the use of, and reimbursement levels of, particular treatments. Such third-party payors, including Medicare, are questioning the coverage of, and challenging the prices charged for medical products and services. Moreover, increasing efforts by governmental and third-party payors in the United States to cap or reduce healthcare costs may cause such organizations to limit both coverage and the level of reimbursement for new



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products approved and, as a result, these caps may not cover or provide adequate payment for Hydros-TA. We expect to experience pricing pressures in connection with the sale of Hydros-TA due to the trend toward managed healthcare, the increasing influence of health maintenance organizations, and additional legislative changes. The downward pressure on healthcare costs in general, particularly prescription drugs and surgical procedures and other treatments, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products.

Adequate third-party coverage and reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in drug development, which could adversely impact our revenue and prospects for profitability. We cannot provide any assurances that we will be able to obtain and maintain third-party coverage or adequate reimbursement for our drug candidates in whole or in part.

***If the FDA does not conclude that Hydros-TA satisfies the requirements for the 505(b)(2) regulatory approval pathway, or if the requirements for approval of Hydros-TA under Section 505(b)(2) are not as we expect, the approval pathway for Hydros-TA will likely take significantly longer, cost significantly more and encounter significantly greater complications and risks than anticipated, and in any case may not be successful.***

We intend to seek FDA approval through the 505(b)(2) regulatory pathway for Hydros-TA. The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch-Waxman Act, added Section 505(b)(2) to the Federal Food, Drug and Cosmetic Act, or FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies that were not conducted by or for the applicant and for which the applicant has not obtained a right of reference. If the FDA does not allow us to pursue the 505(b)(2) regulatory pathway for Hydros-TA as anticipated, we may need to conduct additional clinical trials, provide additional data and information and meet additional standards for regulatory approval. If this were to occur, the time and financial resources required to obtain FDA approval for Hydros-TA would likely substantially increase. Moreover, the inability to pursue the 505(b)(2) regulatory pathway could result in new competitive products reaching the market faster than Hydros-TA, which could materially adversely impact our competitive position and prospects. Even if we are allowed to pursue the 505(b)(2) regulatory pathway for Hydros-TA, we cannot assure you that we will receive the requisite or timely approvals for commercialization.

***Even if we receive regulatory approval for Hydros-TA, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense. Additionally, if approved, Hydros-TA could be subject to labeling and other restrictions and market withdrawal, and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our products.***

Even if a drug is approved by the FDA, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with GCPs for any clinical trials that we conduct post-approval. In addition, manufacturers and manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to cGMPs. As such, we and our third-party contract manufacturers will be subject to continual review and periodic inspections to assess compliance with regulatory requirements. Accordingly, we and others with whom we work must continue to expend time, money, and effort in all areas of regulatory compliance, including manufacturing, production, and quality control. Regulatory authorities may also impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-marketing studies. Furthermore, any new legislation addressing drug safety issues could result in delays or increased costs to assure compliance.

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We will also be required to report certain adverse reactions and production problems, if any, to the FDA, and to comply with requirements concerning advertising and promotion for our products. 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 label. As such, we may not promote our products for indications or uses for which they do not have FDA approval.

Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- warning letters or fines;
- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market or voluntary or mandatory product recalls;
- injunctions or the imposition of civil or criminal penalties;
- suspension or revocation of existing regulatory approvals;
- suspension of any of our ongoing clinical trials;
- refusal to approve pending applications or supplements to approved applications submitted by us;
- restrictions on our or our contract manufacturers' operations; or
- product seizure or detention, or refusal to permit the import or export of products.

Any government investigation of alleged violations of law could require us to expend significant time and resources in response, and could generate negative publicity. Any failure to comply with ongoing regulatory requirements may significantly and adversely affect our ability to commercialize Hydros-TA. If regulatory sanctions are applied or if regulatory approval is withdrawn, the value of our company and our operating results will be adversely affected.

In addition, the FDA's policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of Hydros-TA. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

***We and our contract manufacturers are subject to significant regulation with respect to manufacturing Hydros-TA. The manufacturing facilities on which we rely may not continue to meet regulatory requirements or may not be able to meet supply demands.***

All entities involved in the preparation of product candidates for clinical studies or commercial sale, including our existing contract manufacturers for Hydros-TA, are subject to extensive regulation. Components of a finished therapeutic product approved for commercial sale or used in late-stage clinical studies must be manufactured in accordance with cGMP. These regulations govern manufacturing processes and procedures (including record keeping) and the implementation and operation of quality systems to control and assure the quality of investigational products and products approved for sale. We or our contract manufacturers must supply all necessary documentation in support of an NDA on a timely basis and must adhere to cGMP regulations enforced by the FDA. Some of our contract manufacturers have never produced a commercially approved

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pharmaceutical product and therefore have not obtained the requisite regulatory authority approvals to do so. The facilities and quality systems of some or all of our third-party contractors must pass a pre-approval inspection for compliance with the applicable regulations as a condition of regulatory approval of Hydros-TA. In addition, the FDA may, at any time, inspect a manufacturing facility involved with the preparation of Hydros-TA or our other potential products or the associated quality systems for compliance with the regulations applicable to the activities being conducted. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA, they will not be able to secure and/or maintain regulatory approval for their manufacturing facilities. If these facilities do not pass a pre-approval plant inspection, regulatory approval of the product candidates manufactured at these facilities may not be granted or may be substantially delayed until any violations are corrected to the satisfaction of the regulatory authority, if ever. In addition, we have no control over the ability of our contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel.

The regulatory authorities also may, at any time following approval of a product for sale, inspect the manufacturing facilities of our third-party contractors. If any such inspection identifies a failure to comply with applicable regulations or if a violation of our product specifications or applicable regulations occurs independent of such an inspection, we or the relevant regulatory authority may require remedial measures that may be costly and/or time consuming for us or a third-party to implement, and that may include the temporary or permanent suspension of a clinical study or commercial sales or the temporary or permanent suspension of production or closure of a facility. Any such remedial measures imposed upon us or third parties with whom we contract could materially harm our business.

If a third-party manufacturer with whom we contract fails to maintain regulatory compliance, the FDA may impose regulatory sanctions including, among other things, refusal to approve Hydros-TA or withdrawal of approval for Hydros-TA if previously approved. In addition, we may be subject to fines, unanticipated compliance expenses, recall or seizure, total or partial suspension of production and/or enforcement actions, including injunctions and criminal or civil prosecution. These possible sanctions would adversely affect our financial results and financial condition.

Additionally, if supply from one approved manufacturer is interrupted, an alternative manufacturer would need to be qualified through a supplemental NDA, which could result in further delay. The regulatory agencies may also require additional studies if a new manufacturer is relied upon for commercial production. Switching manufacturers may involve substantial costs and is likely to result in a delay in our desired clinical and commercial timelines.

These factors could cause us to incur higher costs and could cause the delay or termination of clinical studies, regulatory submissions, required approvals, or commercialization of Hydros-TA. Furthermore, if our suppliers fail to meet contractual requirements and we are unable to secure one or more replacement suppliers capable of production at a substantially equivalent cost, our clinical studies may be delayed or we could lose potential revenue.

***If approved, Hydros-TA may cause or contribute to adverse medical events that we are required to report to regulatory agencies, and if we fail to do so, we could be subject to sanctions that could materially harm our business.***

Some participants in clinical studies of Hydros-TA have reported adverse effects after being treated with Hydros-TA, including injection site pain, arthralgia, meniscal lesion and cyst aspiration. If we are successful in commercializing Hydros-TA, FDA regulations require that we report certain information about adverse medical events if those products may have caused or contributed to those adverse events. The timing of our obligation to report would be triggered by the date we become aware of the adverse event as well as the nature of the event.

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We may fail to report adverse events we become aware of within the prescribed timeframe. We may also fail to appreciate that we have become aware of a reportable adverse event, especially if it is not reported to us as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of our products. If we fail to comply with our reporting obligations, the FDA could take action, including criminal prosecution, the imposition of civil monetary penalties, seizure of our products or delay in approval or clearance of future products.

***If we fail to comply or are found to have failed to comply with FDA and other regulations related to the promotion of Hydros-TA for unapproved uses, we could be subject to criminal penalties, substantial fines or other sanctions and damage awards.***

The regulations relating to the promotion of products for unapproved uses are complex and subject to substantial interpretation by the FDA and other government agencies. If we receive marketing approval for Hydros-TA, physicians may nevertheless prescribe it to their patients in a manner that is inconsistent with the approved label. We intend to implement compliance and training programs designed to ensure that our sales and marketing practices comply with applicable regulations. Notwithstanding these programs, the FDA or other government agencies may allege or find that our practices constitute prohibited promotion of Hydros-TA for unapproved uses. We also cannot be sure that our employees will comply with company policies and applicable regulations regarding the promotion of products for unapproved uses. Over the past several years, a significant number of pharmaceutical and biotechnology companies have been the target of inquiries and investigations by various federal and state regulatory, investigative, prosecutorial and administrative entities in connection with the promotion of products for unapproved uses and other sales practices, including the Department of Justice and various U.S. Attorneys' Offices, the Office of Inspector General of the Department of Health and Human Services, the FDA, the Federal Trade Commission and various state Attorneys General offices. These investigations have alleged violations of various federal and state laws and regulations, including claims asserting antitrust violations, violations of the Food, Drug and Cosmetic Act, the False Claims Act, the Prescription Drug Marketing Act, anti-kickback laws, and other alleged violations in connection with the promotion of products for unapproved uses, pricing and Medicare and/or Medicaid reimbursement. Many of these investigations originate as "qui tam" actions under the False Claims Act. Under the False Claims Act, any individual can bring a claim on behalf of the government alleging that a person or entity has presented a false claim, or caused a false claim to be submitted, to the government for payment. The person bringing a qui tam suit is entitled to a share of any recovery or settlement. Qui tam suits, also commonly referred to as "whistleblower suits," are often brought by current or former employees. In a qui tam suit, the government must decide whether to intervene and prosecute the case. If it declines, the individual may pursue the case alone.

If the FDA or any other governmental agency initiates an enforcement action against us or if we are the subject of a qui tam suit and it is determined that we violated prohibitions relating to the promotion of products for unapproved uses, we could be subject to substantial civil or criminal fines or damage awards and other sanctions such as consent decrees and corporate integrity agreements pursuant to which our activities would be subject to ongoing scrutiny and monitoring to ensure compliance with applicable laws and regulations. Any such fines, awards or other sanctions would have an adverse effect on our revenue, business, financial prospects and reputation.

***We are currently only seeking regulatory approval to market Hydros-TA in the United States, and if we want to expand the geographies in which we may market Hydros-TA, we will need to obtain additional regulatory approvals. Our failure to obtain regulatory approvals in foreign jurisdictions for Hydros-TA would prevent us from marketing internationally.***

We currently plan to seek regulatory approval for Hydros-TA in the United States. In the future, we may attempt to seek regulatory approval to promote and commercialize Hydros-TA outside of the United States. In order to obtain such approvals, we may be required to conduct additional clinical trials or studies to support our applications, which would be time consuming and expensive, and may produce results that do not result in

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regulatory approvals. Further, we will have to expend substantial time and resources in order to establish the commercial infrastructure necessary to promote and commercialize Hydros-TA outside of the United States, or pursue a collaboration arrangement that would enable such promotion and commercialization. If we do not obtain regulatory approvals for Hydros-TA in foreign jurisdictions, our ability to expand our business outside the United States will be severely limited.

The approval procedures vary among countries and can involve additional clinical testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other foreign countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not be able to file for regulatory approvals or to do so on a timely basis, and even if we do file we may not receive necessary approvals to commercialize our products in any market.

***Healthcare legislative reforms in the United States may make it more difficult and costly for us to obtain regulatory clearance or approval of Hydros-TA and to produce, market and distribute Hydros-TA after clearance or approval is obtained.***

In the United States, there have been and continue to be a number of legislative initiatives that could significantly change the statutory provisions governing the regulatory clearance or approval, manufacture, and marketing of regulated products or the coverage and reimbursement thereof. In addition, FDA regulations and guidance are often revised or reinterpreted by the FDA in ways that may significantly affect our business and our products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of Hydros-TA. We cannot determine what effect changes in regulations, statutes, legal interpretation or policies, when and if promulgated, enacted or adopted may have on our business in the future. Such changes could, among other things, require:

- additional clinical trials to be conducted prior to obtaining approval;
- changes to manufacturing methods;
- recall, replacement, or discontinuance of one or more of our products; and
- additional record keeping.

Each of these would likely entail substantial time and cost and could materially harm our business and our financial results. In addition, delays in receipt of or failure to receive regulatory clearances or approvals for any future products would harm our business, financial condition and results of operations.

In addition, the full impact of recent healthcare reform and other changes in the healthcare industry and in healthcare spending is currently unknown, and may adversely affect our business model. In the United States, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the Affordable Care Act was enacted in 2010 with a goal of reducing the cost of healthcare and substantially changing the way healthcare is financed by both government and private insurers.

Further, third-party payors regularly update payments to physicians and hospitals where our product candidates will be used. Because viscosupplement injection is performed by the physician, usually in the office or outpatient clinic, payors generally reimburse the physician for both the IA injection and for the viscosupplement. As a result, these payment updates could directly impact the demand for our product candidates, if approved.

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It is likely that federal and state legislatures within the United States will continue to consider changes to existing healthcare legislation. We cannot predict the reform initiatives that may be adopted in the future or whether initiatives that have been adopted will be repealed or modified. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect the demand for any drug products for which we may obtain regulatory approval, our ability to set a price that we believe is fair for our products, our ability to obtain coverage and reimbursement approval for a product, our ability to generate revenues and achieve or maintain profitability, and the level of taxes that we are required to pay.

***We may be subject, directly or indirectly, to federal and state healthcare fraud and abuse laws, false claims laws, and health information privacy and security laws. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.***

If we obtain FDA approval for Hydros-TA or any future product candidates and begin commercializing those products in the United States, our operations may be directly, or indirectly through our customers, subject to various federal and state fraud and abuse laws, including, without limitation, the federal Anti-Kickback Statute, the federal False Claims Act, and physician sunshine laws and regulations. These laws may impact, among other things, our proposed sales, marketing, and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology and Clinical Health Act and its implementing regulations, which imposes certain requirements relating to the privacy, security, and transmission of individually identifiable health information;
- the federal physician sunshine requirements under the Affordable Care Act require manufacturers of drugs, devices, biologics, and medical supplies to report annually to the U.S. Department of Health and Human Services information related to payments and other transfers of value to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members and applicable group purchasing organizations; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers, state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources;

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state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our business activities could be subject to challenge under one or more of such laws. In addition, recent health care reform legislation has strengthened these laws. For example, the Affordable Care Act, among other things, amends the intent requirement of the federal Anti-Kickback and criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. Moreover, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion from participation in government health care programs, such as Medicare and Medicaid, imprisonment, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

### **Risks Related to Intellectual Property**

***We may become subject to claims alleging infringement of third parties' patents or proprietary rights and/or claims seeking to invalidate our patents, which would be costly, time consuming and, if successfully asserted against us, delay or prevent the development and commercialization of Hydros-TA or any future product candidates.***

Our commercial success depends in part on avoiding infringement and misappropriation of the patents and proprietary rights of third parties. There have been many lawsuits and other proceedings asserting infringement or misappropriation of patents and other intellectual property rights in the pharmaceutical and biotechnology industries, including patent infringement lawsuits, interferences, oppositions and reexamination proceedings before the U.S. Patent and Trademark Office, or USPTO, and corresponding foreign patent offices. As the pharmaceutical and biotechnology industries expand and more patents are issued in this area, the risk increases that Hydros-TA and any future product candidates may be subject to claims of infringement of the patent rights of third parties.

We cannot assure you that we will not be subject to claims alleging that the manufacture, use or sale of Hydros-TA or any future product candidates nor that any activities conducted by us, infringes existing or future third-party patents, or that such claims, if any, will not be successful. We cannot guarantee that we have identified each and every patent and pending application in the United States and abroad owned by others that is relevant or necessary to the commercialization of Hydros-TA. Because patent applications can take many years to issue and may be confidential for 18 months or more after filing, and because pending patent claims can be revised before issuance, there may be applications now pending which may later result in issued patents that may be infringed by the manufacture, use or sale of Hydros-TA or future product candidates or by the operation of our business. We may be unaware of one or more issued patents that would be infringed by the manufacture, sale or use of Hydros-TA or future product candidates. Moreover, we may face patent infringement claims from non-practicing entities that have no relevant product revenue and against whom our own patent portfolio may thus have no deterrent effect.

In addition, coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that Hydros-TA or future product

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candidates either do not infringe the patent claims of the relevant patent or that the patent claims are invalid and/or unenforceable, and we may not be able to do this. Proving that a patent is invalid or unenforceable 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. Also in proceedings before the courts in Europe, the burden of proving invalidity of the patent usually rests on the party alleging invalidity. 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 have a material adverse effect on us. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.

We may be subject to third-party patent infringement claims in the future against us or a collaboration partner that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages, including treble damages and attorney's fees if we are found to be willfully infringing a third-party's patents. We may be required to indemnify our collaboration partners against such claims. We are not aware of any threatened or pending claims related to these matters, but in the future litigation may be necessary to defend against such claims. If a patent infringement suit were brought against us or our collaboration partners, we or they could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit. As a result of patent infringement claims, or in order to avoid potential claims, we or our collaboration partners may choose to seek, or be required to seek, a license from the third-party and would most likely be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we or our collaboration partners were able to obtain a license, the rights may be nonexclusive, which would give our competitors access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or forced to redesign it, or to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we or our collaboration partners are unable to enter into licenses on acceptable terms. Even if we are successful in defending against such claims, such litigation can be expensive and time consuming to litigate and would divert management's attention from our core business. Any of these events could harm our business significantly.

In addition to infringement claims against us, if third parties prepare and file patent applications in the United States that also claim technology similar or identical to ours, we may have to participate in interference or derivation proceedings in the United States Patent and Trademark Office, or the USPTO, to determine which party is entitled to a patent on the disputed invention. We may also become involved in similar opposition proceedings in the European Patent Office or similar offices in other jurisdictions regarding our intellectual property rights with respect to our products and technology. Since patent applications are confidential for a period of time after filing, we cannot be certain that we were the first to file any patent application related to Hydros-TA or any future product candidates. An unfavorable outcome in any such proceedings could require us to cease using the related technology or to attempt to license rights to it from the prevailing party or could cause us to lose valuable intellectual property rights. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms, if any license is offered at all. Even if we are successful in these proceedings, these proceedings may result in substantial costs and distract our management and other employees.

***If our intellectual property related to Hydros-TA is not adequate or if we are not able to protect our trade secrets or our confidential information, we may not be able to compete effectively in our market.***

We rely upon a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to Hydros-TA, our drug discovery and development platform and our development programs. Any disclosure to or misappropriation by third parties of our confidential or proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market.



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The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The patent applications that we own or license may fail to result in issued patents in the United States or in foreign countries. Even if patents do successfully issue, third parties may challenge the validity, enforceability or scope thereof, which may result in such patents being narrowed, invalidated or held unenforceable. For example, U.S. patents can be challenged by any person before the new USPTO Patent Trial and Appeals Board at any time before one year after that person is served an infringement complaint based on the patents. Patents granted by the European Patent Office may be similarly opposed by any person within nine months from the publication of the grant. Similar proceedings are available in other jurisdictions, and in the United States, Europe and other jurisdictions third parties can raise questions of validity with a patent office even before a patent has granted. Furthermore, even if they are unchallenged, our patents and patent applications may not adequately protect our intellectual property or prevent others from designing around our claims. For example, a third-party may develop a competitive product that provides therapeutic benefits similar to Hydros-TA but has a sufficiently different composition to fall outside the scope of our patent protection. If the breadth or strength of protection provided by the patents and patent applications we hold or pursue with respect to Hydros-TA is successfully challenged, then our market for Hydros-TA could be negatively affected, and we may face unexpected competition that could have a material adverse impact on our business. Further, if we encounter delays in our clinical trials, the period of time during which we could market Hydros-TA under patent protection would be reduced.

Even where laws provide protection, costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and the outcome of such litigation would be uncertain. If we or a collaboration partner were to initiate legal proceedings against a third-party to enforce a patent covering Hydros-TA, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld relevant information from the USPTO, or made a misleading statement, during prosecution. The outcome following legal assertions of invalidity and unenforceability is unpredictable. With respect to validity, for example, we cannot be certain that there is no invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability against our intellectual property related to Hydros-TA, we would lose at least part, and perhaps all, of the patent protection on Hydros-TA. Such a loss of patent protection would have a material adverse impact on our business. Moreover, our competitors could counterclaim that we infringe their intellectual property, and some of our competitors have substantially greater intellectual property portfolios than we do.

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 this type of litigation. There could also be public announcements of the results of the hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock.

We also rely on trade secret protection and confidentiality agreements to protect proprietary know-how that may not be patentable, processes for which patents may be difficult to obtain and/or enforce and any other elements of our drug discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. Although we require all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology, to assign their inventions to us, and endeavor to execute confidentiality agreements with all such parties, we cannot be certain that we have executed such agreements with all parties who may have helped to develop our intellectual property or who had access to our proprietary information, nor can we be certain that our agreements will not be breached by such consultants, advisors or third parties, or by our former employees. The breach of such agreements by individuals or entities who

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are actively involved in the discovery and design of our potential drug candidates, could require us to pursue legal action to protect our trade secrets and confidential information, which would be expensive, and the outcome of which would be unpredictable. If we are not successful in prohibiting the continued breach of such agreements, our business could be negatively impacted. We cannot guarantee that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques.

Further, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. If we are unable to prevent material disclosure of the intellectual property related to our technologies to third parties, we will not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, results of operations and financial condition.

***An NDA submitted under Section 505(b)(2) subjects us to the risk that we may be subject to a patent infringement lawsuit that would delay or prevent the review or approval of Hydros-TA.***

We intend to rely on Section 505(b)(2) for our NDA submission of Hydros-TA. A 505(b)(2) application for Hydros-TA would enable us to reference published literature and/or the FDA's previous findings of safety and effectiveness for the branded reference drug. For NDAs submitted under Section 505(b)(2) of the FDCA, the patent certification and related provisions of the Hatch-Waxman Act apply. In accordance with the Hatch-Waxman Act, such NDAs may be required to include certifications, known as paragraph IV certifications, that certify that any patents listed in the FDA's publication, Approved Drug Products with Therapeutic Equivalence Evaluations, commonly known as the Orange Book, with respect to any product referenced in the 505(b)(2) application, are invalid, unenforceable or will not be infringed by the manufacture, use or sale of the product that is the subject of the 505(b)(2) NDA. If a 505(b)(2) applicant makes a paragraph IV certification, it must give notice of that certification to the owner of the patent and the holder of the approved NDA for the reference drug.

Under the Hatch-Waxman Act, the holder of patents that the 505(b)(2) application references may file a patent infringement lawsuit after receiving notice of the paragraph IV certification. Filing of a patent infringement lawsuit against the filer of the 505(b)(2) applicant within 45 days of the patent owner's receipt of notice triggers a one-time, automatic, 30-month stay of the FDA's ability to approve the 505(b)(2) NDA, unless patent litigation is resolved in the favor of the paragraph IV filer or the patent expires before that time. In addition, a 505(b)(2) application will not be approved until any non-patent exclusivity, such as exclusivity for obtaining approval of a new chemical entity, or NCE, listed in the Orange Book for the referenced product has expired. The FDA may also require us to perform one or more additional clinical studies or measurements to support the change from the branded reference drug, which could be time consuming and could substantially delay our achievement of regulatory approval for Hydros-TA. The FDA may also reject our 505(b)(2) submission and require us to file such submission under Section 505(b)(1) of the FDCA, which would require us to provide extensive data to establish safety and effectiveness of the drug for the proposed use and could cause delay and be considerably more expensive and time consuming. These factors, among others, may limit our ability to successfully commercialize Hydros-TA.

***Changes in U.S. patent law 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 involve both technological and legal complexity. Therefore, obtaining and enforcing biopharmaceutical patents is costly, time consuming and inherently uncertain. In addition, the United States has recently enacted and is currently

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implementing wide-ranging patent reform legislation, including the Leahy-Smith America Invents Act signed into law on September 16, 2011. That Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and new venues and opportunities for competitors to challenge patent portfolios. Because of that Act, the U.S. patent system is now a “first to file” system, which may make it more difficult to obtain patent protection for inventions and increase the uncertainties and costs surrounding the prosecution of our or a collaboration partners’ patent applications and the enforcement or defense of our or a collaboration partners’ issued patents, all of which could materially adversely affect our business, results of operations and financial condition.

The United States 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. 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 federal courts, and the USPTO, 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.

***Obtaining and maintaining our 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.***

The USPTO and various foreign patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions to maintain patent applications and issued patents. Noncompliance with these requirements can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case.

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

The laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property protection, especially those relating to life sciences. 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.

Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and attention from other aspects of our business. Furthermore, while we intend to protect our intellectual property rights in our expected significant markets, 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. In addition, changes in the law and legal decisions by courts in the United States and foreign countries may affect our ability to obtain and enforce adequate intellectual property protection for our technology.

***We may be subject to claims that we or our employees have misappropriated the intellectual property, including know-how or trade secrets, of a third-party, or claiming ownership of what we regard as our own intellectual property.***

Many of our employees, consultants and contractors were previously employed at or engaged by other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Some of these

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employees, consultants and contractors, executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees, consultants and contractors do not use the intellectual property and other proprietary information or know-how or trade secrets of others in their work for us, and do not perform work for us that is in conflict with their obligations to another employer or any other entity, we may be subject to claims that we or these employees, consultants and contractors have used or disclosed such intellectual property, including know-how, trade secrets or other proprietary information. In addition, an employee, advisor or consultant who performs work for us may have obligations to a third-party that are in conflict with their obligations to us, and as a result such third-party may claim an ownership interest in the intellectual property arising out of work performed for us. We are not aware of any threatened or pending claims related to these matters, but in the future 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 access to consultants and contractors. 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 management and scientific personnel.

### **Risks Related to Our Common Stock, This Offering and being a Public Company**

#### ***Our stock price may be volatile and you may not be able to resell shares of our common stock at or above the price you paid.***

The trading price of our common stock following this offering could be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this “Risk Factors” section of this prospectus and others such as:

- results from, or any delays in, clinical trial programs relating to Hydros-TA, including slower than anticipated enrollment;
- ability to commercialize or obtain regulatory approval for Hydros-TA, or delays in commercializing or obtaining regulatory approval;
- announcements of regulatory approval or a complete response letter to Hydros-TA, or specific label indications or patient populations for its use, or changes or delays in the regulatory review process;
- changes in reimbursement or third-party coverage of treatments for pain associated with OA, or changes to treatment recommendations or guidelines applicable to the treatment of OA or pain from OA;
- announcements relating to collaboration partnerships or other strategic transactions undertaken by us;
- announcements of therapeutic innovations or new products by us or our competitors;
- adverse actions taken by regulatory agencies with respect to our clinical trials, manufacturing supply chain or sales and marketing activities;
- changes or developments in laws or regulations applicable to Hydros-TA;

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- any adverse changes to our relationship with any manufacturers or suppliers;
- the success of our testing and clinical trials;
- the success of our efforts to acquire or license or discover additional product candidates;
- any intellectual property infringement actions in which we may become involved;
- announcements concerning our competitors or the pharmaceutical industry in general;
- achievement of expected product sales and profitability;
- manufacture, supply or distribution shortages;
- actual or anticipated fluctuations in our operating results;
- FDA or other U.S. regulatory actions affecting us or our industry or other healthcare reform measures in the United States;
- changes in financial estimates or recommendations by securities analysts;
- trading volume of our common stock;
- sales of our common stock by us, our executive officers and directors or our stockholders in the future;
- general economic and market conditions and overall fluctuations in the United States equity markets; and
- the loss of any of our key scientific or management personnel.

In addition, the stock markets in general, and the markets for pharmaceutical, biopharmaceutical and biotechnology stocks in particular, have experienced extreme volatility that may have been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business, which could seriously harm our financial position. Any adverse determination in litigation could also subject us to significant liabilities.

***We have broad discretion to determine how to use the funds raised in this offering, and may use them in ways that may not enhance our operating results or the price of our common stock.***

We currently intend to use substantially all of the net proceeds of this offering to fund our COR1.1 and COR1.2 trials, and the balance for working capital and other corporate purposes, which may include the pursuit of other research and discovery efforts, including the development of Hydros-TA for the treatment of OA pain in other joints in the body. However, within the scope of our plan, and in light of the various risks to our business that are set forth in this section, our management will have broad discretion over the use of proceeds from this offering, and we could spend the proceeds from this offering in ways our stockholders may not agree with or that do not yield a favorable return, if at all. If we do not invest or apply the proceeds of this offering in ways that improve our operating results, we may fail to achieve expected financial results, which could cause our stock price to decline.

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***An active, liquid and orderly market for our common stock may not develop, and you may not be able to resell your common stock at or above the public offering price.***

Prior to this offering, there has been no public market for shares of our common stock, and an active public market for our shares may not develop or be sustained after this offering. We and the representatives of the underwriters will determine the initial public offering price of our common stock through negotiation. This price will not necessarily reflect the price at which investors in the market will be willing to buy and sell our shares following this offering. In addition, an active trading market may not develop following the closing of this offering or, if it is developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other businesses or technologies or in-license new product candidates using our shares as consideration.

***If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no or few securities or industry analysts commence coverage of us, the trading price for our stock would be negatively impacted. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our clinical trials and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***We will incur significant costs as a result of operating as a public company, and our management will devote substantial time to new compliance initiatives. We may fail to comply with the rules that apply to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, which could result in sanctions or other penalties that would harm our business.***

We will incur significant legal, accounting and other expenses as a public company, including costs resulting from public company reporting obligations under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and regulations regarding corporate governance practices. The listing requirements of The NASDAQ Global Market require that we satisfy certain corporate governance requirements relating to director independence, distributing annual and interim reports, stockholder meetings, approvals and voting, soliciting proxies, conflicts of interest and a code of conduct. Our management and other personnel will need to devote a substantial amount of time to ensure that we comply with all of these requirements, and we will likely need to hire additional accounting and financial staff with appropriate public company reporting experience and technical accounting knowledge. Moreover, the reporting requirements, rules and regulations will increase our legal and financial compliance costs and will make some activities more time consuming and costly. Any changes we make to comply with these obligations may not be sufficient to allow us to satisfy our obligations as a public company on a timely basis, or at all. These reporting requirements, rules and regulations, coupled with the increase in potential litigation exposure associated with being a public company, could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or board committees or to serve as executive officers, or to obtain certain types of insurance, including directors' and officers' insurance, on acceptable terms.

After this offering, we will be subject to Section 404 of The Sarbanes-Oxley Act of 2002, or Section 404, and the related rules of the Securities and Exchange Commission, or SEC, which generally require our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial

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reporting. Beginning with the second annual report that we will be required to file with the SEC, Section 404 requires an annual management assessment of the effectiveness of our internal control over financial reporting. However, for so long as we remain an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404. See below, “We are eligible to be treated as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors” for a further discussion of the impacts of our decision to take advantage of the exceptions available to emerging growth companies.

To date, we have never conducted a review of our internal control for the purpose of providing the reports required by these rules. During the course of our review and testing, we may identify deficiencies and be unable to remediate them before we must provide the required reports. Furthermore, if we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We or our independent registered public accounting firm may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting, which could harm our operating results, cause investors to lose confidence in our reported financial information and cause the trading price of our stock to fall. In addition, as a public company we will be required to file accurate and timely quarterly and annual reports with the SEC under the Exchange Act. Any failure to report our financial results on an accurate and timely basis could result in sanctions, lawsuits, delisting of our shares from The NASDAQ Global Market or other adverse consequences that would materially harm our business.

***If we fail to maintain proper internal controls, our ability to produce accurate financial statements or comply with applicable regulations could be impaired.***

Pursuant to Section 404 of the Sarbanes-Oxley Act, our management is required annually to deliver a report that assesses the effectiveness of our internal control over financial reporting and, subject to exemptions allowed as an “emerging growth company,” our independent registered public accounting firm is required annually to deliver an attestation report on the effectiveness of our internal control over financial reporting. If we are unable to maintain effective internal control over financial reporting or if our independent registered public accounting firm is unwilling or unable to provide us with an attestation report on the effectiveness of internal control over financial reporting for future periods as required by Section 404 of the Sarbanes-Oxley Act, we may not be able to produce accurate financial statements, and investors may therefore lose confidence in our operating results, our stock price could decline and we may be subject to litigation or regulatory enforcement actions.

***We are eligible to be treated as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an “emerging growth company”, as defined in the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. These exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;

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- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board providing for supplemental auditor’s reports for additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We have taken advantage of reduced reporting burdens in this prospectus. In particular, in this prospectus, we have provided only two years of audited financial statements and have not included all of the executive compensation related information that would be required if we were not an emerging growth company. We cannot predict whether investors will find our common stock less attractive by relying on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds \$700.0 million as of any June 30 before that time or if we have total annual gross revenue of \$1.0 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31 or, if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time, we would cease to be an emerging growth company immediately. Even after we no longer qualify as an emerging growth company, we may still qualify as a “smaller reporting company” if the market value of our common stock held by non-affiliates is below \$75.0 million as of June 30 in any given year, which would allow us to take advantage of many of the same exemptions from disclosure requirements, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements.

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

The initial public offering price of our common stock is substantially higher than the pro forma net tangible book value per share of our common stock before giving effect to this offering. Accordingly, if you purchase our common stock in this offering, you will incur immediate substantial dilution of approximately \$ per share, based on the expected initial public offering price of \$ per share (the midpoint of the price range set forth on the cover page of this prospectus), and our pro forma net tangible book value as of June 30, 2014. In addition, following this offering, purchasers in this offering will have contributed approximately % of the total gross consideration paid by stockholders to us to purchase shares of our common stock, but will own only approximately % of the shares of common stock outstanding immediately after this offering. Furthermore, if the underwriters exercise their option to purchase additional shares, or outstanding options or convertible securities are exercised, you could experience further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section titled “Dilution.”



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### ***Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights, including rights to Hydros-TA, our technologies or future product candidates, on unfavorable terms to us.***

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 and license and development agreements through strategic partnerships with third parties. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through strategic partnerships with third parties, we may have to relinquish valuable rights to Hydros-TA, our technologies, future revenue streams, research programs or future product candidates or grant licenses on terms that are not favorable to us. If we are unable to raise additional capital when needed, we would be required to delay, limit, reduce or terminate our product development or commercialization efforts for Hydros-TA, or grant rights to develop and market future product candidates that we would otherwise prefer to develop and market ourselves.

### ***Sales of a substantial number of shares of our common stock in the public market could cause our stock price to fall.***

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lock-up and other legal restrictions on resale discussed in this prospectus lapse, the trading price of our common stock could decline. Based upon the number of shares outstanding as of June 30, 2014, upon the closing of this offering, we will have outstanding a total of \_\_\_\_\_ shares of common stock, assuming no exercise of the underwriters' option to purchase additional shares. Of these shares, approximately \_\_\_\_\_ shares of our common stock, plus any shares sold upon exercise of the underwriters' option to purchase additional shares, will be freely tradable, without restriction, in the public market immediately following this offering. Leerink Partners LLC, however, may, in their sole discretion, permit our officers, directors and other stockholders who are subject to these lock-up agreements to sell shares prior to the expiration of the lock-up agreements.

The lock-up agreements pertaining to this offering will expire 180 days from the date of this prospectus. After the lock-up agreements expire, as of June 30, 2014, up to an additional \_\_\_\_\_ shares of common stock will be eligible for sale in the public market, \_\_\_\_\_ of which shares are held by current directors, executive officers and other affiliates and may be subject to Rule 144 under the Securities Act of 1933, or the Securities Act. The underwriters may, however, in their sole discretion, permit our officers, directors and other stockholders and the holders of our outstanding options who are subject to the lock-up agreements to sell shares prior to the expiration of the lock-up agreements. Sales of these shares, or perceptions that they will be sold, could cause the trading price of our common stock to decline.

In addition, as of June 30, 2014, 3,953,242 shares of common stock that are subject to outstanding options with a weighted average exercise price of \$0.1676 per share will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, the lock-up agreements and Rule 144 and Rule 701 under the Securities Act. If these additional shares of common stock 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.

After this offering, the holders of approximately 33,074,166 shares of our outstanding common stock as of June 30, 2014 will be entitled to rights with respect to the registration of their shares under the Securities Act, subject to vesting schedules and to the lock-up agreements described above. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

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### ***Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

As of September 1, 2014, our executive officers, directors, holders of 5% or more of our capital stock and their respective affiliates beneficially owned approximately 93.2% of our outstanding voting stock and, upon the closing of this offering, that same group will hold approximately % of our outstanding voting stock (assuming no exercise of the underwriters' option to purchase additional shares and no exercise of outstanding options). Therefore, even after this offering these stockholders will have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

### ***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.***

Our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect immediately prior to the closing of this offering will contain provisions that could significantly reduce the value of our shares to a potential acquirer or delay or prevent changes in control or changes in our management without the consent of our board of directors. The provisions in our charter documents will include the following:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the required approval of at least 66 <sup>2</sup>/<sub>3</sub>% of the shares entitled to vote to remove a director for cause, and the prohibition on removal of directors without cause;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquiror;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of at least 66 <sup>2</sup>/<sub>3</sub>% of the shares entitled to vote at an election of directors to adopt, amend or repeal certain provisions of our bylaws and our amended and restated certificate of incorporation regarding the election and removal of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the chief executive officer, the president or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and

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- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, these provisions would apply even if we were to receive an offer that some stockholders may consider beneficial.

We are also subject to the anti-takeover provisions contained in Section 203 of the Delaware General Corporation Law. Under Section 203, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other exceptions, the board of directors has approved the transaction. For a description of our capital stock, see "Description of Capital Stock."

***Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.***

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, our amended and restated bylaws to be effective immediately prior to the completion of this offering and our indemnification agreements that we have entered into with our directors and officers provide that:

- We will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- We may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.
- We are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- We will not be obligated pursuant to our amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification.
- The rights conferred in our amended and restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons.
- We may not retroactively amend our amended and restated bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

***Our ability to use our net operating losses to offset future taxable income, if any, may be subject to certain limitations.***

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” (generally defined as a greater than 50-percentage-point cumulative change (by value) in the equity ownership of certain stockholders over a rolling three-year period) is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. We experienced an ownership change in December 2005 that limited our use of approximately \$0.3 million of the approximately \$33.5 million of NOLs available to us for federal income tax purposes as of December 31, 2013. If we undergo additional ownership changes in connection with or after this offering (some of which changes may be outside our control), our ability to utilize our NOLs could be further limited by Section 382 of the Code. Our NOLs may also be impaired under state law. Accordingly, we may not be able to utilize a material portion of our NOLs. Furthermore, our ability to utilize our NOLs is conditioned upon our attaining profitability and generating U.S. federal taxable income. We have incurred net losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future; thus, we do not know whether or when we will generate the U.S. federal taxable income necessary to utilize our NOLs. See the risk factors described above under “—Risks Related to Our Limited Operating History, Financial Condition and Capital Requirements.”

***We do not currently intend to pay dividends on our common stock, and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

We do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future. In addition, pursuant to our loan and security agreement with SVB, we are prohibited from paying cash dividends without the prior consent of SVB. Since we do not intend to pay dividends, your ability to receive a return on your investment will depend on any future appreciation in the market value of our common stock. There is no guarantee that our common stock will appreciate or even maintain the price at which our holders have purchased it.

### Special Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the success, cost and timing of our product development activities and clinical trials and projections as to the timing of clinical studies and regulatory submissions;
- our ability to obtain and maintain regulatory approval of Hydros-TA, and any related restrictions, limitations, and/or warnings in the label of an approved product candidate;
- our ability to obtain funding for our operations beyond this offering, including funding necessary to complete clinical development and file an IND and NDA for Hydros-TA;
- our plans to develop and successfully commercialize Hydros-TA and other product candidates;
- the size and growth potential of the markets for Hydros-TA, and our ability to serve those markets;
- our ability to develop sales and marketing capabilities, whether alone or with potential future collaborators;
- the rate and degree of market acceptance of Hydros-TA;
- regulatory developments in the United States and foreign countries;
- the potential, and our ability, to successfully expand the potential indications for Hydros-TA beyond treatment of pain in the knee caused by OA;
- the performance of our third-party suppliers and manufacturers;
- the success of competing therapies that are or become available;
- the loss of key scientific or management personnel;
- our expectations regarding the period during which we qualify as an emerging growth company under the JOBS Act;
- our use of the proceeds from this offering and the sufficiency of our capital resources;
- the accuracy of our estimates regarding expenses, future revenue, capital requirements and needs for additional financing; and
- our expectations regarding our ability to obtain and adequately maintain sufficient intellectual property protection for our current or future product candidates.

In some cases, you can identify these statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expects,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” or the negative of those terms, and similar expressions. These forward-looking statements reflect our management’s

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beliefs and views with respect to future events and are based on estimates and assumptions as of the date of this prospectus and are subject to risks and uncertainties. We discuss many of these risks in greater detail under the heading “Risk Factors.” Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this prospectus by these cautionary statements. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this prospectus. See “Where You Can Find Additional Information.”

These forward-looking statements speak only as of the date of this prospectus. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

### Use of Proceeds

We estimate that the net proceeds from the sale of the shares of our common stock in this offering will be approximately \$ , or \$ if the underwriters fully exercise their option to purchase additional shares, based upon an assumed initial public offering price of \$ per share, which represents the midpoint of the estimated price range set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase or decrease in the assumed initial public offering price of \$ per share would increase or decrease the net proceeds to us from this offering by \$ , assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares of our common stock in this offering. An increase or decrease of 1,000,000 in the number of shares we are offering would increase or decrease the net proceeds to us from this offering, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, by approximately \$ million, assuming the assumed initial public offering price stays the same.

We currently estimate that we will use the net proceeds that we will receive from this offering as follows:

- approximately \$ million to fund our ongoing COR1.1 and our future COR1.2 Phase 3 clinical trials of Hydros-TA in support of an NDA filing with the FDA;
- the remainder for working capital and other corporate purposes, which may include the pursuit of other research and discovery efforts, including the development of Hydros-TA for the treatment of OA pain in other joints in the body.

We may also use a portion of the net proceeds from this offering to repay our secured debt facility with Silicon Valley Bank, under which we owe approximately \$4.4 million in principal and interest as of June 30, 2014. For additional information related to our outstanding loan, including the interest rate and maturity, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Indebtedness.” We may also use a portion of the net proceeds to in-license, acquire or invest in complementary businesses, technologies, products or assets. However we have no current plan, commitments or obligations to do so.

This expected use of net proceeds from this offering represents our intentions based upon our current plans and business conditions, which could change in the future as our plans and business conditions evolve. The amounts and timing of our actual expenditures may vary significantly depending on numerous factors, including the progress of our development, the status of and results from nonclinical testing or clinical trials, as well as any collaborations that we may enter into with third parties for our product candidates, and any unforeseen cash needs. As a result, our management will retain broad discretion over the allocation of the net proceeds from this offering.

We believe that the net proceeds from this offering and our existing cash and cash equivalents will allow us to fund our operating plan through at least the next 12 months.

Pending the use of the proceeds from this offering, we intend to invest the net proceeds in interest-bearing, investment-grade securities, certificates of deposit or government securities.

### Dividend Policy

We have never declared or paid any cash dividends on our common stock. We intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. In addition, pursuant to our loan and security agreement with Silicon Valley Bank, we are prohibited from paying cash dividends without the prior consent of Silicon Valley Bank. Any future determination related to our dividend policy will be made at the discretion of our board of directors.

## Capitalization

The following table sets forth our cash and cash equivalents, and our total capitalization as of June 30, 2014:

- on an actual basis;
- on a pro forma basis, giving effect to (i) the automatic conversion of all our outstanding shares of convertible preferred stock pursuant to a stockholder vote into an aggregate of 33,074,166 shares of our common stock and (ii) the conversion of all warrants exercisable for preferred stock into warrants exercisable for 424,082 shares of our common stock and the related reclassification of the preferred stock warrant liability to additional paid-in-capital, in each case, immediately prior to the closing of this offering; and
- on a pro forma as adjusted basis, giving further effect to the sale by us of \_\_\_\_\_ shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the mid-point of the price range set forth on the cover page of this prospectus), and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The pro forma and pro forma as adjusted information below is illustrative only, and our capitalization following the closing of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with our financial statements and the related notes appearing at the end of this prospectus, the sections entitled “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other financial information appearing elsewhere in this prospectus.

	As of June 30, 2014		Pro Forma As Adjusted
	Actual	Pro Forma	
	(in thousands, except share and per share amounts)		
Cash and cash equivalents	\$ 7,176		
Loans payable	\$ 4,107		
Preferred stock warrant liability	394		
Convertible preferred stock, \$0.001 par value; 34,371,305 shares authorized, 33,074,166 shares issued and outstanding, actual; no shares authorized, issued or outstanding, pro forma and pro forma as adjusted	39,556		
<b>Stockholders’ equity (deficit):</b>			
Preferred stock, \$0.001 par value; no shares authorized, issued or outstanding, actual; _____ shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted	—	\$ —	
Common stock, \$0.001 par value; 45,000,000 shares authorized, 2,651,747 shares issued and outstanding, actual; 45,000,000 shares authorized, _____ shares issued and outstanding, pro forma; _____ shares authorized, _____ shares issued and outstanding, pro forma as adjusted	3	36	
Additional paid-in-capital	1,018	40,935	
Accumulated deficit	(39,066)	(39,066)	
Total stockholders’ (deficit) equity	(38,045)	\$ 1,905	
<b>Total capitalization</b>	<b><u>\$(38,045)</u></b>		



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Each \$1.00 increase (decrease) in the assumed initial public offering price of \$        per share (the midpoint of the price range set forth on the cover page of this prospectus) would increase (decrease) the pro forma as adjusted amounts of cash and cash equivalents, additional paid-in-capital, total stockholders' equity and total capitalization by \$        million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares of our common stock in this offering. An increase or decrease of 1,000,000 in the number of shares we are offering would increase or decrease the pro forma as adjusted amounts of cash and cash equivalents, additional paid-in- capital, total stockholders' equity and total capitalization by \$        million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

The number of common shares shown as issued and outstanding on a pro forma as adjusted basis in the table is based on the number of shares of our common stock outstanding as of June 30, 2014 and excludes:

- 3,953,242 shares of common stock issuable upon the exercise of outstanding stock options as of June 30, 2014, at a weighted average exercise price of \$0.1676 per share;
- 424,082 shares of common stock issuable upon the exercise of outstanding warrants as of June 30, 2014 at a weighted-average exercise price of \$1.2026 per share; and
- shares of common stock reserved for future issuance under our 2014 Equity Plan, (including 2,143,082 shares of common stock reserved for issuance under our previously existing 2014 Plan, which shares will be added to the shares reserved under the 2014 Equity Plan upon its effectiveness), which will become effective immediately prior to the closing of this offering, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2014 Equity Plan.

## Dilution

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

Our historical net tangible book value (deficit) as of June 30, 2014 was \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. Our historical net tangible book value (deficit) is the amount of our total tangible assets less our liabilities and convertible preferred stock, which is not included within stockholders' equity (deficit). Historical net tangible book value (deficit) per share is our historical net tangible book value (deficit) divided by the number of shares of common stock outstanding as of June 30, 2014.

Our pro forma net tangible book value as of June 30, 2014 was \$ \_\_\_\_\_ million, or \$ \_\_\_\_\_ per share of common stock. Pro forma net tangible book value represents total tangible assets less total liabilities. Pro forma net tangible book value per share represents pro forma net tangible book value divided by the total number of shares outstanding as of June 30, 2014, after giving effect to the automatic conversion of all outstanding shares of our convertible preferred stock pursuant to a stockholder vote into an aggregate of 33,074,166 shares of common stock immediately prior to the closing of this offering.

Pro forma as adjusted net tangible book value is our pro forma net tangible book value, plus the effect of the sale of \_\_\_\_\_ shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the midpoint of the price range set forth on the cover page of this prospectus), and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. This amount represents an immediate increase in pro forma as adjusted net tangible book value of \$ \_\_\_\_\_ per share to our existing stockholders and an immediate dilution of \$ \_\_\_\_\_ per share to new investors participating in this offering. We determine dilution per share to new investors by subtracting pro forma as adjusted net tangible book value per share after this offering from the assumed initial public offering price per share paid by new investors. The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share	\$
Historical net tangible book value (deficit) per share as of June 30, 2014	\$
Pro forma increase per share	_____
Pro forma net tangible book value per share as of June 30, 2014	_____
Increase in pro forma as adjusted net tangible book value per share attributable to new investors participating in this offering	_____
Pro forma as adjusted net tangible book value per share after this offering	_____
Dilution per share to new investors participating in this offering	\$ _____

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share (the midpoint of the price range set forth on the cover page of this prospectus) would increase (decrease) the pro forma as adjusted net tangible book value per share after this offering by \$ \_\_\_\_\_ per share and the dilution per share to new investors participating in this offering by \$ \_\_\_\_\_ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We may also increase or decrease the number of shares we are offering. An increase (decrease) of 1,000,000 in the number of shares we are offering would increase (decrease) our pro forma as adjusted net tangible book value as of June 30, 2014 after this offering by approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share, and would decrease (increase) dilution to investors in this offering by approximately \$ \_\_\_\_\_ per share, assuming the assumed initial public offering price per share remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. The pro forma as adjusted information is illustrative only, and we will adjust this information based on the actual initial public offering price and other terms of this offering determined at pricing.

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If the underwriters fully exercise their option to purchase additional \_\_\_\_\_ shares of our common stock in this offering, the pro forma as adjusted net tangible book value will increase to \$ \_\_\_\_\_ per share, representing an immediate increase to existing stockholders of \$ \_\_\_\_\_ per share and an immediate dilution of \$ \_\_\_\_\_ per share to new investors participating in this offering.

The following table summarizes, as of June 30, 2014, on a pro forma as adjusted basis described above, the differences between the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by existing stockholders and by new investors participating in this offering. The calculation below is based on an assumed initial public offering price of \$ \_\_\_\_\_ per share (the midpoint of the price range set forth on the cover page of this prospectus), before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	35,725,913	%	\$	%	\$
New investors					
Total		%	\$	%	

The foregoing discussion is based on 35,725,913 shares of common stock outstanding as of June 30, 2014 and excludes:

- 3,953,242 shares of common stock issuable upon the exercise of outstanding stock options as of June 30, 2014, at a weighted average exercise price of \$0.1676 per share;
- 424,082 shares of common stock issuable upon the exercise of outstanding warrants as of June 30, 2014 at a weighted-average exercise price of \$1.2026 per share; and
- \_\_\_\_\_ shares of common stock reserved for future issuance under our 2014 Equity Plan (including 2,143,082 shares of common stock reserved for issuance under our previously existing 2014 Plan, which shares will be added to the shares reserved under the 2014 Equity Plan upon its effectiveness), which will become effective immediately prior to the closing of this offering, as well as any automatic increases in the number of shares of our common stock reserved for future issuance under the 2014 Equity Plan.

**Selected Financial Data**

The selected statement of operations data for the years ended December 31, 2012 and 2013 and the selected balance sheet data as of December 31, 2012 and 2013 are derived from our audited financial statements appearing elsewhere in this prospectus. The selected statement of operations data for the six months ended June 30, 2013 and 2014 and the selected balance sheet data as of June 30, 2014 are derived from our unaudited financial statements appearing elsewhere in this prospectus. The unaudited financial statements have been prepared on a basis consistent with our audited financial statements included in this prospectus and include, in our opinion, all adjustments, consisting only of normal recurring adjustments, that management considers necessary for a fair statement of the financial information in those statements.

The following selected financial data should be read together with our financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this prospectus. The selected financial data in this section are not intended to replace our financial statements and the related notes. Our historical results are not necessarily indicative of the results that may be expected in the future and results of interim periods are not necessarily indicative of the results for the entire year.

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
	(in thousands, except share and per share amounts)			
<b>Statement of Operations Data:</b>				
License revenue	\$ 1,538	\$ 415	\$ 11	\$ 11
Operating expenses:				
Research and development	1,959	4,229	1,786	3,175
General and administrative	1,412	1,402	624	1,128
Total operating expenses	3,371	5,631	2,410	4,303
Loss from operations	(1,833)	(5,216)	(2,399)	(4,292)
Other income (expense), net				
Interest income	1	2	1	1
Interest expense	(256)	(405)	(289)	(163)
Other income (expense), net	35	(59)	4	(196)
Total other income (expense)	(220)	(462)	(284)	(358)
Net loss	\$ (2,053)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Net loss attributable to common stockholders	\$ (2,164)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Net loss per share attributable to common stockholders, basic and diluted <sup>(1)</sup>	\$ (1.28)	\$ (3.36)	\$ (1.59)	\$ (2.16)
Weighted average common shares outstanding, basic and diluted <sup>(1)</sup>	1,684,649	1,692,279	1,684,649	2,157,261
Pro forma net loss per share attributable to common stockholders, basic and diluted (unaudited) <sup>(2)</sup>		\$ (0.17)		\$ (0.13)
Pro forma weighted average common shares outstanding, basic and diluted (unaudited) <sup>(2)</sup>		32,659,252		35,231,427

(1) See Note 2 to our financial statements appearing elsewhere in this prospectus for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

(2) The calculations for the unaudited pro forma net loss per share attributable to common stockholders, basic and diluted, assume the automatic conversion of all of our outstanding shares of convertible preferred stock pursuant to a stockholder vote into shares of our common stock, as if the conversion had occurred at January 1, 2013, or as of the issuance date of the convertible preferred stock, if later, and the conversion of all of our warrants exercisable for convertible preferred stock into warrants exercisable for shares of our common stock. See Note 2 to our financial statements appearing elsewhere in this prospectus.

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	<u>Year Ended December 31,</u>		<u>As of June</u>
	<u>2012</u>	<u>2013</u>	<u>30,</u>
	<u>2014</u>		
	<u>(in thousands)</u>		
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 8,242	\$ 9,781	\$ 7,176
Working capital	5,257	5,960	1,740
Total assets	8,529	10,105	7,635
Loans payable	2,685	3,063	4,107
Preferred stock warrant liability	79	184	394
Convertible preferred stock	33,546	39,556	39,556
Accumulated deficit	(28,738)	(34,416)	(39,066)
Total stockholders' deficit	(28,285)	(33,708)	(38,045)

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with "Selected Financial Data" and our financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis and other parts of this prospectus contain forward-looking statements based upon current beliefs, plans and expectations that involve risks, uncertainties and assumptions, such as statements regarding our plans, objectives, expectations, intentions and projections. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of several factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. You should carefully read the "Risk Factors" section of this prospectus to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see the section entitled "Special Note Regarding Forward-Looking Statements."*

### Overview

We are a clinical-stage specialty pharmaceutical company focused on the development and commercialization of novel and proprietary combination therapies that address significant unmet medical needs. Our initial focus is on the development of Hydros-TA, our proprietary, potentially best-in-class intra-articular, or IA, injectable product candidate to treat pain associated with osteoarthritis, or OA, of the knee. Hydros-TA is a combination IA product designed to provide both rapid and sustained pain relief. We believe the low dose steroid component of Hydros-TA will provide rapid pain relief as well as sustained pain relief up to six months, from our proprietary hyaluronic acid component. Hydros-TA is currently being studied in a Phase 3 trial, which we refer to as COR1.1. We expect to initiate our second Phase 3 trial, which we refer to as COR1.2, in the first quarter of 2015 and to open an investigational new drug application, or IND, and begin enrolling U.S. patients in the second quarter of 2015. We anticipate reporting top-line results from COR1.1 and COR1.2 by the end of 2015 and mid-2016, respectively, and submitting our NDA for Hydros-TA in late 2016.

Since our inception, we have devoted substantially all our efforts and financial resources to identifying and developing product candidates utilizing our proprietary hyaluronic acid technology and to the clinical development of Hydros-TA. We have not generated any revenue from product sales and, as a result, we have incurred significant losses. Through June 30, 2014, we have funded substantially all of our operations through the sale and issuance of our convertible preferred stock and through various credit facilities.

In November 2012, we entered into a technology license agreement with Shanghai Jingfeng Pharmaceutical Co., Ltd., or Jingfeng, pursuant to which we granted to Jingfeng an exclusive license to develop, manufacture and commercialize Hydros-TA in China, Taiwan, Hong Kong and Macau. In consideration for the exclusive license, we received a non-refundable up-front payment of \$2.0 million (\$1.7 million net of Chinese withholding tax). Additionally, we are eligible to receive future milestone payments of up to \$1.5 million and up to approximately \$5.0 million (each excluding Chinese withholding tax), based on achieving certain regulatory and commercialization milestones, respectively.

Other than our arrangement with Jingfeng, we own global development and commercialization rights to Hydros-TA. Upon FDA approval, we expect to commercialize Hydros-TA for OA pain in the knee in the United States with an approximately 50 to 100 person specialty sales force targeting orthopedic surgeons, rheumatologists and pain specialists.

We do not have manufacturing facilities and all of our manufacturing activities are contracted out to third parties. Additionally, we currently utilize third-party clinical research organizations, or CROs, to carry out our clinical trials and we do not yet have a sales organization. We expect to significantly increase our investment in costs relating to our clinical and commercial manufacturing process and inventory of Hydros-TA as we progress through our Phase 3 clinical trials and prepare for a possible commercial launch of Hydros-TA.

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We will need substantial additional funding to support our operating activities, as we increase our clinical activities and approach commercial launch in the United States. Adequate funding may not be available to us on acceptable terms, or at all. In its report accompanying our audited financial statements for the year ended December 31, 2013, our independent registered public accounting firm included an explanatory paragraph stating that our recurring losses from operations and our need for additional sources of capital to fund our ongoing operations raise substantial doubt as to our ability to continue as a going concern. A report with this type of explanatory paragraph could impair our ability to finance our operations through the sale of debt or equity securities or to obtain commercial bank financing. Our ability to continue as a going concern will depend, in large part, on our ability to obtain necessary financing, which is uncertain. Our failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on our business, results of operations and financial condition.

We have never been profitable and, as of June 30, 2014, we had an accumulated deficit of \$39.1 million. We incurred net losses of approximately \$2.1 million and \$5.7 million in the years ended December 31, 2012 and 2013, respectively, and \$4.7 million for the six months ended June 30, 2014. We expect to continue to incur net operating losses as we advance Hydros-TA through clinical development, seek regulatory approval and prepare for and, if approved, proceed to commercialization.

### **Financial Overview**

#### ***Revenue***

We do not have any products approved for sale, and we have not generated any revenue from product sales since our inception and do not expect to generate any revenue from the sale of products in the near future. We may generate revenue from product sales, license fees, milestone payments and royalties from the sale of products developed using our intellectual property in the future. Our ability to generate revenue and become profitable depends on our ability to successfully commercialize Hydros-TA and any other product candidates that we may advance. If we fail to complete the development of, or obtain regulatory approval for, Hydros-TA or any future product candidates we may advance, our ability to generate future revenue and our results of operations and financial position will be adversely affected.

Our revenue to date has been generated from license revenue pursuant to our agreement with Jingfeng. Revenue under our license arrangement is recognized based on the performance requirements of the contract. Determinations of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's judgments regarding the fixed nature of the fees charged for deliverables and the collectability of those fees. Should changes in conditions cause management to determine that these criteria are not met for any new or modified transactions, revenue that we are able to recognize could be adversely affected. We have identified all of the deliverables at the inception of the Jingfeng agreement, including an exclusive royalty bearing license to certain of our patents relating to Hydros-TA, know-how and reasonable professional services, clinical or nonclinical data and information, collectively referred to as services, to be provided by us to assist Jingfeng in manufacturing, developing and commercializing the licensed product over the performance period, which is currently estimated to be January 2019. We have determined that the Jingfeng license and the services thereunder, represent two separate units of accounting, as the license has standalone value apart from the services because the development, manufacturing and commercialization rights conveyed would allow Jingfeng to perform all efforts necessary to bring the product to commercialization and begin selling the product upon regulatory approval.

We determined the best estimate of selling price, or BESP, for the license unit of accounting using a discounted cash flow analysis. This measurement is based on the value indicated by current estimates of future payments to be received under the agreement and reflects management determined estimates and assumptions. These estimates and assumptions include but are not limited to estimated sales prices, estimated market opportunity, expected market share, the likelihood that clinical trials will be successful, the likelihood that regulatory approval

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will be received, the likelihood that the products will be commercialized, the determination of the markets served and the discount rate. We reduced the future payment to be received by the estimated amount of the professional services costs plus an estimated margin, which was based on industry benchmarking of similar companies. These estimates and assumptions formed the basis of an expected net future cash flow that was discounted based on an estimated weighted average cost of capital. The BESP for the services unit of accounting was determined using a similar methodology. This measurement is based on the estimated cost of the professional services plus an estimated margin based on industry benchmarking of similar companies.

The considerations of the Jingfeng agreement have been allocated to the units of accounting based on the relative selling price method. Of the \$1.7 million up-front payment received (net of Chinese withholding tax), \$1.5 million was allocated to the license and \$0.1 million to the services. We recognized license revenue upon execution of the agreement as the associated unit of accounting had been delivered pursuant to the terms of the agreement. The \$0.1 million allocated to services will be recognized as revenue on a straight-line basis over the performance period, which is currently estimated to be January 2019.

In November 2013, we received a \$0.4 million regulatory milestone payment (net of Chinese withholding tax), and all but \$35,000 was allocated to the license. We recognized license revenue upon execution of the agreement as the associated unit of accounting had been delivered pursuant to the terms of the agreement. The \$35,000 allocated to services will be recognized as revenue on a straight-line basis over the performance period, which is currently estimated to be January 2019.

We expect that any revenue we generate will fluctuate from year to year as a result of the timing and amount of milestone payments from our license agreement with Jingfeng and any future collaboration partner.

### ***Operating Expenses***

Most of our operating expenses to date have been related to the research and development activities of Hydros-TA.

*Research and Development Expenses.* Since our inception, we have focused our resources on our research and development activities, including nonclinical and pre-clinical studies, clinical trials and chemistry manufacturing and controls. Our development expenses consist primarily of:

- expenses incurred under agreements with consultants, CROs and investigative sites that conduct our pre-clinical studies and clinical trials;
- costs of acquiring, developing and manufacturing clinical trial materials;
- personnel costs, including salaries, benefits, stock-based compensation and travel expenses for employees engaged in scientific research and development functions;
- costs related to compliance with regulatory requirements; and
- allocated expenses for rent and maintenance of facilities, insurance and other general overhead.

Research and development costs are expensed as incurred. Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or information provided to us by our third-party vendors.



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We do not currently utilize a formal time allocation system to capture expenses on a project-by-project basis, as the majority of our past and planned expenses have been and will be in support of Hydros-TA. We expect to increase our research and development expenses for the foreseeable future as we initiate further clinical trials.

The following table summarizes our research and development expenses by functional area:

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
	(in thousands)			
Clinical development	\$ 61	\$ 893	\$ 147	\$ 1,215
Regulatory	37	213	62	173
Pre-clinical R&D	650	614	310	407
Personnel related	1,042	1,185	570	950
Manufacturing	169	1,324	697	430
Total research and development expenses	\$ 1,959	\$ 4,229	\$ 1,786	\$ 3,175

It is difficult to determine with any certainty the duration and completion costs of our currently planned or future clinical trials of Hydros-TA and any future product candidates we may advance, or if, when or to what extent we will generate revenue from the commercialization and sale of Hydros-TA or future product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including the uncertainties of future clinical trials and pre-clinical studies, uncertainties in clinical trial enrollment rate and significant and changing government regulation. In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing capability and commercial viability.

*General and administrative expenses.* General and administrative expenses consist of personnel costs, travel expenses and other expenses for outside professional services, including legal, human resources, audit and accounting services. Personnel costs consist of salaries, bonus, benefits and stock-based compensation. We expect to incur additional expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission, Nasdaq listing standards, additional insurance expenses, investor relations activities and other administration and professional services. General and administrative expenses are expensed as incurred.

For the years ended December 31, 2012 and 2013, our general and administrative expenses totaled approximately \$1.4 million and \$1.4 million, respectively. For the six months ended June 30, 2013 and 2014, our general and administrative expenses totaled approximately \$0.6 million and \$1.1 million, respectively. We anticipate that our general and administrative expenses will increase in the future as we continue to build our corporate infrastructure to support the continued development of Hydros-TA.

### ***Other Income (Expense), Net***

*Interest income.* Interest income consists of interest earned on our cash and cash equivalents balances. The primary objective of our investment policy is capital preservation. We anticipate that our interest income will increase in the future due to our receipt of the anticipated net proceeds from this offering.

*Interest expense.* Interest expense consists of interest expense on amounts outstanding under our debt facility with Silicon Valley Bank, or SVB, as well as non-cash interest expense related to the amortization of debt discounts and final interest payments. We expect to incur future interest expense related to this borrowing until September 2016. See “— Liquidity and Capital Resources” for a more detailed description of our credit facility.

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*Other income (expense), net.* Other income (expense), net primarily consists of changes in the estimated fair value of the convertible preferred stock warrants.

### **Income Taxes**

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

As of December 31, 2013, we had net operating loss, or NOL, carryforwards for federal income tax purposes of approximately \$33.2 million that expire beginning in 2024 if not utilized, and federal research and development tax credit carryforwards of approximately \$0.5 million that expire beginning in 2024 if not utilized. In addition, we had NOL carryforwards for state income tax purposes of approximately \$32.9 million that expire beginning in 2026 if not utilized, and state research and development tax credit carryforwards of approximately \$0.5 million, which do not expire.

Utilization of the NOL and tax credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the NOL and tax credit carryforwards before their utilization. In general, if we experience a greater than 50 percentage point aggregate change (by value) in the equity ownership of certain stockholders over a rolling three-year period (a Section 382 ownership change), utilization of our pre-change NOL carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code (California has similar laws). Such limitations may result in expiration of a portion of the NOL carryforwards before utilization. We have determined that an ownership change occurred in December 2005, which resulted in a permanent loss of \$287,000 of the federal net operating losses carryforwards. Our ability to use our remaining NOL carryforwards may be further limited if we experience a Section 382 ownership change in connection with this offering or as a result of future changes in our stock ownership.

[Table of Contents](#)**Results of Operations****Comparison of the Six Months Ended June 30, 2013 and 2014**

The following table summarizes our results of operations for the six months ended June 30, 2013 and 2014:

	Six Months Ended June 30,		Change
	2013	2014	
	(in thousands)		
License revenue	\$ 11	\$ 11	\$ —
Operating expenses:			
Research and development	1,786	3,175	1,389
General and administrative	624	1,128	504
Total operating expenses	2,410	4,303	1,893
Loss from operations	(2,399)	(4,292)	(1,893)
Other income (expense), net:			
Interest income	1	1	—
Interest expense	(289)	(163)	126
Other income (expense), net	4	(196)	(200)
Total other income (expense)	(284)	(358)	(74)
Net loss	<u>\$(2,683)</u>	<u>\$(4,650)</u>	<u>\$(1,967)</u>
Net loss attributable to common stockholders	<u>\$(2,683)</u>	<u>\$(4,650)</u>	<u>\$(1,967)</u>

*License revenue*

Revenues for the six months ended June 30, 2013 and 2014 were \$11,000 in each period and were related to the amortization of deferred revenue associated with the Jingfeng agreement.

*Research and development expenses*

Research and development expenses were \$1.8 million and \$3.2 million for the six months ended June 30, 2013 and 2014, respectively. The increase in research and development expenses period over period of \$1.4 million, or 78%, was primarily due to the following:

- an increase in clinical development expenses of \$1.1 million as we began enrolling patients in our first Phase 3 clinical trial, COR1.1, beginning in January 2014;
- an increase in regulatory expenses of \$0.1 million primarily related to the increased use of consultants and other outside services driven by an increase in IND enabling activities; and
- an increase in personnel related expenses of \$0.4 million as we began to build out our in-house regulatory and clinical development team.

*General and administrative expenses*

General and administrative expenses were \$0.6 million and \$1.1 million for the six months ended June 30, 2013 and 2014, respectively. The increase in general and administrative expenses period over period of

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\$0.5 million, or 81%, was primarily due to an increase of \$98,000 in salary and related costs due to an increase in bonus accrual as compared to the prior period, an increase of \$63,000 in legal fees related to corporate legal activity and patents for our intellectual property and an increase of \$0.2 million in professional fees primarily related to our financial statement audit.

### *Interest expense*

Interest expense is attributable to our debt facility with SVB and non-cash amortization of debt discounts and final interest payments. Interest expense was \$0.3 million and \$0.2 million for the six months ended June 30, 2013 and 2014, respectively. The decrease in interest expense of \$0.1 million was primarily due to the \$0.2 million in the acceleration of the final interest payment amortization associated with the February 2013 amendment to the SVB debt facility.

### *Other income (expense), net*

Other income (expense), net was \$4,000 and \$(0.2) million for the six months ended June 30, 2013 and 2014, respectively. The increase in expense of \$0.2 million was based primarily on an increase in the fair value of the warrant liability of \$0.2 million.

### **Comparison of the Years Ended December 31, 2012 and 2013**

The following table summarizes our results of operations for the years ended December 31, 2012 and 2013:

	Year Ended December 31,		Change
	2012	2013	
	(in thousands)		
License revenue	\$ 1,538	\$ 415	\$(1,123)
Operating expenses:			
Research and development	1,959	4,229	2,270
General and administrative	1,412	1,402	(10)
Total operating expenses	3,371	5,631	2,260
Loss from operations	(1,833)	(5,216)	(3,383)
Other income (expense), net:			
Interest income	1	2	1
Interest expense	(256)	(405)	(149)
Other income (expense), net	35	(59)	(94)
Total other income (expense)	\$ (220)	\$ (462)	\$ (242)
Net loss	\$(2,053)	\$(5,678)	\$(3,625)
Net loss attributable to common stockholders	\$(2,164)	\$(5,678)	\$(3,514)

### *License revenue*

Revenues for the years ended December 31, 2012 and 2013 were \$1.5 million and \$0.4 million, respectively. The decrease of \$1.1 million, or 73%, was primarily due to the recognition of \$1.5 million in up-front licensing fees received from Jingfeng upon signing of the agreement in November 2012, compared to the \$0.4 million technology transfer license fee we received from Jingfeng in November 2013.

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### *Research and development expenses*

Research and development expenses were \$2.0 million and \$4.2 million for the years ended December 31, 2012 and 2013, respectively. The increase in research and development expenses period over period of \$2.2 million, or 116%, was primarily due to the following:

- an increase in clinical development expenses of \$0.8 million as we began to incur increased costs related to the increased use of CROs and increase site initiation costs in anticipation of beginning COR1.1 in January 2014;
- an increase in regulatory expenses of \$0.2 million primarily related to the increased use of consultants and other outside services driven by an increase in IND enabling activities;
- an increase in manufacturing related research and development expenses of \$1.2 million driven by our increased use of contract manufacturers related to the production of our clinical trial materials for COR1.1; and
- an increase in personnel related expenses of \$0.1 million as we began to build out our in-house regulatory and clinical development team.

### *General and administrative expenses*

General and administrative expenses were \$1.4 million for the year ended December 31, 2012, which was comparable to general and administrative expenses of \$1.4 million for the year ended December 31, 2013.

### *Interest expense*

Interest expense is primarily attributable to our debt facility with SVB and non-cash amortization of debt discounts and final interest payments. Interest expense for the years ended December 31, 2012 and 2013 was \$0.3 million and \$0.4 million, respectively. The increase in interest expense of \$0.1 million was primarily driven by the \$0.2 million in the acceleration of the final interest payment amortization associated with the February 2013 amendment to the SVB debt facility.

### *Other income (expense), net*

Other income (expense), net was \$35,000 and (\$59,000) for the years ended December 31, 2012 and 2013, respectively. The increase in expense of \$94,000 was based primarily on an increase in the fair value of the warrant liability of \$63,000.

## **Liquidity and Capital Resources**

To date, we have not generated any revenue and have incurred losses since our inception in 2004. As of June 30, 2014, we had an accumulated deficit of \$39.1 million. We anticipate that we will continue to incur losses for the foreseeable future. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may seek to obtain through one or more equity offerings, debt financings, government or other third-party funding and licensing or collaboration arrangements.

Since our inception through June 30, 2014, we have funded our operations principally through the receipt of funds from private placements of our equity and borrowings under our loan and security agreement with SVB. As of June 30, 2014, we had cash and cash equivalents of \$7.2 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to capital preservation.

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In order to continue operations, we must raise additional equity or debt financings and achieve profitable operations. Although we have been successful in raising capital in the past, there can be no assurance that we will be able to obtain additional equity or debt financing on acceptable terms, or at all. The failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect our business, results of operations, future cash flows and financial condition. Since our inception, we have generated significant losses and expect to continue to generate losses for the foreseeable future. Our independent registered public accounting firm has expressed in its auditors' report on our consolidated financial statements included as part of this prospectus a "going concern" opinion, meaning that we have suffered recurring losses from operations and negative cash flows from operations that raise substantial doubt regarding our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. We believe that our available cash, together with the proceeds from this offering will be sufficient to satisfy our liquidity requirements for at least the next 12 months. We have utilized, and may continue to utilize, debt arrangements with debt providers and financial institutions to finance our operations. Factors such as interest rates and available cash will impact our decision to continue to utilize debt arrangements as a source of cash.

### *Indebtedness*

In October 2011, we entered into a loan and security agreement with SVB that provided for us to borrow \$3.0 million. Upon the drawdown of the \$3.0 million, we issued a warrant to purchase 86,957 shares of Series B convertible preferred stock. Interest only payments were required through July 2012, and the principal amount of the loan was repayable in 36 equal monthly installments plus accrued interest beginning August 2012. The interest rate on the loan was 5.15% per annum. In addition, the loan and security agreement allowed us to borrow another \$2.0 million, contingent on certain conditions.

In July 2012, the loan and security agreement was amended to extend the commitment period for the additional \$2.0 million through November 2012. We did not draw on the second term loan for \$2.0 million. We amended the original warrant agreement and issued a warrant to purchase 57,971 shares of series B convertible preferred stock. In connection with a change in liquidation preference due to the Series B convertible preferred stock financing, the agreement was amended in December 2012 and a warrant to purchase 21,378 shares of Series B convertible preferred stock was issued to SVB. In February 2013, the loan and security agreement was amended to provide for a new loan of \$3.0 million and repayment of the outstanding principal of the original loan entered into October 2011, with the remaining proceeds provided to us. We also amended the original warrant agreement and issued a warrant to purchase 33,263 shares of Series B convertible preferred stock, as well as issuing a separate warrant to purchase 99,784 shares of Series B convertible preferred stock. The interest rate is 3.25% per annum and the loan is repayable in 30 equal monthly installments, following a ten-month interest only period. Additionally, the amendment provided the terms for a second loan for \$1.3 million that would be available through November 2013, contingent on certain conditions.

In December 2013, the loan and security agreement was again amended to extend the commitment date for the second loan of \$1.3 million to January 31, 2014, to extend the interest only period for four additional months and reduce the number of payments to 29 equal monthly installments if the new loan is drawn. In January 2014, we drew the second loan of \$1.3 million and issued a warrant to purchase 41,576 shares of Series B convertible preferred stock. The interest rate is 3.59% per annum and the loan is repayable in 29 equal monthly installments, following a four-month interest only period. As of May 2014, the interest only period had expired and we began paying principal and interest payments of \$0.2 million per month.

The loan and security agreement is collateralized by our personal property but excludes our intellectual property. The agreement also contains customary representations and warranties, covenants, closing and advancing conditions, events of defaults and termination provisions. The negative covenants preclude, among other things, disposing of certain assets, engaging in any merger or acquisition, incurring additional indebtedness, encumbering any collateral or making prohibited investments, in each case, without the prior consent of the SVB.

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The loan and security agreement provides that an event of default will occur if, among other events, we default in the payment of any amount payable under the agreement when due. As of December 31, 2013 and June 30, 2014, we were in compliance with all the covenants in the loan and security agreement.

### **Cash Flows**

The following table shows a summary of our cash flows for each of the years ended December 31, 2012 and 2013 and the six months ended June 30, 2013 and 2014:

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
	(in thousands)			
Cash flows used in operating activities	\$(1,835)	\$(4,858)	\$(2,517)	\$(3,692)
Cash used in investing activities	(91)	(18)	(12)	(76)
Cash flows provided by financing activities	5,564	6,415	6,398	1,163
Net increase (decrease) in cash and cash equivalents	3,638	1,539	3,869	(2,605)

*Operating Activities.* Operating activities used \$1.8 million of cash in 2012. The cash flow used in operating activities resulted primarily from our net loss of \$2.1 million for the year, offset by net non-cash charges of \$0.2 million. Our non-cash charges consisted primarily of \$0.1 million related to non-cash interest expense and \$47,000 related to stock based compensation.

Operating activities used \$4.9 million of cash in 2013. The cash flow used in operating activities resulted primarily from our net loss of \$5.7 million for the year, offset by net non-cash charges of \$0.4 million and net cash provided by changes in our operating assets and liabilities of \$0.5 million. Our non-cash charges consisted primarily of \$63,000 related to the change in fair value of preferred stock warrant liability, \$0.2 million related to stock-based compensation expense and \$32,000 related to non-cash interest expense. Net cash provided by changes in our operating assets and liabilities consisted primarily of a \$0.3 million increase in our accounts payable and \$0.2 million increase in accruals.

Operating activities used \$2.5 million of cash in the six months ended June 30, 2013. The cash flow used in operating activities resulted primarily from our net loss of \$2.7 million for the period, offset by net non-cash charges of \$84,000. Our non-cash charges consisted primarily of \$0.1 million related to stock-based compensation expense and \$35,000 related to non-cash interest expense. Changes in operating assets and liabilities used \$0.1 million in cash, consisting primarily of a decrease in accounts payable of \$80,000.

Operating activities used \$3.7 million of cash in the six months ended June 30, 2014. The cash flow used in operating activities resulted primarily from our net loss of \$4.7 million for the period, offset by net non-cash charges of \$0.4 million and net cash provided by changes in our operating assets and liabilities of \$0.5 million. Our non-cash charges consisted primarily of \$0.2 million related to an increase in the fair value of the preferred stock warrant liability, \$0.1 million related to stock-based compensation expense and \$93,000 related to non-cash interest expense. Net cash provided by changes in our operating assets and liabilities consisted primarily of a \$0.3 million increase in our accounts payable and a \$0.3 million increase in accruals.

*Investing activities.* Net cash used in investing activities was \$91,000 and \$18,000 in the years ended December 31, 2012 and 2013, respectively. Net cash used in investing activities consisted primarily of cash paid to purchase property and equipment.

Net cash used in investing activities was \$12,000 and \$76,000 in the six months ended June 30, 2013 and June 30, 2014, respectively. Net cash used in investing activities consisted primarily of cash paid to purchase property and equipment.

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*Financing activities.* Net cash provided by financing activities was \$5.6 million and \$6.4 million in the years ended December 31, 2012 and 2013, respectively. Net cash provided by financing activities in the year ended December 31, 2012 primarily consisted of \$6.0 million from the sale of Series B preferred stock, net of issuance costs, offset by \$0.4 million used in the repayment of a loan. Net cash provided by financing activities in the year ended December 31, 2013 primarily consisted of \$6.0 million received from the sale of Series B preferred stock, net of issuance costs, net proceeds of \$0.5 million from a \$3.0 million loan payable and \$2.5 million loan payoff, which was offset by \$0.2 million related to repayment of a loan.

Net cash provided by financing activities was \$6.4 million and \$1.2 million in the six months ended June 30, 2013 and 2014, respectively. Net cash provided by financing activities in the six months ended June 30, 2013 consisted primarily of \$6.0 million from the sale of Series B preferred stock, net of issuance costs, in addition to receipt of net proceeds of \$0.5 million from a \$3.0 million loan payable and \$2.5 million loan payoff, partially offset by \$0.2 million related to the repayment of a loan. Net cash provided by financing activities in the six months ended June 30, 2014 consisted of \$1.3 million in proceeds from borrowings under our term loan and \$0.2 million from the issuance of common stock related to option exercise, partially offset by the repayment of \$0.3 million in existing borrowings.

### ***Future Funding Requirements***

To date, we have not generated any revenue from product sales, and we do not know when, or if, we will generate any revenue from product sales. We do not expect to generate any revenue from product sales unless and until we obtain regulatory approval of and commercialize Hydros-TA or any future product candidates that we may advance. At the same time, we expect our expenses to increase in connection with our ongoing development activities, particularly as we continue the development and clinical trials of, and seek regulatory approval for, Hydros-TA. Upon the closing of this offering, we expect to incur additional costs associated with operating as a public company. In addition, subject to obtaining regulatory approval of any product candidate, we expect to incur significant commercialization expenses for product sales, marketing and manufacturing. We anticipate that we will need substantial additional funding in connection with our continuing operations.

Based upon our current operating plan, we believe that the net proceeds from this offering, together with our existing cash and cash equivalents, will enable us to fund our operating expenses and capital requirements for at least the next 12 months. We have based our estimates on assumptions that may prove to be wrong, and we may use our available capital resources sooner than we currently expect. Because of the numerous risks and uncertainties associated with the development and commercialization of our product candidates, we are unable to estimate the amounts of increased capital outlays and operating expenditures necessary to complete the development and commercialization of our product candidates.

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

- the progress, rate of enrollment, timing, scope, results and costs of our nonclinical and clinical trials for Hydros-TA, including the ability to enroll patients in a timely manner for clinical trials;
- the time and cost necessary to obtain regulatory approvals for Hydros-TA and the costs of post-marketing studies that could be required by regulatory authorities;
- our ability to successfully commercialize Hydros-TA;
- the manufacturing, selling and marketing costs associated with Hydros-TA, including the cost and timing of building our sales and marketing capabilities;
- our ability to establish and maintain collaboration partnerships, in-license/out-license or other similar arrangements and the financial terms of such agreements;



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- the scope of our research and clinical development activities to expand the use of Hydros-TA for treating OA in other joints;
- the sales price and the availability of adequate third-party reimbursement for Hydros-TA;
- the cash requirements of any future acquisitions or discovery of future product candidates;
- the number and scope of nonclinical, pre-clinical and discovery programs that we decide to pursue or initiate;
- the time and cost necessary to respond to technological and market developments; and
- the costs of filing, prosecuting, maintaining, defending and enforcing any patent claims and other intellectual property rights, including litigation costs and the outcome of such litigation, including costs of defending any claims of infringement brought by others in connection with the development, manufacture or commercialization of Hydros-TA or any other future product candidates.

Until such time, if ever, as we can generate substantial revenue from product sales, we expect to finance our cash needs through a combination of equity offerings, debt financings, government or other third-party funding and licensing or collaboration arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interests of our common stockholders will be diluted, and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our common stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through government or other third-party funding, marketing and distribution arrangements or other 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.

### Contractual Obligations and Commitments

The following table summarizes our contractual obligations at June 30, 2014:

	Payments Due By Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
			(in thousands)		
Loans payable (including interest) <sup>(1)</sup>	\$ 4,616	\$ 1,834	\$ 2,782	—	—
Operating lease obligations <sup>(2)</sup>	726	433	293	—	—
Total <sup>(3)</sup>	<u>\$ 5,342</u>	<u>\$ 2,267</u>	<u>\$ 3,075</u>	<u>—</u>	<u>—</u>

(1) Represents the contractually required principal and interest payments on our credit facility in accordance with the required payment schedule. Amounts associated with future interest payments to be made were calculated using a weighted average interest rate of 10.2% per annum.

(2) Represents the contractually required payments under our operating lease obligations in existence as of June 30, 2014 in accordance with the required payment schedule. No assumptions were made with respect to renewing the lease terms at the expiration date of their initial terms.

(3) This table does not include a liability for unrecognized tax benefits related to various federal and state income tax matters of \$454,000 at June 30, 2014. The timing of the settlement of these amounts was not reasonably estimable at June 30, 2014. We do not expect payment of amounts related to the unrecognized tax benefits within the next twelve months.

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The following table summarizes our contractual obligations at December 31, 2013:

	Payments Due By Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
			(in thousands)		
Loans payable (including interest) <sup>(1)</sup>	\$3,494	\$ 994	\$2,500	—	—
Operating lease obligations <sup>(2)</sup>	939	428	511	—	—
Total <sup>(3)</sup>	<u>\$4,433</u>	<u>\$ 1,422</u>	<u>\$3,011</u>	<u>—</u>	<u>—</u>

(1) Represents the contractually required principal and interest payments on our credit facility in accordance with the required payment schedule. Amounts associated with future interest payments to be made were calculated using the fixed interest rate of 10.2% per annum.

(2) Represents the contractually required payments under our operating lease obligations in existence as of December 31, 2013 in accordance with the required payment schedule. No assumptions were made with respect to renewing the lease terms at the expiration date of their initial terms.

(3) This table does not include a liability for unrecognized tax benefits related to various federal and state income tax matters of \$454,000 at December 31, 2013. The timing of the settlement of these amounts was not reasonably estimable at December 31, 2013. We do not expect payment of amounts related to the unrecognized tax benefits within the next twelve months.

The tables above reflect only payment obligations that are fixed or determinable. We enter into contracts in the normal course of business with CROs for clinical trials and clinical supply manufacturing and with vendors for pre-clinical research studies, research supplies and other services and products for operating purposes. These contracts generally provide for termination on notice, and therefore we believe that our non-cancellable obligations under these agreements are not material.

### Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our financial statements and the reported revenue and expenses during the reported periods. We evaluate these estimates and judgments, including those described below, on an ongoing basis. We base our estimates on historical experience, known trends and events, contractual milestones and 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.

While our significant accounting policies are more fully described in Note 2 to our financial statements appearing elsewhere in this prospectus, we believe that the estimates and assumptions involved in the following accounting policies may have the greatest potential impact on our financial statements and, therefore, consider these to be critical for fully understanding and evaluating our financial condition and results of operations.

#### Revenue Recognition

Revenue under our license arrangement is recognized based on the performance requirements of the contract. Determinations of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on our judgment regarding the fixed nature of the fees charged for deliverables and the collectability of those fees. Should changes in conditions cause us to determine that these criteria are not met for any new or modified transactions, revenue recognized could be adversely affected.

We recognize revenue related to our license arrangement in accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 605-25, *Revenue*

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*Recognition — Multiple-Element Arrangements*, or ASC Topic 605-25 which provides guidance on how deliverables in an arrangement should be separated and how the arrangement consideration should be allocated to the separate units of accounting:

- requiring an entity to determine the selling price of a separate deliverable using a hierarchy of (i) vendor-specific objective evidence, or VSOE, (ii) third-party evidence, or TPE, or (iii) BEBP; and
- requiring the allocation of the arrangement consideration, at the inception of the arrangement, to the separate units of accounting based on relative fair value.

We evaluate all deliverables within an arrangement to determine whether or not they provide value on a stand-alone basis. Based on this evaluation, the deliverables are separated into units of accounting. The arrangement consideration that is fixed or determinable at the inception of the arrangement is allocated to the separate units of accounting based on their relative selling prices. We may exercise significant judgment in determining whether a deliverable is a separate unit of accounting, as well as in estimating the selling prices of such unit of accounting.

To determine the selling price of a separate deliverable, we use the hierarchy as prescribed in ASC Topic 605-25 based on VSOE, TPE or BEBP. VSOE is based on the price charged when the element is sold separately and is the price actually charged for that deliverable. TPE is determined based on third-party evidence for a similar deliverable when sold separately and BEBP is the price at which we would transact a sale if the elements of collaboration and license arrangements were sold on a stand-alone basis. We may not be able to establish VSOE or TPE for the deliverables within collaboration and license arrangements as we do not have a history of entering into such arrangements or selling the individual deliverables within such arrangements separately. In addition, there may be significant differentiation in these arrangements, which indicates that comparable third-party pricing may not be available. We may determine that the selling price for the deliverables within collaboration and license arrangements should be determined using BEBP. The process for determining BEBP involves significant judgment on our part and includes consideration of multiple factors such as estimated direct expenses and other costs and available data.

For each unit of accounting identified within an arrangement, we determine the period over which the performance obligation occurs. We allocate the arrangement consideration to the separate units of accounting based on the relative selling prices. Revenue is recognized immediately if the performance obligation has been met. We recognize the revenue that is deferred using the straight-line method over the expected delivery period of the unit of accounting.

### ***Research and Development Costs***

As part of the process of preparing our financial statements, we are required to estimate our accrued and prepaid research and development expenses. We review new and open contracts and communicate with applicable internal and vendor personnel to identify services that have been performed on our behalf and estimate the level of service performed and the associated costs incurred for the service when we have not yet been invoiced or otherwise notified of the actual cost for accrued expenses. In addition, we review and expense contractual liability for which the costs are not recoverable in the event of cancellation. The majority of our service providers invoice us monthly in arrears for services performed; however, some require advanced payments. For any services that require such advanced payments, we perform a review with applicable internal and vendor personnel to estimate the level of services that have been performed and the associated costs that have been incurred at each reporting period.

We base our accrued expenses related to clinical trials on estimates of patient enrollment and related expenses at clinical investigator sites, as well as estimates for services received and efforts expended pursuant to contracts with multiple research institutions and contract research organizations that conduct and manage clinical trials on our behalf. We make estimates of our accrued expenses as of each balance sheet date in our financial

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statements based on facts and circumstances known to us. If timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, we modify our estimates of accrued expenses accordingly on a prospective basis.

If we do not identify costs that we have begun to incur, or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates. To date, we have not adjusted our estimates at any particular balance sheet date in any material amount.

### **Stock-Based Compensation**

We maintain performance incentive plans under which incentive stock options and non-qualified stock options may be granted to employees and non-employees. We account for stock-based compensation arrangements with employees in accordance with ASC 718, *Compensation—Stock Compensation*. ASC 718 requires the recognition of compensation expense, using a fair value-based method, for costs related to all share-based payments including stock options. In determining the fair value of the stock-based awards, we use the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

*Expected term.* The expected term represents the period that the our stock-based awards are expected to be outstanding. We used the average of the expected term as disclosed for comparable publicly traded biopharmaceutical companies as we do not have sufficient experience to estimate the expected term based on historical exercises. The expected term of stock options granted to non-employees is equal to the contractual term of the option award.

*Expected volatility.* Since we are a privately held company and do not have any trading history for our common stock, the expected volatility was estimated based on the average volatility for comparable publicly traded biopharmaceutical companies over a period equal to the expected term of the stock option grants. When selecting comparable publicly traded biopharmaceutical companies on which we have based our expected stock price volatility, we selected companies with comparable characteristics, including enterprise value, risk profiles, position within the industry, and with historical share price information sufficient to meet the expected life of the stock-based awards. The historical volatility data was computed using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards. We will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

*Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.

*Expected dividend.* We have never paid dividends on our common stock and have no plans to pay dividends on our common stock. Therefore, we used an expected dividend yield of zero.

The fair value of stock option awards to employees was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
Expected term (in years)	*	5.39	5.39	*
Expected volatility	*	80.7%	80.7%	*
Risk-free interest rate	*	0.87 to 1.47%	0.87 to 1.1%	*
Dividend yield	*	0%	0%	*

\* We did not grant any stock options in the year ended December 31, 2012 or during the six months ended June 30, 2014.

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For all periods prior to this initial public offering, the fair values of the shares of common stock underlying our share-based awards were estimated on each grant date by our board of directors. In order to determine the fair value of our common stock underlying option grants, our board of directors considered, among other things, contemporaneous valuations of our common stock prepared by an unrelated third-party valuation firm in accordance with the guidance provided by the American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. Given the absence of a public trading market for our common stock, our board of directors exercised reasonable judgment and considered a number of objective and subjective factors to determine the best estimate of the fair value of our common stock, including our stage of development, progress of our research and development efforts, the rights, preferences and privileges of our preferred stock relative to those of our common stock, equity market conditions affecting comparable public companies and the lack of marketability of our common stock.

We considered the following approaches in the preparation of our valuations:

- *Market Approach*. The market approach values a business by reference to guideline companies, for which enterprise values are known.
- *Option-Pricing Method Backsolve, or OPM backsolve*. The OPM backsolve method derives the implied equity value for a company from a recent transaction involving the company's own securities issued on an arm's-length basis.
- *Probability Weighted Approach*. Using the probability weighted approach, the value of a company's common stock is estimated based upon the analysis of future values for the company assuming various possible future liquidity events like an initial public offering, or IPO, or remaining private. Share value is based upon the probability-weighted present value of expected future net cash flows, considering each of the possible future events, as well as the rights and preferences of each share class.

In addition, we also considered an enterprise value allocation method:

- *Option-Pricing Method, or OPM*. Under this method, each class of stock is modeled as a call option with a distinct claim on the enterprise value of the company. The option's exercise prices would be based on a comparison with the enterprise value. The method assumes that a formula, such as the Black-Scholes model, would calculate the fair value when provided with certain values, including share price, expiration date, volatility and the risk free interest rate.

Stock-based compensation expense was \$47,000, \$0.2 million, \$0.1 million and \$0.1 million for the years ended December 31, 2012 and 2013 and the six months ended June 30, 2013 and 2014, respectively.

For valuations after the completion of this offering, our board of directors will determine the fair value of each share of underlying common stock based on the closing price of our common stock as reported on the date of grant.

The intrinsic value of all outstanding options as of June 30, 2014 was \$ \_\_\_\_\_ million, based on the estimated fair value of our common stock of \$ \_\_\_\_\_ per share, the midpoint of the price range set forth on the cover page of this prospectus.

### ***Estimated Fair Value of Convertible Preferred Stock Warrants***

Freestanding warrants for shares that are contingently redeemable are classified as a liability on the balance sheet at their estimated fair value. At the end of each reporting period, the change in estimated fair value during the period is recorded in other income (expense), net in the statement of operations and comprehensive loss. We estimated the fair values of these warrants using the market approach based on the proximity of the valuation

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date to the closing of an additional Series B financing in December 2012. For each period subsequent to December 2012, we estimated the fair value of the warrant liability by applying a probability of two exit scenarios, going public or remaining private. In all instances, we utilized an OPM to allocate the value of the company to the warrants. We will continue to adjust the carrying value of the warrants until such time as these instruments are exercised, expire or convert into warrants to purchase shares of our common stock. At that time, the liabilities will be reclassified to additional paid-in-capital, a component of stockholders' equity (deficit). The closing of this initial public offering will result in this reclassification.

### ***JOBS Act Accounting Election***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

### ***Recent Issued and Adopted Accounting Pronouncements***

In June 2014, the FASB issued ASU No. 2014-12, *Compensation – Stock Compensation or Topic 718: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After a Requisite Service Period ASU 2014-12*. Companies commonly issue share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. The performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 will be effective for our fiscal years beginning fiscal 2016 and interim reporting periods within that year, using either the retrospective or prospective transition method. Early adoption is permitted. We are currently evaluating the effect of the adoption of this guidance on the financial statements.

In June 2014, the FASB issued ASU No. 2014-10, *Development Stage Entities Topic 915: Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation, or ASU 2014-10*. ASU 2014-10 removes all incremental financial reporting requirements regarding development-stage entities, including the removal of Topic 915 from the FASB Accounting Standards Codification. In addition, ASU 2014-10 adds an example disclosure in Risks and Uncertainties (Topic 275) to illustrate one way that an entity that has not begun planned operations could provide information about risks and uncertainties related to the company's current activities. ASU 2014-10 also removes an exception provided to development-stage entities in Consolidations (Topic 810) for determining whether an entity is a variable interest entity. Effective with the first quarter of our fiscal year ended March 31, 2015, the presentation and disclosure requirements of Topic 915 will no longer be required. The revisions to Consolidation (Topic 810) are effective the first quarter of our fiscal year ended March 31, 2017. Early adoption is permitted. We have elected to early adopt this guidance as it relates to all incremental financial reporting requirements regarding development-stage entities.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, (“ASU 2014-09”) *Revenue from Contracts with Customers* (topic 606), or ASU 2014-09, requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 requires entities to disclose both qualitative and quantitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including disclosure of significant judgments affecting the recognition of revenue. ASU 2014-09 will be effective for our

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fiscal years beginning fiscal year 2018 and interim reporting periods within that year, using either the retrospective or cumulative effect transition method. Early adoption is not permitted. We are currently evaluating the effect of the adoption of this guidance on the financial statements.

**Quantitative and Qualitative Disclosure about Market Risk**

Our primary exposure to market risk is interest income 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 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

We do not believe that our cash and cash equivalents have significant risk of default or illiquidity. While we believe our cash and cash equivalents and certificates of deposit do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at a financial institution that are in excess of federally insured limits.

## Business

### Overview

We are a clinical-stage specialty pharmaceutical company focused on the development and commercialization of novel and proprietary combination therapies that address significant unmet medical needs. Our initial focus is on the development of Hydros-TA, our proprietary, potentially best-in-class intra-articular, or IA, injectable product candidate to treat pain associated with osteoarthritis, or OA, of the knee. Current intra-articular treatments for OA pain include corticosteroids, commonly known as steroids, which provide short-term relief, and viscosupplements, which provide pain relief over the longer-term. In contrast, Hydros-TA utilizes our proprietary cross-linking technology to deliver both rapid pain relief with a low dose steroid triamcinolone acetonide, or TA, and sustained pain relief with our proprietary hyaluronic acid viscosupplement. In our Phase 2b study, though not powered for statistical significance, Hydros-TA demonstrated better pain reduction at all time points measured than Synvisc-One, the U.S. market-leading viscosupplement. We are currently studying Hydros-TA in an international Phase 3 trial enrolling up to 510 patients, and we expect to open an investigational new drug application, or IND, and enroll U.S. patients in our second Phase 3 trial in the second quarter of 2015.

OA is a joint disorder involving the degradation of the IA cartilage, joint lining, ligaments and, ultimately, underlying bone. OA results in inflammation of the soft tissue and bony structures of the joint, which worsens over time and leads to progressive thinning of articular cartilage. Symptoms of this disease include pain, stiffness, swelling and limitation in the function of the joint. There is no known way to reverse the progression of OA and while there are a number of therapeutic options to treat the pain associated with OA, even with treatment, the disease typically continues to progress and patients may eventually require joint replacement surgery, often referred to as total knee arthroplasty, or TKA. Relative to therapeutic options to treat the pain, TKA is very expensive, with a cost of approximately \$33,000 to \$40,000 for an initial surgery and \$74,000 for a revision surgery, thereby resulting in a meaningful burden on the healthcare system.

OA severity is generally graded on a scale from one to four. When OA advances and oral or topical drug treatments are not sufficient to effectively address the associated pain, physicians often turn to IA treatments, such as steroids, and hyaluronic acid, or HA, viscosupplements. While steroid injections can provide rapid pain relief, they generally provide only short-term pain relief of two to four weeks post injection. On the other hand, while HA injections can often provide long-term pain relief of up to approximately six months, they do not generally begin to provide peak pain relief until five weeks post injection. As a result, we believe there is a significant unmet medical need for a single product that provides both rapid and sustained pain relief in a safe and effective manner.

In the United States, there are over 27 million patients with OA, and approximately half of all adult patients will develop symptomatic OA of the knee during their lifetime. According to Millennium Research Group, in 2012, 1.65 million IA knee injections of hyaluronic acid, or HA, were administered. In the same year, worldwide sales of HA were approximately \$1.75 billion, \$726 million of which came from the United States.

We have formulated our Hydros-TA combination product with the goal of achieving both rapid pain relief through a low dose steroid component, and sustained pain relief of up to six months with Hydros, our proprietary HA. Hydros-TA has exhibited rapid and sustained relief of OA pain in our clinical trials to date. We believe the use of a low dose steroid, which is approximately one quarter the dosage of a common clinically-injected dose, will safely provide the rapid pain relief currently missing from commercially-available viscosupplements. We believe that if Hydros-TA can demonstrate sustained, safe and effective pain relief for advanced OA patients over a two week to six month timeframe, it also may delay time to TKA, which would confer significantly meaningful benefits to these patients and provide a strong pharmacoeconomic argument to payors.

In COR1.0, our completed multi-center, randomized, double-blind, three-arm Phase 2b study of 98 patients with grade two and grade three OA of the knee, we studied the use of Hydros-TA against Hydros alone (absent



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TA) and against Synvisc-One, the U.S. market-leading viscosupplement. Though not powered for statistical significance, Hydros-TA demonstrated better pain reduction than Synvisc-One at all-time points measured (2, 6, 13 and 26 weeks), with fewer product-related adverse events reported than Synvisc-One. We believe that the results of our Phase 2b study suggest that Hydros-TA could become a best-in-class first line injectable treatment of choice for OA pain management compared to existing therapies, by providing safe, effective, rapid and sustained pain relief.

We engaged in two formal meetings with the FDA in December 2011 and April 2014 regarding Hydros-TA's clinical development program. We are currently studying Hydros-TA in our COR1.1 trial, a Phase 3, multi-center, international, randomized, double-blind, three-arm trial enrolling up to 510 patients with grade two and grade three OA of the knee, comparing treatment with Hydros-TA to treatment with Hydros and with TA, on a standalone basis. We expect to begin U.S. patient enrollment in our second Phase 3 trial, COR1.2, in the second quarter of 2015. Since TA is an approved product in different pharmaceutical preparations, we will rely on the FDA's prior findings of safety and efficacy for TA, and thus, the Hydros-TA new drug application, or NDA, will benefit from being filed under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act, or the FDCA, by eliminating some of the pre-clinical safety studies. TA is an approved drug and we have confirmed with the FDA that we can utilize the FDCA Section 505(b)(2) process and rely on existing safety data for the TA drug product. Hydros is considered a new molecular entity, or NME, and full pre-clinical testing is required and underway. We are required to complete two Phase 3 clinical trials and one safety trial in order to satisfy the requirements for the demonstration of safety and efficacy of Hydros-TA in our initial indication for OA pain in the knee.

Following NDA approval, we expect to commercialize Hydros-TA using a small, 50 to 100 person specialty sales force targeting orthopedic surgeons, rheumatologists and pain specialists, the primary prescribers of IA steroids and viscosupplements. Physicians and payors are very familiar with the product category and use both HA and TA injectable products. If we are able to demonstrate that Hydros-TA provides rapid and sustained pain relief over a six month period, we believe that Hydros-TA will be well-positioned to become a leader in the OA IA injectable market. We own the global development and commercialization rights to Hydros-TA, except in China, Taiwan, Hong Kong and Macau, and would plan to commercialize Hydros-TA ourselves in the United States and through partners in the rest of the world. We have two issued U.S. patents and one issued non-U.S. patent, all of which will expire in 2030, and 26 patent applications worldwide covering our Hydros platform technology, including claims directed to composition of matter, methods of use and product-by-process.

Our executive management team has held senior positions at leading biopharmaceutical and medical technology companies and possesses substantial experience across the spectrum of drug discovery, development and commercialization. Our chief executive officer was previously the CEO of NeoMend, a leading developer and supplier of sprayable surgical sealants and anti-adhesion products, which was sold to C. R. Bard in 2012. Other members of our senior management team have also played key roles at Baxter, Angiotech, Merck, ALZA Corporation and other biopharmaceutical and medical technology companies in successfully developing and commercializing therapeutics.

### **Our Strategy**

We intend to develop and commercialize novel and proprietary combination therapies for patients with osteoarthritis. The core principles of our strategy are to:

- **Successfully complete our Phase 3 clinical trials for Hydros-TA and obtain FDA approval to market Hydros-TA.** We are actively enrolling patients internationally in COR1.1, our first Phase 3 clinical trial of Hydros-TA for the treatment of OA pain in the knee. During meetings with the FDA, we addressed elements of our development plan for Hydros-TA and the FDA indicated that COR1.1 appears adequately designed to constitute a Phase 3 trial. We expect to initiate COR1.2, our second Phase 3 trial, in the first quarter of 2015, to open an IND and enroll U.S. patients in COR1.2 in the second quarter of 2015, and to report primary endpoint results from COR 1.1 by the end of 2015 and COR1.2 by mid-2016. We anticipate submitting our NDA for Hydros-TA in late 2016.

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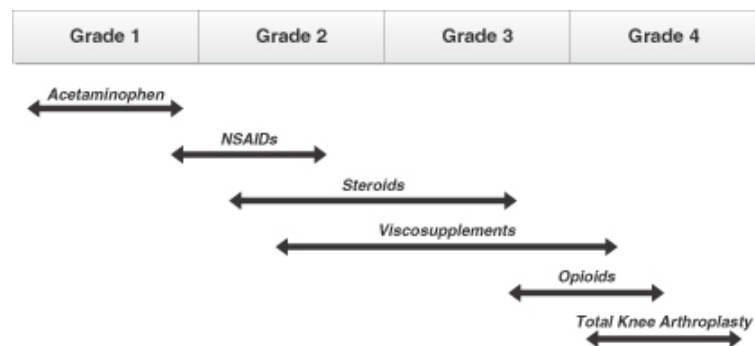
- **Expand our Hydros-TA therapy to treat OA pain in additional joints.** We believe Hydros-TA is a platform therapy for treating OA pain in multiple joints in the body. While our initial focus is on OA pain in the knee, we intend to use a portion of the proceeds of this offering to accelerate our development of Hydros-TA for the treatment of OA pain in the hip, shoulder, ankle, spine and other joints in the body. We do not believe that Hydros-TA will require reformulation to be used in additional joints affected by OA.
- **Build commercial capabilities in the United States and selectively partner outside of the United States to maximize the value of Hydros-TA.** We intend to commercialize Hydros-TA, if approved, in the United States through our own focused sales force of approximately 50 to 100 sales people, which we will build in connection with U.S. approval of Hydros-TA. We have partnered commercial rights for Hydros-TA in China, Taiwan, Hong Kong, and Macau to Shanghai Jingfeng Pharmaceuticals Co., Ltd., or Jingfeng. In other international markets, we intend to partner with established pharmaceutical companies to maximize the value of Hydros-TA without the substantial investment required to develop independent sales forces in those geographies.
- **Utilize our strong management team's expertise to develop and commercialize Hydros-TA and other novel combination products.** Our management team has extensive experience in designing and implementing efficient and effective drug development programs, and in building sales forces and bringing new therapies to market. We intend to maintain an organizational structure designed to allow us to cost-effectively advance our development and commercialization plans.

## Osteoarthritis

Osteoarthritis, or OA, is a progressive, degenerative joint disorder involving the degradation of the IA cartilage, joint lining, ligaments and underlying bone. OA results in inflammation of the soft tissue and bony structures of the joint, which worsens over time and leads to progressive thinning of articular cartilage. Symptoms of this disease include pain, stiffness, swelling, and limitation in the function of the joint. There is no known way to reverse the progression of OA and while there are a number of therapeutic options to treat the pain associated with OA, the disease typically continues to advance.

The National Arthritis Data Workgroup reported that 27 million Americans over the age of 18 had one or more types of OA. According to the Centers for Disease Control and Prevention, this number is likely to increase to 67 million Americans by 2030. While there are many potential risk factors that may increase the likelihood of an OA diagnosis, obesity, sports injuries and excessive mechanical stress are among the top contributing factors.

Beyond diet, exercise and physical therapy, the early treatment options for OA range from limiting weight impact on the joints, to oral analgesics and non-steroidal anti-inflammatory drugs, or NSAIDs, such as aspirin and ibuprofen. When OA advances and oral or topical drug treatments are not sufficient to effectively address the associated pain, physicians often turn to IA treatments, such as steroids and HA viscosupplements. These IA therapies provide more localized and targeted pain relief to the affected joint. Finally, for patients who progress to end-stage OA, physicians will prescribe opioids which are highly addictive and tend to have numerous systemic side effects such as respiratory depression and constipation in older OA patients. The following graph sets out what we believe to be the standard treatment progression for the treatment of OA pain in the knee:



### *Steroids and Viscosupplements*

Dosages of steroids ranging from 10 to 40 mg have been demonstrated to be safe and effective for IA injection. Steroids have a rapid onset of pain relief but the effect is short-term, generally lasting only two to four weeks post injection. A 2006 publication on IA steroids in the Cochrane Database of Systematic Reviews, which included 28 trials and 1,973 participants, concluded that IA steroids were effective for two to four weeks post injection, but that there was a lack of evidence to support effect on pain and function beyond that time frame. Furthermore, it is believed that steroids may cause articular cartilage damage, especially with higher doses and repetitive use. Guidelines for steroids usually include a warning against frequent use and recommend that they only be administered three to four times per year.

Viscosupplementation therapies include HA, which is a naturally occurring constituent of the extracellular matrix of body tissues and is found in the synovial fluid and articular cartilage of joints. HA functions as a lubricant for joints and aids in joint mobility. For people with osteoarthritis, however, the hyaluronic acid in their synovial fluid breaks down and leads to joint pain and stiffness. According to the European League Against Rheumatism,

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there is evidence to support the efficacy of HA-based viscosupplements in knee OA for pain reduction and function improvement. Studies have shown that HA injections can often provide pain relief of up to approximately six months. While viscosupplementation can provide OA pain relief for a longer duration than IA steroids, it typically has a delayed onset of pain relief and does not generally begin to provide peak pain relief until five weeks post injection. A 2006 Cochrane publication on viscosupplementation involving 76 randomized, controlled trials confirmed that viscosupplements did not begin to provide peak pain relief until five weeks post injection. According to Millennium Research Group, the global market in 2012 for HA viscosupplementation was valued at approximately \$1.75 billion and the current global market is estimated at over \$2 billion.

The global OA pain therapeutics market was estimated to be \$4.5 billion in 2011 and is expected to grow to over \$6.0 billion by 2019, according to a report from GlobalData. According to Millennium Research Group, in 2012, 1.65 million IA knee injections of HA were given. In the same year, worldwide sales of HA were approximately \$1.75 billion, \$726 million of which came from the United States.

*Total Knee Arthroplasty:* Despite the use of currently available treatments, many OA patients experience persistent and worsening pain. Patients and their doctors therefore ultimately opt for TKA, which is generally the last option for the treatment of OA. Compared to other treatments, this invasive surgery is an expensive option, with an initial surgical procedure cost of approximately \$33,000 to \$40,000. Available data suggest that approximately 600,000 TKA procedures are performed annually in the United States at a cost of \$9 billion per year in aggregate. Because patients are receiving TKAs more frequently and at a younger age, surgery to replace a previously performed TKA, known as revision surgery, is increasingly common and the average cost of a revision is approximately \$74,000. Revision surgeries are not only more costly, they are also associated with significantly higher morbidity and failure rates than the initial TKA surgery. Because of these factors, TKAs are not ideal for younger patients that are likely to outlive the useful life of their implant, which is typically 15 to 20 years.

Due to the expense of surgery and the limitations of treatments administered to prevent such surgeries, there exists a need for an alternative treatment that could provide both rapid and sustained relief from OA pain and potentially delay the need for joint replacement surgery.

### **Our Solution — Hydros-TA**

Hydros-TA is a combination IA product, designed to provide both rapid and sustained pain relief. Rapid relief is provided from our low dose steroid component and sustained pain relief, up to six months, is provided from our proprietary HA component. Hydros-TA is comprised of bacterially-derived HA-based hydrogel particles suspended in a solution of hyaluronic acid. The hydrogel particles contain the steroid, triamcinolone acetonide, which is entrapped within these particles. The dose of TA used in Hydros-TA is 10 mg, which is one quarter of the dose of TA that is often administered clinically for IA injections into the knee. We believe the incorporation of a low dose steroid into Hydros-TA provides a means of rapid pain relief currently missing from commercially-available HA products.

We have developed a proprietary methodology to cross-link hyaluronic acid in order to form our novel hydrogels. The chemistry used to cross-link the hyaluronic acid does not produce harmful reaction by-products that would otherwise need to be removed from the hydrogel during the manufacturing process. This enables the direct incorporation of biologically-active agents into the hydrogel without the requirement for further purification. By incorporating the steroid component of Hydros-TA directly into the hydrogel, the effective particle size of the steroid is dramatically increased. The large-sized hydrogel particles are not readily cleared from the joint immediately following IA injection, which may allow for better retention in the joint and better protection of the cartilage surface from direct exposure to the steroid crystals. In addition, Hydros-TA is comprised of both soluble HA and a three-dimensional HA hydrogel component. Hydros-TA has approximately 2.5 times more HA hydrogel component than Synvisc-One, the U.S. market leading HA viscosupplement. HA

hydrogels are known to be retained in the joint for a longer period of time as compared to soluble HA. Additionally, we designed our Hydros platform from a bacterially-derived HA, without the presence of animal proteins common in other viscosupplements, which eliminates a source of a potential adverse immune response. We believe that a clinically-proven and FDA-approved combination Hydros-TA product will provide a compelling alternative to performing sequential injections of steroids and viscosupplements. Additionally, the ready-to-use single injection format means that there is no product manipulation required before use. From the physician's standpoint, this means that the product is easy to use and, because every joint injection poses a risk of infection, may reduce the likelihood of potential joint infections when compared to a procedure that involves separate injections of a steroid and a viscosupplement. We believe that the versatility provided by our proprietary cross-linking combination will enable Hydros-TA to potentially address current shortcomings in the OA pain relief treatment spectrum for the knee, as well as provide both rapid and sustained relief for other joints affected by OA pain, such as hip, shoulder, spine and ankle joints.

### ***Hydros-TA Clinical Program***

Hydros-TA is a drug/device combination product regulated through the FDA's Center for Drug Evaluation and Research, or CDER. We do not currently have an open IND, so we have designed and implemented our Phase 3 program in close communication with the FDA. The chemistry, manufacturing, control and development for Hydros-TA has, in principle, been outlined and expectations communicated by the FDA to enable an IND to be opened in the second quarter of 2015. Our COR1.1 Phase 3 study protocol, including primary and secondary endpoints and statistical analysis plan, was developed in conjunction with formal pre-IND meetings with the FDA in which our COR1.0 Phase 2b study data was presented. In these meetings, we also addressed the study protocol for our second Phase 3 study, COR1.2, which will be designed as a two arm, TA-controlled study. The FDA also clarified the requirement for the number of patients required for the safety database and indicated that we could utilize an open-label safety trial to collect these data. We expect to initiate COR1.2, our second Phase 3 trial, in the first quarter of 2015, to enroll U.S. patients in COR1.2 in the second quarter of 2015, and to report primary endpoint results from COR1.1 by the end of 2015 and COR1.2 by mid-2016.

*Clinical Design and Statistical Analysis:* As is typical for osteoarthritis clinical studies, our studies are designed using the Western Ontario and McMaster Universities Osteoarthritis Index, or WOMAC. The WOMAC is a validated and accepted instrument developed to assess and quantify pain, joint stiffness and disability related to osteoarthritis of the knee and hip. The WOMAC contains 24 questions, five related to pain, two to stiffness and 17 to physical function. It can be used to monitor the course of the disease or to determine the effectiveness of a variety of interventions. These measurements are obtained both prior to IA injection, referred to as a baseline measurement, and then following injection, at several post-treatment visits. In the Hydros-TA clinical studies, the primary measure of effectiveness is assessed based on the differences between treatment groups in changes from baseline to post-treatment visits in the WOMAC pain scale. The secondary outcome measurement includes changes from baseline in WOMAC stiffness and WOMAC function. The differences between treatment groups can be assessed using a statistical technique called a repeated measures analysis of covariance, referred to as ANCOVA, which estimates treatment effects where there are repeated assessments of a measurement captured over time. Using repeated measures, the ANCOVA model provides the ability to assess the treatment effect in the presence of other explanatory variables, or covariates, such as the baseline value or the study center at which the subject is enrolled.

Our studies also utilize the OMERACT-OARSI criteria to define the number and percentage of OMERACT-OARSI-defined positive "strict responders" (>50% and >20 mm improvements in WOMAC pain or function scores over baseline) in our clinical studies. This is an important measure of the consistency of the response seen across all subjects within a treatment group. Traditionally, viscosupplements provide responder rates of approximately 50%. The Cochran-Mantel Haenszel General Association statistic, stratified by study center, was used to assess differences among treatments and to assess differences in the pairwise comparisons between treatments in the OMERACT-OARSI response rate.

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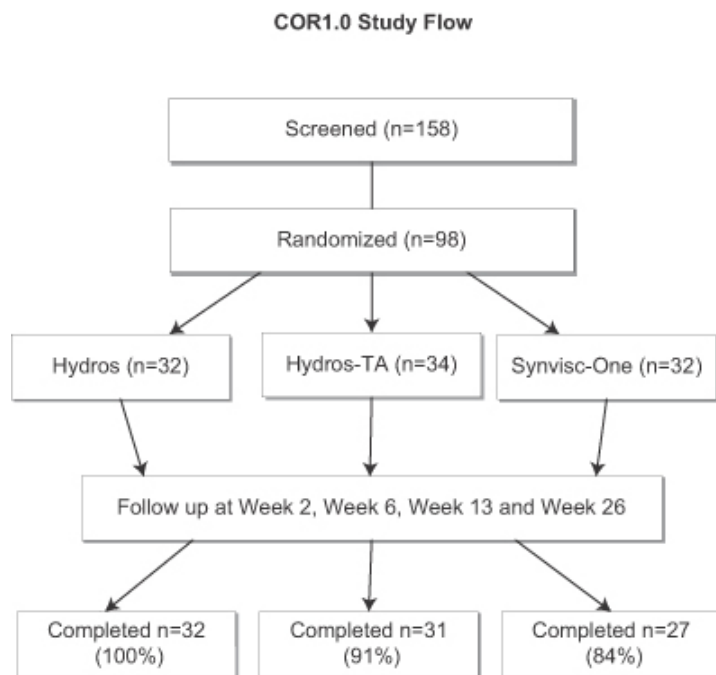
In the discussion below, statistical significance is denoted by p-values. The p-value is the probability that the reported result was achieved purely by chance (for example, a p-value <0.001 means that there is a less than a 0.1% chance that the observed change was purely due to chance). Generally, a p-value less than 0.05 is considered to be statistically significant. Certain trial results discussed below were evaluated using an analysis method referred to as “least square means.” Least square means is a mean estimated from a linear model and is adjusted for other variables that may affect the experimental value.

**COR1.0- Phase 2b Clinical Trial**

Our Phase 2b clinical trial of Hydros-TA, known as COR1.0, was a prospective, multicenter, randomized, double-blind feasibility study to evaluate the safety and performance of Hydros-TA in subjects with OA of the knee. Eight clinical centers in Canada, Europe and the Caribbean participated in the COR1.0 trial. A total of 98 subjects were enrolled, treated and followed for six months post-treatment. Subjects were randomized 1:1:1 to three study treatment arms: Hydros-TA, Hydros (the viscosupplement without steroid) and Synvisc-One (the U.S. market leading HA viscosupplement).

All randomized subjects received one 6 mL IA injection in the treatment knee by an unblinded injecting physician. The treatment knee was the knee that met the inclusion criteria on WOMAC pain score and received one of the three IA injection treatments, as determined by sequential randomization at each study site. Subjects were seen by a treatment-blinded evaluating physician for post-treatment follow-up at two weeks, six weeks, 13 weeks and 26 weeks. Subjective symptom rating and physical assessment including a full WOMAC questionnaire were obtained at screening and each follow-up visit. Subject global assessment was obtained at 13 weeks and subject and physician global assessments were obtained at 26 weeks. Care was taken to maintain subject blinding at all times. Adverse events, or AEs, were solicited at all visits. Assessments of all AEs for all study visits were performed by a blinded physician. Any AE reported post-treatment was considered a treatment-emergent adverse event and was summarized by treatment group and assessed for relation to treatment and procedure.

The below table illustrates the clinical train design of our COR1.0 Phase 2b study:



With a sample size of 98 subjects (32-34 subjects per group), COR1.0 was intended to provide preliminary information on the safety and tolerability of Hydros and Hydros-TA, as well as a preliminary review of efficacy of these two modalities as compared to the control, Synvisc-One, and to inform the design and powering of our Phase 3 trial. Intent-to-Treat, or ITT, methodology was used to analyze subjects by treatment group for efficacy

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and safety. The following table illustrates that COR1.0 treatment arms were well-balanced with respect to demographic and baseline characteristics, with balanced weighting of the baseline demographics of study subjects across treatment modalities including age, BMI, disease severity, pain levels in both treated and non-treated knees and duration of OA symptoms:

Category	Hydros n=32	Hydros-TA n=34	Synvisc-One n=32
Mean (SD) Age	59 (12)	61 (11)	59 (12)
Gender (N %)			
Male	12 (38%)	14 (41%)	16 (50%)
Female	20 (63%)	20 (59%)	16 (50%)
Mean (SD) Body Mass Index	29.8 (4.1)	29.0 (4.1)	29.0 (3.8)
Kellgren-Lawrence Grade for Treatment Knee (N %)			
Grade 2	18 (56%)	22 (65%)	18 (56%)
Grade 3	14 (44%)	12 (35%)	14 (44%)
Mean (SD) Pre-Treatment Average WOMAC score (mm)			
Treatment Knee	68 (9)	69 (11)	66 (12)
Non-treatment Knee	13 (8)	12 (9)	12 (8)
Mean (SD) Duration of Symptoms — Pre-Treatment in Treatment Knee (months)	64 (59)	74 (80)	69 (56)

The following table represents the baseline scores for each of the treatment groups, as well as the WOMAC pain score least square mean reductions from baseline over the full 26 week evaluation period, as well as at the 2, 6, 13 and 26 week time points post injection. The model estimated difference between the treatment groups is also represented.

Time Point	Hydros n=32	Hydros- TA n=34	Synvisc- One n=32	Extra Pain Reduction Hydros vs. Synvisc- One	Extra Pain Reduction Hydros-TA vs. Hydros	Extra Pain Reduction Hydros-TA vs. Synvisc-One
Baseline	68.1	69.4	66.4	N/A	N/A	N/A
2 weeks	-23.3	-35.6	-28.5	5.2	-12.4*	-7.2
6 weeks	-32.4	-33.4	-25.6	-6.7	-1.1	-7.8
13 weeks	-33.9	-33.3	-29.0	-4.9	0.6	-4.3
26 weeks	-32.4	-35.2	-28.9	-3.5	-2.8	-6.3
<b>Overall</b>	<b>-30.5</b>	<b>-34.4</b>	<b>-28.0</b>	<b>-2.5</b>	<b>-3.9</b>	<b>-6.4</b>

\* Statistically significant.

*Primary Endpoint: WOMAC pain score:* Pain reduction from baseline was observed in all treatment groups, however, in general, Hydros-TA provided greater pain reduction compared to Synvisc-One at all study time points, as well as over the full study follow-up period of 26 weeks. As the above table illustrates, for the WOMAC pain score change from baseline, the least square mean reductions from baseline over 26 weeks, overall least-square means and standard errors (SE) were as follows: 30.5 (5.1) mm for Hydros, 34.4 (4.7) mm for Hydros-TA, and 28.0 (5.4) mm for Synvisc-One. Overall, the Hydros-TA estimated mean reduction represents an observed improvement over Synvisc-One of 6.4 mm ( $p = 0.24$ ). Though our COR1.0 trial was not powered for statistical significance, this separation from Synvisc-One represented approximately 10% of the baseline score, a numerical amount generally considered “clinically meaningful” and, we believe, not often seen in viscosupplementation trials with active comparators.



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**Secondary Endpoints:** The trend seen with our primary endpoint toward improved outcomes with Hydros-TA compared to Synvisc-One was consistent with our secondary endpoints of WOMAC stiffness, WOMAC function and responder analysis.

- **WOMAC stiffness score:** The least square mean changes in WOMAC stiffness score from baseline for the ITT population for each treatment group are 24.5 (5.8) mm for Hydros, 29.8 (5.3) mm for Hydros-TA, and 25.1 (6.1) mm for Synvisc-One. This represented an estimated difference of 4.7mm in stiffness scores for Hydros-TA compared to Synvisc-One.
- **WOMAC function score:** Hydros, Hydros-TA and Synvisc-One had reductions of 27.3 (5.4) mm, 30.0 (4.9) mm and 24.3 (5.6) mm, respectively, for the changes from baseline of the overall mean WOMAC function score. This represented a numerical improvement of 5.6 mm in function scores for Hydros-TA compared to Synvisc-One.
- **Strict OMERACT-OARSI Responder Analysis:** Though not powered for statistical significance, the percentages of strict OMERACT-OARSI responders for the Hydros and Hydros-TA groups were numerically higher than the strict responders for Synvisc-One group at both 13 and 26 weeks. At 13 weeks, the response rate for Hydros-TA was 71%, for Hydros 66% and for Synvisc-One 53%. At 26 weeks, the response rates were 59%, 65% and 69% for Synvisc-One, Hydros-TA and Hydros, respectively.

In our comparison of the pain reduction provided by Hydros-TA versus Hydros, we demonstrated the early onset of pain relief provided by the study product containing steroid (Hydros-TA) compared with the identical study product without steroid (Hydros). While there was not a statistically significant difference between Hydros-TA and Hydros over 26 weeks, there was a statistically significant 12.4 mm improvement in pain scores at the two-week time point for Hydros-TA versus Hydros ( $p=0.04$ ). This result confirms the earlier onset of pain relief for Hydros-TA, the steroid containing therapy, versus Hydros alone, the non-steroid containing therapy. As illustrated in the table below, similar trends were seen for stiffness and function when Hydros-TA was compared to Hydros at two weeks post injection:

<u>Time Point</u>	<u>Hydros n=32</u>	<u>Hydros-TA n=34</u>	<u>Difference Estimated between group difference</u>	<u>p-value</u>
Pain (WOMAC A)	-23.3 (5.6)	-35.6 (5.2)	-12.4	0.04
Stiffness (WOMAC B)	-18.4 (6.4)	-33.7 (6.0)	-15.3	0.03
Function (WOMAC C)	-20.2 (5.8)	-32.1 (5.3)	-12.0	0.05

The two-week pain score comparison between Hydros-TA and Hydros is identical to the first co-primary endpoint in our COR1.1 trial.

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*Adverse events:* Adverse events, or AEs, for 15 subjects were reported in COR1.0 as “Likely” or “Definitely” related to study treatment: six in the Synvisc-One group, six in the Hydros group and three in the Hydros-TA group. There were a total of 19 AEs related to study treatment in these 15 subjects: nine in the Synvisc-One group, seven in the Hydros group and three in the Hydros-TA group. The most commonly reported AEs related to study treatment were arthralgia and joint stiffness. These results are summarized in the following table:

<u>AE Description</u>	<u>Synvisc-One n=32</u>	<u>Hydros-TA n=34</u>
Arthralgia (non-inflammatory joint pain)	5	1
Joint Stiffness	2	0
Joint Swelling	1	0
Injection/Application Site Warmth	1	1
Injection Site Movement Impairment	0	0
Injection Site Pain	0	1
<b>Total Product-Related AEs</b>	<b>9</b>	<b>3</b>

A total of seven subjects reported Serious Adverse Events (SAEs). In the Hydros group, the three reported SAEs were colitis, broncho-pneumonia and arthralgia. In the Hydros-TA group, the two reported SAEs included a report of a meniscal lesion and a cyst aspiration. Lastly, the two SAEs reported in the Synvisc-One group were a meniscal lesion and an elective surgery. All SAEs were considered unlikely or definitely not related to treatment and had resolved by the termination of the study. Treatment emergent adverse events were reported in 69% of all subjects treated, the most common of which were arthralgia, joint swelling, joint stiffness, headache and back pain.

*Key Observations from COR1.0:* The results from COR1.0 suggest that a single injection of Hydros-TA was well-tolerated and could relieve pain associated with symptomatic OA of the knee over 26 weeks. Hydros-TA demonstrated a numerically higher pain relief at all time points after injection when compared with Synvisc-One. The percentage of subjects who responded favorably to the product as measured by the OMERACT-OARSI responder rate was higher in the Hydros and Hydros-TA groups when compared to Synvisc-One. The study endpoints showed strong trends toward an enhanced effect compared to Synvisc-One, although these trends did not reach statistical significance and were not powered to do so.

To our knowledge, this is the first clinical study to report on the safety and effectiveness of a single-injection viscosupplement that combines HA and corticosteroid for the treatment of knee OA. Reductions in WOMAC pain scores observed in this study suggest that this combination may have a faster onset of pain relief compared to non-steroid containing products and may provide improved pain relief over the full 26 weeks post injection. These results reflect a synergistic effect of combining HA with a corticosteroid.

### **Phase 3 Clinical Trial Program**

#### *COR1.1*

The first of our two pivotal Phase 3 trials began enrollment in mid-January 2014. We are actively enrolling up to 510 subjects at 30 to 40 sites in Australia, Canada, New Zealand, Europe and the Caribbean. Subjects with OA grade two and grade three are randomized equally between three treatment arms; Hydros-TA, Hydros and TA. The objective of the trial is to demonstrate the safety and efficacy of Hydros-TA and the contribution of each of the two components in the Hydros-TA therapy. Our inclusion and exclusion criteria are designed to reduce the potential for placebo effect and to screen out non-responders where possible. The primary comparisons measure changes in pain under the WOMAC pain scale of Hydros-TA versus Hydros at two weeks and Hydros-TA versus TA at 26 weeks. Secondary endpoints include WOMAC function changes, subject and physician global assessment and an OMERACT-OARSI responder rate. We expect top-line data from this trial by the end of 2015.

*COR1.2*

The second of our two Phase 3 trials is scheduled to begin in the first quarter of 2015. We plan to enroll approximately 340 subjects at 20 to 30 sites in the United States, Australia, Canada and Europe. Subjects with OA grade two and grade three will be randomized equally between two treatment arms; Hydros-TA and TA. The objective of the trial will be to demonstrate the superiority of Hydros-TA compared to TA at 26 weeks post injection by measuring the change from baseline on the WOMAC pain scale. Secondary endpoints will include changes in WOMAC function, subject and physician global assessment and an OMERACT-OARSI responder rate. We expect top-line data from this trial by mid-2016.

*COR1.3*

In addition to the COR1.1 and COR1.2 trials required for approval, we will need to collect safety data from an additional 400 to 450 patients, which will provide us with approximately 800 patients to make up our safety database. This trial will be conducted as a non-randomized, non-blinded trial. Patients who are screen failures for the COR1.1 and COR1.2 trials may be candidates for inclusion in this open-label trial.

*Additional Clinical Requirements*

A small bioavailability study will be required to demonstrate that the circulating levels of triamcinolone acetonide are not higher after Hydros-TA treatment than what has been demonstrated with commercially approved triamcinolone acetonide formulations. Since products such as Kenalog (triamcinolone acetonide) are approved at 10 and 40 mg doses, and up to 40 mg is commonly injected in the knee joint, we believe that this trial is just confirmatory and constitutes minimal to no clinical risk. It is possible that a study may be required to show the absorption, distribution, metabolism and excretion profile of Hydros-TA. The FDA has indicated that if Hydros is undetectable in plasma using a sensitive bio-analytical assay, this study requirement may be waived. If the study is required, a total of twelve subjects should be adequate for the Hydros evaluation without radiolabeling. If radiolabeled, five or six subjects with adequate data should be sufficient.

*Hydros-TA Pre-clinical Program*

There are no validated pre-clinical animal models for OA that have been shown to directly translate into successful efficacy outcomes for viscosupplementation products. Thus, the approach that we undertook in developing the Hydros and Hydros-TA products, was to demonstrate safety and biocompatibility of the Hydros and Hydros-TA pre-clinically and then test these products in the clinical setting for the efficacy signal. We completed initial ISO 10993 biocompatibility testing as well as initial toxicity testing in a large animal model. The data generated from these pre-clinical studies were sufficient to initiate human clinical testing of the Hydros and Hydros-TA products in Canada and Europe.

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### **Pre-clinical: Biocompatibility Studies**

<b>Hydros</b>	<b>Result</b>
Cytotoxicity: ISO MEM Elution Assay with L-929 Mouse Fibro-blast Cells	Non-cytotoxic
Intracutaneous Reactivity Test	Non-irritant
Guinea Pig Maximization Sensitization Test	Non-sensitizing
Acute Systemic Toxicity	Non toxic
Subcutaneous Implant Test — Two Week Duration	Non-Irritant compared to Synvisc-One
Genotoxicity — Bacterial Mutagenicity Test (Ames Assay)	Non-mutagenic
Genotoxicity — Mutagenicity: In Vitro Mouse Lymphoma Assay	Non-mutagenic
Genotoxicity — Mutagenicity: In Vivo Mouse Micronucleus Assay	Non-mutagenic
Subchronic toxicity — 4 week in Rats	Non toxic, slight-irritant compared to Saline

<b>Hydros-TA</b>	<b>Result</b>
Cytotoxicity: ISO MEM Elution Assay with L-929 Mouse Fibroblast Cells	Non-cytotoxic
Intracutaneous Reactivity Test	Non-irritant
Guinea Pig Maximization Sensitization Test (The Magnusson and Kligman method)	Non-sensitizing

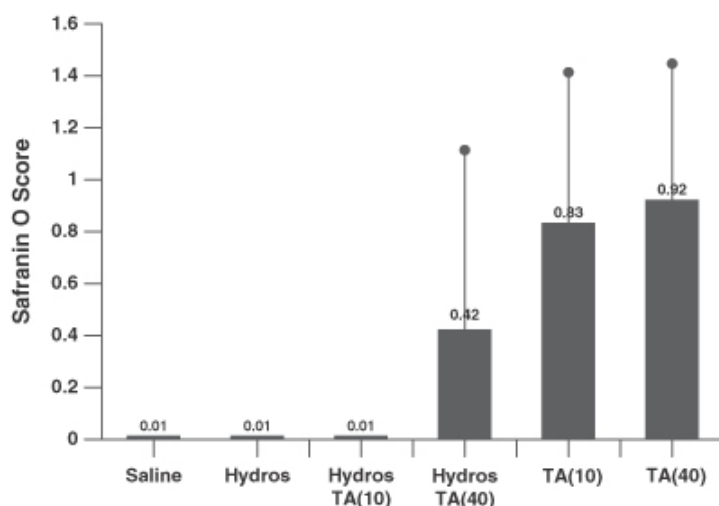
### **Pre-clinical: Safety Studies**

<b>Study Number/ Species/Study Type</b>	<b>Result</b>
REP-10008 Goat Safety Study (GLP) IA Injection with 28 day follow-up	No systemic or local toxicity
REP-10009 Goat Safety Study (GLP) IA Injection with 88 day follow-up	No systemic or local toxicity
REP-09014 Goat Safety Study (Non-GLP) IA Injection with 14 and 28 day follow-up	No systemic or local toxicity
REP-09015 Goat Safety Study (Non-GLP) 24 hour synovial fluid and joint evaluation	No local toxicity

A study in a goat model showed that the incorporation of the triamcinolone acetonide into the hydrogel component of Hydros-TA appeared to reduce the proteoglycan loss from the cartilage, as shown by changes in Safranin O staining of the cartilage, in comparison to injection of the triamcinolone acetonide alone. In this study the following formulations were injected into the stifle of a goat in volumes equivalent to 10 mg and 40 mg: saline, Hydros, Hydros-TA and TA. Treatment groups consisted of six goats per group with each goat receiving a single injection into the right stifle. After 28 days, the goats were sacrificed and the joints were analyzed histologically. Histological sections were taken from the lateral femoral condyle and the medial femoral condyle and these sections were stained with Safranin O. A loss in the intensity of the Safranin O staining indicates a loss of proteoglycans from the cartilage structure, which is indicative of changes in the health of the cartilage. The analysis of the Safranin O stained histological sections of the cartilage showed that for comparable doses of TA, incorporation of the TA into the hydrogel component of the Hydros-TA resulted in less proteoglycan loss from the cartilage. For Hydros-TA

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that contained an equivalent of a 10 mg clinical dose, there was no loss in Safranin O staining observed, whereas there was a loss in Safranin O staining when a similar dose of TA that was not incorporated into the hydrogel that was administered. This indicates that incorporation of the steroid into the hydrogel component of the Hydros-TA is beneficial to the health of the cartilage as compared the steroid alone.



We are in the process of completing the required comprehensive pre-clinical safety studies that will be used in the IND submission to initiate clinical testing in the United States.

## Research and Development

Our research and development efforts have focused on developing a proprietary versatile methodology to cross-link hyaluronic acid to form hydrogels. This methodology is versatile because slight alterations in the formula allow us to prepare hydrogels that can be pre-formed or prepared on site and can range in texture from soft to hard gels. The chemistry used to cross-link the hyaluronic acid does not produce harmful reaction by-products that must be removed from the hydrogel during the manufacturing process. This enables the direct incorporation of biologically-active agents into the hydrogel without the need for further purification. Thus, these prepared hydrogels can be used directly without further processing. Additionally, biologically-active agents such as small molecule drugs, certain proteins and cells can be incorporated into the hydrogel. Such hydrogel formulations can be applied topically or parenterally.

*Hydros-TA — other joints.* We have focused our product development efforts on developing Hydros-TA for the treatment of OA pain in the knee. As this program progresses along the path to regulatory approval in the United States, we may explore the potential use of Hydros-TA in treating pain in other joints affected by OA. Joints affected by OA include the finger, hip, shoulder, ankle and temporomandibular joints. The initial target for the next product development effort for OA may likely be the hip joint.

*Hydros.* We have focused our current development efforts on Hydros-TA. During the course of the current clinical program, we expect to generate clinical data for Hydros, our proprietary HA-based hydrogel. Hydros is identical to Hydros-TA, with the exception that it does not contain triamcinolone acetonide. Depending on the data that we obtain from the on-going clinical study, we may pursue regulatory approval of Hydros.

## Commercial Strategy

According to the American Association of Orthopedic Surgeons, or AAOS, there are approximately 17,795 active orthopedic surgeons in the United States, and according to the Association of American Medical Colleges, there are approximately 3,920 practicing rheumatologists in the United States. We believe we can effectively cover both specialties and successfully execute our future commercial plans using a cost-efficient strategy, particularly given that orthopedists and rheumatologists are familiar with IA injections.

We intend to build a commercial infrastructure in the United States to effectively support the marketing of Hydros-TA, if approved. We believe that we can cost-effectively penetrate the universe of prescribing orthopedic surgeons, rheumatologists, and pain specialists in the United States with a targeted, specialty sales force of approximately 50 to 100 representatives. Support for this team will include sales management, internal sales support, distribution support and an internal marketing group. Additional requisite capabilities will include focused management of key accounts such as managed care organizations, group purchasing organizations, government accounts and private insurers.

Outside of the United States, we have entered into a license agreement with Jingfeng for China, Taiwan, Hong Kong and Macau and are exploring selective partnerships with other third parties for the commercialization of our products.

## Competition

Our industry is highly competitive and subject to rapid and significant technological change. The large size and expanding scope of the pain market makes it an attractive therapeutic area for biopharmaceutical businesses. Our potential competitors include pharmaceutical, biotechnology and specialty pharmaceutical companies. Several of these companies have robust drug pipelines, readily available capital and established research and development capacities. We believe our success will be driven by our ability to actively focus on OA patients and their needs.

The key competitive factors affecting the success of Hydros-TA, if approved, are likely to be efficacy, durability, safety, price and the availability of reimbursement from government and other third-party payors. We believe we will compete favorably by having a fast-acting, long lasting, effective candidate that has a validated mechanism of action for OA pain relief and an attractive safety profile.

*Intra-articular Therapies.* Currently available steroid injections are effective at providing pain relief within a couple of days, but they do not last for more than about a month and can have a damaging effect on the healthy cartilage. Most of these steroid injections are interchangeable with the choice usually stemming from cost to the patient and physician preference. Specifically, Flexion Therapeutics is developing FX006 which is a composed of triamcinolone acetonide encapsulated in PGLA particles. There are five multi-injection viscosupplements (Hyalgan, Orthovisc, Supartz, Synvisc and Euflexxa) and three single-injection products (Synvisc-One, Gel-One and Monovisc) that are currently on the market. Each of these products is derived from HA, which generally does not begin to provide peak pain relief until five weeks post injection.

*Combination and Other Therapies.* A combination of viscosupplementation and corticosteroid is also being evaluated by Anika Therapeutics. The Anika product, called Cingal, is a combination of hyaluronic acid (Monovisc) and 20 mg of triamcinolone hexacetonide (TH). This product is currently being evaluated in a three arm trial comparing Monovisc and Cingal to placebo. To our knowledge, this is the first human trial with this product. Ampio Therapeutics is developing an injectable treatment for OA knee pain called Ampion. Ampion is comprised of aspartyl-alanyl diketopiperazine, an endogenous immunomodulatory molecule derived from the N-terminus of human serum albumin. Ampion is currently under evaluation in a Phase 3 trial.

## Coverage and Reimbursement

Viscosupplementation has become an important treatment option for patients with osteoarthritis of the knee. A number of viscosupplementation products are currently approved by the FDA for marketing in the United States with indications for use in OA of the knee. Each has demonstrated a statistically significant reduction in pain and improvement in function. In the United States, third-party payors (such as Medicare, Medicaid, and commercial health plans) provide coverage to individuals for medically necessary services. The Medicare program covers certain individuals who are disabled or aged 65 or older, two groups with a comparatively higher incidence of OA. The Medicare program is increasingly used as a model for how private payors and other governmental payors develop their coverage and reimbursement policies for drugs and biologics. Since no uniform policy of coverage and reimbursement for medical products exists among third-party payors, we may be required to provide economic, scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained.

AAOS issued a guideline in 2008 in which it found that the benefits of viscosupplementation were inconclusive and was unable to recommend for or against their use. In May 2013, AAOS issued a revised guideline on treatment of OA of the knee that stated “we cannot recommend using hyaluronic acid for patients with symptomatic osteoarthritis of the knee”. AAOS stated that its recommendation was strong and was based on high quality supporting evidence related to lack of efficacy, rather than potential harm. In developing its 2013 guidelines, AAOS considered a different and smaller group of studies than it had in 2008 and found statistically significant positive treatment effects with respect to pain, function and stiffness. However, in 2013, it went on to consider whether the improvements in pain and function were large enough to pass “minimum clinically important improvement” thresholds and the evidence it considered approached, but did not pass, these thresholds.

While most third-party payors continue to cover HA for the treatment of OA of the knee after the publication of the AAOS guidelines, a small number of third-party payors have reversed their coverage policies and no longer cover the use of HA for the treatment of OA of the knee. Several payors still continue to cover viscosupplementation for patients with OA of the knee and related pain that interferes with function after more conservative therapies have been attempted. The more conservative therapies that payors expect to precede viscosupplementation include NSAIDs and intra-articular injection of steroids. Evidence-based review by payors has generally found a lack of reliable evidence that any particular brand of viscosupplement is superior to others when used for medically necessary indications. As a result, some payors may disfavor new products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Many payors also limit repeat treatment to 6 month intervals.

## Manufacturing

We have relied on contract manufacturing organizations, or CMOs, to manufacture both the active pharmaceutical ingredient and final drug product dosage form for Hydros-TA that has been used as clinical trial material. We have manufactured the two intermediate components used in the manufacture of the hydrogel for the initial clinical studies. These two components will be outsourced to CMOs for future clinical material and for commercial production. Our management team has extensive experience with the management of a virtual supply chain consisting of CMOs, contract packaging operations and third-party logistics providers. We currently anticipate continuing to use CMOs to manufacture clinical material for future clinical studies and for the initial commercial product.

The manufacture of sterile injectables is a complex and expensive process that is subject to a high degree of regulatory oversight. All of our CMOs are experienced commercial manufacturers and are qualified by us before we begin to work with them. The patented and proprietary Hydros chemistry involves mild processing conditions and routine unit operations. Extensive development work has been completed to optimize the operations for commercial manufacture. Hyaluronic acid and triamcinolone acetonide, the two key raw materials for Hydros-TA, are readily available from multiple sources commercially.

## Intellectual Property

### *Technology License Agreement with Shanghai Jingfeng Pharmaceutical Co., Ltd.*

In November 2012, we entered into a technology license agreement with Jingfeng, pursuant to which we granted Jingfeng the exclusive right and license to develop, manufacture and commercialize Hydros-TA, or any improvements or modifications of Hydros-TA, for human and veterinary uses in China, Taiwan, Hong Kong and Macau. In these countries, Jingfeng is responsible for the manufacture and supply of Hydros-TA, the management and funding of all development activities, regulatory submissions and regulatory approvals for Hydros-TA, and the commercialization of Hydros-TA. Jingfeng is restricted from developing, manufacturing, using, distributing, marketing, importing and selling Hydros-TA outside of the foregoing territories.

In consideration for the exclusive license, we received a non-refundable up-front payment of \$2.0 million (\$1.7 million net of Chinese withholding tax). In November 2013, we received a non-refundable milestone payment related to the completion of the initial transfer of technology of \$0.4 million (net of Chinese withholding tax). We are also eligible to receive future milestone payments of up to \$1.5 million and up to approximately \$5.0 million (each excluding Chinese withholding tax), based on the achievement of certain regulatory and commercialization milestones, respectively.

Our agreement with Jingfeng will expire upon the later of the date of the expiration of the last licensed patent or the invalidation of the last licensed patent. We and Jingfeng each have the right to terminate the agreement upon written notice under various conditions.

### *Patents and Patent Applications*

We seek to protect our product candidates and our technology through a combination of patents, trade secrets, proprietary know-how, FDA exclusivity and contractual restrictions on disclosure. Our commercial success depends in part on our ability to obtain and maintain proprietary protection for our drug candidates, manufacturing and process discoveries and other know-how, to operate without infringing the proprietary rights of others and to prevent others from infringing our proprietary rights. Our policy is to seek to protect our proprietary position by, among other methods, filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development and implementation of our business. As a normal course of business, we pursue composition-of-matter and method-of-use patents for our product candidates in key therapeutic areas. As of August 31, 2014, we are the owner of record of three issued or allowed U.S. patents and five issued or allowed non-U.S. patents, and we are actively pursuing an additional three U.S. patent applications and twenty one non-U.S. patent applications. We also rely on trade secrets and careful monitoring of our proprietary information to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

Currently our Hydros platform is covered by three patent families: (1) those relating to modified hyaluronic acid polymer compositions and related methods; (2) those relating to in-situ gel forming compositions; and (3) those relating to stabilized compositions of hyaluronic acid. For the modified hyaluronic acid polymer compositions and related methods patent family which covers the Hydros and Hydros-TA products, we have two issued U.S. patents and one issued non-U.S. patent, all of which will expire in 2030. These patents consist of composition of matter claims, method claims and product-by-process claims. We have issued patents and patent applications that cover Hydros-TA in 15 countries internationally.

For the patent family relating to in-situ gel forming compositions, patent applications are pending in the United States and internationally; we have received an allowance in one of the foreign applications. For the patent family relating to stabilized compositions of hyaluronic acid, an international patent application has been filed. We have two additional patent families that are currently undergoing prosecution in the United States, with



one patent having been issued. These applications cover cross-linking chemistry that is different to that used in the Hydros Platform and are not relevant to the current programs that are in development.

### ***Trade Secrets and Proprietary Information***

During the development of the Hydros and Hydros-TA formulations, we have established numerous trade secrets that relate to the raw materials, formulation, manufacturing process and quality control testing of the product. We seek to protect our proprietary information, including our trade secrets and proprietary know-how, by requiring our employees to execute confidentiality and invention assignment agreements upon the commencement of their employment. Consultants and other advisors are required to sign confidentiality and consulting agreements. These agreements generally provide that all confidential information developed or made known during the course of the relationship with us be kept confidential and not be disclosed to third parties except in specific circumstances. In the case of our employees, the agreements also typically provide that all inventions resulting from work performed for us, utilizing our property or relating to our business and conceived or completed during employment shall be our exclusive property to the extent permitted by law. Further, we require confidentiality agreements from entities that receive our confidential data or materials or that generate confidential information and materials for us.

### **Government Regulation and Product Approval**

Government authorities in the United States at the federal, state and local level and in other countries extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, labeling, packaging, storage, record-keeping, promotion, advertising, distribution, post-approval monitoring and reporting, marketing and export and import of products such as those we are developing. Hydros and Hydros-TA and any other drug candidate that we develop must be approved by the FDA before they may be legally marketed in the United States and by the corresponding foreign regulatory agencies before they may be legally marketed in foreign countries.

#### ***U.S. Government Regulation***

In the United States, the FDA regulates drugs under the Federal Food, Drug and Cosmetic Act and implementing regulations. Drugs are also subject to other federal, state and local statutes and regulations. The process of obtaining regulatory approvals and the subsequent compliance with appropriate federal, state and local statutes and regulations requires the expenditure of substantial time and financial resources. Failure to comply with the applicable requirements at any time during the product development process, approval process or after approval may subject an applicant to a variety of administrative or judicial sanctions, such as the FDA's refusal to approve pending applications, withdrawal of an approval, imposition of a clinical hold, issuance of warning or untitled letters, product recalls, product seizures, total or partial suspension of production or distribution injunctions, fines, refusals of government contracts, restitution, disgorgement of profits or civil or criminal penalties. Any agency or judicial enforcement action could have a material adverse effect on us.

FDA approval is required before any new unapproved drug or dosage form, including a new use of a previously approved drug, can be marketed in the United States. The process required by the FDA before a drug may be marketed in the United States generally involves the following:

- completion of nonclinical laboratory tests, animal studies and formulation studies in compliance with Good Laboratory Practices, or GLP, or other applicable regulations;
- submission to the FDA of an IND application, which must become effective before human clinical trials in the United States may begin;

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- approval by an independent institutional review board, or IRB, for each clinical site before each trial may be initiated;
- performance of adequate and well-controlled human clinical trials in accordance with laws and FDA regulations pertaining to the conduct of human clinical studies, collectively referred to as Good Clinical Practices, or GCP, to establish the safety and efficacy of the proposed drug for each intended use;
- development of the product under rigorous development and design controls as stipulated by governing regulations such as 21 CFR 210 and 211, known as current Good Manufacturing Practices, or cGMP.
- submission to the FDA of an NDA for a proposed new drug;
- satisfactory completion of a potential FDA inspection of the manufacturing facility or facilities where the drug is produced to assess compliance with the FDA's cGMP requirements, to assure that the facilities, methods and controls are adequate to preserve the drug's identity, strength, quality and purity;
- potential FDA audit of the nonclinical and clinical trial sites that generated the data in support of the NDA;
- satisfactory completion of a potential review by an FDA advisory committee, if applicable; and
- FDA review and approval of the NDA prior to any commercial marketing, sale or shipment of the drug.

The lengthy process of seeking FDA approval and the continuing need for compliance with applicable statutes and regulations require the expenditure of substantial resources and approvals are inherently uncertain. Notwithstanding the expenditure of time and resources approval is never guaranteed and FDA may grant approval for less than the desired indications. Moreover, the time required to obtain approval, if any, may vary substantially based upon the type, complexity and novelty of the product or disease.

Before testing any compounds with potential therapeutic value in humans, a drug candidate typically undergoes nonclinical testing, also referred to as pre-clinical testing. Pre-clinical tests include laboratory evaluations of product chemistry, toxicity and formulation, as well as animal studies to assess the characteristics and potential safety and activity of the drug candidate. The conduct of the pre-clinical tests must comply with federal regulations and requirements including GLP.

An IND is a request for authorization from the FDA to administer an investigational new drug product to humans. The IND sponsor must submit the results of pre-clinical tests, together with manufacturing information, analytical data, information about product chemistry, any available clinical data or literature and a proposed clinical protocol, among other things, to the FDA as part of the IND. The IND automatically becomes effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions related to one or more proposed clinical trials and places the trial on a clinical hold, including concerns that human research subjects will be exposed to unreasonable health risks. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin.

A separate submission to an existing IND application must also be made for each successive clinical trial conducted during product The FDA may also impose clinical holds on a drug candidate at any time before or during clinical trials due to safety concerns or non-compliance. Accordingly, we cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin, or that, once begun, issues will not arise that suspend or terminate such trial.

### ***Clinical Studies***

Clinical trials involve the administration of the drug candidate to healthy subjects or patients with the target disease under the supervision of qualified investigators, generally physicians not employed by or under the trial sponsor's control. Clinical trials are conducted under written study protocols detailing, among other things, the objectives of the clinical trial, dosing procedures, subject selection and exclusion criteria and the parameters to be used to monitor subject safety. Each protocol must be submitted to the FDA under the IND. Clinical trials must be conducted in accordance with the FDA's regulations. Further, each clinical trial must be reviewed and approved by an IRB at or servicing each institution at which the clinical trial will be conducted before the trial commences at that site. An IRB is charged with protecting the welfare and rights of trial participants and considers such items as whether the risks to individuals participating in the clinical trials are minimized and are reasonable in relation to anticipated benefits. The IRB also approves the Informed Consent Form that must be provided to each clinical trial subject or his or her legal representative and must monitor the clinical trial until it is completed.

Human clinical trials are typically conducted in three sequential phases that may overlap or be combined:

- Phase 1. The drug is initially introduced into healthy human subjects or patients and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. The drug may also be tested for early evidence of effectiveness. In the case of some products for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted only in patients having the specific disease.
- Phase 2. The drug is evaluated in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for a specific indication and to determine the dosage tolerance, optimal dosage and dosing schedule for patients having the specific disease.
- Phase 3. The drug is administered to an expanded patient population in adequate and well-controlled clinical trials, typically at geographically dispersed clinical trial sites, to generate sufficient data to statistically confirm the efficacy and safety of the product for approval, to establish the overall risk-benefit profile of the product and to provide adequate information for the labeling of the product. Generally, at least two adequate and well-controlled Phase 3 clinical trials are required by the FDA for approval of an NDA, though a single Phase 3 trial with other confirmatory evidence may be sufficient in rare instances (for example, where the study is a large multicenter trial providing highly reliable and statistically persuasive evidence of an important clinical benefit and confirmation of the result in a second trial would be practically or ethically impossible).

Post-approval studies, also referred to as Phase 4 clinical trials, may be conducted after initial marketing approval. These studies are used to gain additional experience from the treatment of patients in the intended therapeutic indication and may be required by the FDA as part of the approval process.

During the development of a new drug, sponsors are given opportunities to meet with the FDA at certain points, including prior to submission of an IND, at the end of Phase 2 and before an NDA is submitted. Meetings at other times may be requested. These meetings can provide an opportunity for the sponsor to share information about the data gathered to date, for the FDA to provide advice and for the sponsor and FDA to reach agreement on the next phase of development. Sponsors typically use the end of Phase 2 meeting to discuss their Phase 2 clinical results and present their plans for the pivotal Phase 3 clinical trials that they believe will support approval of the new drug.

The FDA or the sponsor or its data safety monitoring board may suspend a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to study subjects.

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Concurrent with clinical trials, companies may complete additional animal studies, develop additional information about the chemistry and physical characteristics of the drug and must finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the drug candidate and, among other things, the manufacturer must develop methods for testing the identity, strength, quality and purity of the final drug product. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the drug candidate does not undergo unacceptable deterioration over its shelf life.

### ***FDA Review and Approval Processes***

#### *Submission of an NDA to the FDA*

Assuming successful completion of required clinical testing and other requirements, the results of the pre-clinical and clinical studies, together with detailed information relating to the product's chemistry, pharmacology, manufacture, controls and proposed labeling, among other things, are submitted to the FDA as part of an NDA requesting approval to market the drug product for one or more indications. Under federal law, the submission of most NDAs is subject to a substantial application user fee and the manufacturer and/or sponsor under an approved NDA are also subject to annual product and establishment user fees.

NDAs for most new drug products are based on two Phase 3 clinical studies which must contain substantial evidence of the safety and efficacy of the proposed new product. These applications are submitted under Section 505(b)(1) of the FDCA. The FDA is, however, authorized to approve an alternative type of NDA under Section 505(b)(2) of the FDCA. NDAs filed under Section 505(b)(2) may provide an alternate and potentially more expeditious pathway to FDA approval for modified formulations or new uses of previously FDA-approved products. This type of application allows the applicant to rely, in part, on the FDA's previous findings of safety and efficacy for a similar product, or published literature. Specifically, Section 505(b)(2) applies to NDAs for a drug for which the investigations made to show whether or not the drug is safe for use and effective in use and relied upon by the applicant for approval of the application "were not conducted by or for the applicant and for which the applicant has not obtained a right of reference or use from the person by or for whom the investigations were conducted." If the 505(b)(2) applicant can establish that reliance on the FDA's previous approval is scientifically appropriate, the applicant may eliminate the need to conduct certain pre-clinical or clinical studies of the new product. The FDA may also require companies to perform additional studies or measurements, including clinical trials, to support the change from the approved product. The FDA may then approve the new drug candidate for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant.

The FDA has 60 days from its receipt of an NDA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. The FDA may request additional information before accepting an NDA for filing. In this event, the NDA must be resubmitted with the additional information and is subject to payment of additional user fees. Once the submission is accepted for filing, the FDA begins an in-depth review of the NDA. Under the Prescription Drug User Fee Act, or PDUFA, the FDA has agreed to certain goals for review of NDAs. For an NDA that does not contain a new molecular entity (NME), FDA endeavors to complete its review of a standard NDA and respond to the applicant within 10 months after submission of the NDA, and to complete its review and respond to a priority review NDA within six months after submission of the NDA. For an NDA that contains an NME, the FDA endeavors to complete its review and respond to the applicant within 12 months after submission of a standard NDA and within eight months after submission of a priority review NDA. The FDA does not always meet its PDUFA goal dates for review of standard or priority review NDAs. The review process and the PDUFA goal date may be extended by additional three month review periods whenever the FDA requests or the NDA sponsor otherwise provides additional information or clarification regarding information already provided in the submission at any time during the review cycle.

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The FDA reviews the NDA to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP to assure and preserve the product's identity, strength, quality and purity. The FDA may refer applications for novel drug products or drug products which present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes independent clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

During the drug approval process, the FDA also will determine whether a risk evaluation and mitigation strategy, or REMS, is necessary to assure the safe use of the drug. If the FDA concludes a REMS is needed, the sponsor of the NDA must submit a proposed REMS; the FDA will not approve the NDA without a REMS, if required, and the sponsor must agree to the REMS at the time of approval. A REMS may be required to include various elements, such as a medication guide or patient package insert, a communication plan to educate healthcare providers of the drug's risks, limitations on who may prescribe or dispense the drug, or other elements to assure safe use, such as special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring and the use of patient registries. In addition, the REMS must include a timetable to periodically assess the strategy. The requirement for a REMS can materially affect the potential market and profitability of a drug.

Before approving an NDA, the FDA may inspect the facilities at which the product is to be manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and are adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with FDA regulations regarding conduct of clinical trials. If the FDA determines that the application, manufacturing process or manufacturing facilities are not acceptable, it will inform the applicant of the deficiencies and often will request additional testing or information.

After the FDA evaluates the NDA and the manufacturing facilities, it issues either an approval letter or a "complete response" letter, or CRL. The FDA will issue a CRL to indicate that the review cycle for an application is complete and that the application is not ready for approval. A CRL generally describes the specific deficiencies in the NDA identified by the FDA and outlines the additional steps that would need to be undertaken in order for FDA to reconsider the application. These could include additional clinical trials, additional manufacturing or product characterization, or further pre-clinical or pharmacokinetic studies. If a CRL is issued, the applicant may either resubmit the NDA, addressing all of the deficiencies identified in the letter, or withdraw the application. If, or when, the deficiencies have been addressed to the FDA's satisfaction in a resubmission of the NDA, the FDA will issue an approval letter. Should the applicant disagree with the decision to issue the CRL, there are dispute resolution processes through which the applicant can appeal the approvability of the NDA within the FDA. These processes can be lengthy and do not ensure that the NDA will be re-reviewed in its current state or subsequently approved.

An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications. If a product receives regulatory approval, the approval may be significantly limited to specific diseases and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Further, the FDA may require that certain contraindications, warnings or precautions be included in the product labeling. In addition, the FDA may require post-approval surveillance to monitor the drug's safety or efficacy or post-approval studies, referred to as Phase 4 studies, which involve clinical trials designed to further assess a product's safety and effectiveness. The FDA has the authority to prevent or limit further marketing of a product based on the results of these post-marketing programs.

### ***Post-Approval Requirements***

Any drug products for which we receive FDA approvals will be subject to pervasive and continuing regulation by the FDA, including, among other things, requirements relating to drug listing and registration, record-keeping, adverse event reporting, reporting updated safety and efficacy information, sampling and distribution and product promotion and advertising. These promotion and advertising requirements include, among other things, standards and regulations regarding direct-to-consumer advertising, prohibitions against promoting drugs for uses or in patient populations that are not described in the drug's approved labeling (known as "off-label use") and rules for conducting industry-sponsored scientific and educational activities and promotional activities involving the internet. Drugs may be marketed only for the approved indications and in accordance with the provisions of the approved labeling. While physicians may prescribe for off-label uses, manufacturers may only promote their products for the approved indications and in accordance with the provisions of the approved label. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses and a company that is found to have improperly promoted off-label uses may be subject to significant liability.

Failure to comply with FDA requirements can have negative consequences, including adverse publicity, enforcement letters from the FDA, mandated corrective advertising or communications with doctors and civil or criminal penalties. In addition, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our products. Manufacturers of our products are required to comply with applicable FDA manufacturing requirements contained in the FDA's cGMP regulations, and quality-control, drug manufacture, packaging and labeling procedures must continue to conform to cGMP regulations after approval. Drug manufacturers and other entities involved in the manufacture and distribution of approved drugs are also required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced and announced inspections by the FDA and certain state agencies to assess compliance with cGMP and other laws. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain cGMP compliance. Failure to comply with regulatory standards, the emergence of problems following initial marketing, or the discovery of previously unrecognized problems with a product after approval may result in restrictions on a product or the manufacturer or holder of an approved NDA. These restrictions may include suspension of a product until the FDA is assured that quality standards can be met, continuing oversight of manufacturing by the FDA under a consent decree of permanent injunction, which frequently includes the imposition of costs and continuing inspections over a period of many years, as well as possible withdrawal of product approvals or a request for product recalls. The FDA may also impose a REMS requirement on a drug already on the market if the FDA determines, based on new safety information, that a REMS is necessary to ensure that the drug's benefits outweigh its risks. In addition, regulatory authorities may take other enforcement action, including, among other things, warning letters, the seizure of products, refusal to approve pending applications or supplements to approved applications, civil penalties and criminal prosecution.

Changes to the manufacturing process generally require prior FDA approval before being implemented. Other types of changes to the approved product, such as adding new indications and additional labeling claims, are also subject to further FDA review and approval. In addition, the distribution of prescription pharmaceuticals is subject to the Prescription Drug Marketing Act, or PDMA, which regulates the distribution of drugs and drug samples at the federal level, and sets minimum standards for the registration and regulation of drug distributors by the states. A growing majority of states also impose certain drug pedigree requirements on the sale and distribution of prescription drugs.

### ***Pharmaceutical Coverage, Pricing and Reimbursement***

Significant uncertainty exists as to the coverage and reimbursement status of products approved by the FDA and other government authorities. Sales of products will depend, in part, on the extent to which the costs of the products will be covered by third-party payors, including government health programs in the United States such as Medicare and Medicaid, commercial health insurers and managed care organizations. The process for determining whether a payor will provide coverage for a product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the product once coverage is approved. Third-party payors may limit coverage to specific products on an approved list, or formulary, which might not include all of the approved products for a particular indication. Many commercial health plans may also require prior authorization to monitor compliance with patient selection and other coverage criteria.

In order to secure coverage and reimbursement for any product that might be approved for sale, a company may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of the product, in addition to the costs required to obtain FDA or other comparable regulatory approvals. A payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Third-party reimbursement may not be sufficient to maintain price levels high enough to realize an appropriate return on investment in product development.

In addition to uncertainties surrounding coverage policies, there are periodic changes to reimbursement. Third-party payors regularly update reimbursement amounts and also from time to time revise the methodologies used to determine reimbursement amounts. This includes annual updates to payments to physicians and hospitals where our product candidates will be used. Because injection of the viscosupplement is performed by the physician, usually in the office or outpatient clinic, payors generally reimburse the physician for both the IA injection pursuant to a fee schedule and for the viscosupplement on the basis of the average selling price of each viscosupplement product plus a percentage, the total of which, for Medicare patients, is approximately 106% of the average selling price of each viscosupplement product. As a result, these payment updates could directly impact the demand for our product candidates, if approved. An example of payment updates is the Medicare program's updates to hospital and physician payments, which are done on an annual basis using a prescribed statutory formula. In the past, when the application of the formula resulted in lower payment, Congress has passed interim legislation to prevent the reductions. Most recently, the Protecting Access to Medicare Act of 2014, signed into law in April 2014, provided for a 0.5% update from 2013 payment rates under the Medicare Physician Fee Schedule through 2014 and a 0% update from January 1 until April 1, 2015. If Congress fails to intervene to prevent the negative update factor in future years, the resulting decrease in payment may adversely affect our revenues and results of operations.

In the European Union, pricing and reimbursement schemes vary widely from country to country. Some countries provide that drug products may be marketed only after a reimbursement price has been agreed. Some countries may require the completion of additional studies that compare the cost-effectiveness of a particular drug candidate to currently available therapies. For example, the European Union provides options for its member states to restrict the range of drug products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. European Union member states may approve a specific price for a drug product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the drug product on the market. Other member states allow companies to fix their own prices for drug products, but monitor and control company profits. The downward pressure on health care costs in general, particularly prescription drugs, has become intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, in some countries, cross-border imports from low-priced markets exert competitive pressure that may reduce pricing within a country. Any country that has price controls or reimbursement limitations for drug products may not allow favorable reimbursement and pricing arrangements.

### ***Healthcare Reform***

In the United States and foreign jurisdictions, there have been a number of legislative and regulatory changes to the healthcare system that could affect our future results of operations. In particular, there have been and continue to be a number of initiatives at the United States federal and state levels that seek to reduce healthcare costs.

By way of example, in March 2010, the President signed one of the most significant healthcare reform measures in decades. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, collectively known as the Affordable Care Act, substantially changes the way healthcare will be financed by both governmental and private insurers, and significantly impacts the pharmaceutical industry. The comprehensive \$940 billion dollar overhaul is expected to extend coverage to approximately 32 million previously uninsured Americans. The Affordable Care Act contains a number of provisions, including those governing enrollment in federal healthcare programs, reimbursement changes and fraud and abuse, which will impact existing government healthcare programs and will result in the development of new programs, including Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program. Additionally, the Affordable Care Act:

- mandates a further shift in the burden of Medicaid payments to the states;
- increases the minimum level of Medicaid rebates payable by manufacturers of brand-name drugs from 15.1% to 23.1%;
- addresses a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;
- requires collection of rebates for drugs paid by Medicaid managed care organizations;
- requires manufacturers to participate in a coverage gap discount program, under which they must agree to offer 50 percent point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D; and
- imposes a non-deductible annual fee on pharmaceutical manufacturers or importers who sell "branded prescription drugs" to specified federal government programs.

In addition, other legislative changes have been proposed and adopted since the PPACA was enacted. On August 2, 2011, the Budget Control Act of 2011 was signed into law, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reduction to several government programs. This includes reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013, and will stay in effect through 2024 unless congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several providers, including hospitals and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. 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 if approved, or additional pricing pressure.



***Other U.S. Healthcare Laws and Compliance Requirements***

In the United States, our activities are potentially subject to regulation under various federal and state laws targeting fraud and abuse in the healthcare industry. These laws may impact, among other things, our proposed sales, marketing and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;
- the federal transparency laws, including the federal Physician Payment Sunshine Act, that requires drug manufacturers to disclose payments and other transfers of value provided to physicians and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members;
- HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH Act, and its implementing regulations, which imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers; state laws that require pharmaceutical companies to comply with the industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our business activities in the future could be subject to challenge under one or more of such laws. In addition, recent health care reform legislation has strengthened these laws. For example, the Affordable Care Act broadened the reach of the fraud and abuse laws by, among other things, amending the intent requirement of the federal Anti-Kickback Statute and the applicable criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of these statutes or specific intent to violate them in order to have committed a violation. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, exclusion from

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participation in government healthcare programs, such as Medicare and Medicaid and imprisonment, damages, fines and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

We are also subject to the Foreign Corrupt Practices Act, or FCPA, which prohibits improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business. Safeguards we implement to discourage improper payments or offers of payments by our employees, consultants and others may be ineffective, and violations of the FCPA and similar laws may result in severe criminal or civil sanctions, or other liabilities or proceedings against us, any of which would likely harm our reputation, business, financial condition and result of operations.

### ***U.S. Marketing Exclusivity***

#### *Abbreviated New Drug Applications for Generic Drugs*

In 1984, with passage of the Hatch-Waxman Act, Congress established abbreviated FDA approval procedures for drugs that are shown to be equivalent to proprietary drugs previously approved by the FDA under the NDA provisions of the statute. To obtain approval of a generic drug, an applicant must submit an abbreviated new drug application, or ANDA, to the agency. An ANDA is a comprehensive submission that contains, among other things, data and information pertaining to the active pharmaceutical ingredient, drug product formulation, specifications and stability of the generic drug, as well as analytical methods, manufacturing process validation data and quality control procedures. In support of such applications, a generic manufacturer may rely on the pre-clinical and clinical testing previously conducted for a drug product previously approved under an NDA, known as the reference listed drug, or RLD.

Specifically, in order for an ANDA to be approved, the FDA must generally find that the generic version is identical to the RLD with respect to the active ingredients, the route of administration, the dosage form and the strength of the drug. At the same time, the FDA must also determine that the generic drug is “bioequivalent” to the innovator drug. Under the statute, a generic drug is bioequivalent to a RLD if “the rate and extent of absorption of the drug do not show a significant difference from the rate and extent of absorption of the listed drug. . . .” In certain situations, an applicant may obtain ANDA approval of a generic product with a strength or dosage form that differs from a referenced innovator drug pursuant to the filing and approval of an ANDA Suitability Petition. The FDA will approve the generic product as suitable for an ANDA application if it finds that the generic product does not raise new questions of safety and effectiveness as compared to the innovator product. A product is not eligible for ANDA approval if the FDA determines that it is not equivalent to the referenced innovator drug, if it is intended for a different use, or if it is not subject to an approved Suitability Petition. However, such a product might be approved under an NDA, with supportive data from clinical trials.

Upon approval of an ANDA, the FDA indicates that the generic product is “therapeutically equivalent” to the RLD and it assigns a therapeutic equivalence rating to the approved generic drug in its publication “Approved Drug Products with Therapeutic Equivalence Evaluations,” also referred to as the “Orange Book.” Physicians and pharmacists generally consider an “AB” therapeutic equivalence rating to mean that a generic drug is fully substitutable for the RLD. In addition, by operation of certain state laws and numerous health insurance programs, FDA’s designation of an “AB” rating often results in substitution of the generic drug without the knowledge or consent of either the prescribing physician or patient.

### ***Non-Patent Exclusivity***

The FDCA provides a period of five years of non-patent data exclusivity for a new drug containing a new chemical entity, which is a drug that contains an active moiety that has not been approved by the FDA in any other NDA. An “active moiety” is defined as the molecule or ion responsible for the drug substance’s

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physiological or pharmacologic action. In cases where such exclusivity has been granted, an ANDA or 505(b)(2) application referencing that drug may not be filed with the FDA until the expiration of five years after the approval date of the referenced drug, unless the submission is accompanied by a Paragraph IV certification, in which case the applicant may submit its application four years following the approval date of the referenced drug. The FDCA also provides for a period of three years of exclusivity for a particular condition of approval, or change to a marketed product such as a new formulation for a previously approved product, if the NDA includes reports of one or more new clinical investigations, other than bioavailability or bioequivalence studies, that were conducted by or for the applicant and are essential to the approval of the application. In cases where such exclusivity is granted, the FDA would be precluded from approving any ANDA or 505(b)(2) application for the protected modification until after that three-year exclusivity period has run. However, unlike NCE exclusivity, the FDA can accept an application and begin the review process during the exclusivity period.

A 505(b)(2) NDA applicant also may be eligible for its own regulatory exclusivity period, such as three-year exclusivity. The first approved 505(b)(2) applicant for a particular condition of approval, or change to a marketed product, such as a new extended release formulation for a previously approved product, may be granted three-year Hatch-Waxman exclusivity if one or more clinical studies, other than bioavailability or bioequivalence studies, was essential to the approval of the application and was conducted/sponsored by the applicant. Should this occur, the FDA would be precluded from making effective any other application for the same condition of use or for a change to the drug product that was granted exclusivity until after that three-year exclusivity period has run. Additional exclusivities may also apply to products approved through the 505(b)(2) pathway.

### ***Hatch-Waxman Patent Certification and the 30-Month Stay***

In seeking approval for a drug through an NDA, including a 505(b)(2) NDA, sponsors are required to list with the FDA each patent with claims that cover the applicant's product or an approved method of using the product. Upon approval of the NDA, each of the patents listed by the NDA sponsor is published in the Orange Book. When an applicant files an application with the FDA seeking approval of a generic equivalent version of a drug listed in the Orange Book or a 505(b)(2) NDA referencing a drug listed in the Orange Book, the applicant is required to certify to the FDA concerning any patents listed for the reference product in the Orange Book, except for patents covering methods of use for which the applicant is not seeking approval.

Specifically, the applicant must certify with respect to each patent that:

- no patent information on the drug product that is the subject of the application has been submitted to the FDA;
- the listed patent has expired;
- the listed patent has not expired, but will expire on a particular date and approval is sought after patent expiration; or
- the listed patent is invalid, unenforceable or will not be infringed upon by the manufacture, use or sale of the drug product for which the application is submitted.

If the applicant does not challenge the listed patents or indicate that it is not seeking approval of a patented method of use, the ANDA or 505(b)(2) application will not be approved until all the listed patents claiming the referenced product have expired.

A certification that the listed patent is invalid, unenforceable or will not be infringed upon by the manufacture, use or sale of the drug product for which the application is submitted is known as a Paragraph IV certification. If the ANDA or 505(b)(2) applicant has provided a Paragraph IV certification to the FDA, the

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applicant must also send notice of the Paragraph IV certification to the NDA and patent holders once the ANDA or 505(b)(2) application has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement lawsuit in response to the notice of the Paragraph IV certification. The filing of a patent infringement lawsuit within 45 days after the receipt of a Paragraph IV certification automatically prevents the FDA from approving the ANDA or 505(b)(2) application until the earlier of 30 months after the receipt of the Paragraph IV notice, expiration of the patent, the date of a settlement order or consent decree entered by the court stating that the patent is invalid or not infringed, or a court finding that the patent is invalid or infringed.

### ***Europe/Rest of World Government Regulation***

In addition to regulations in the United States, we will be subject to a variety of regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products.

Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries. Certain countries outside of the United States have a similar process that requires the submission of a clinical trial application much like the IND prior to the commencement of human clinical trials. In the European Union, for example, a clinical trial application, or CTA, must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and IRB, respectively. Once the CTA is approved in accordance with a country's requirements, the clinical trial described in that CTA may proceed.

The requirements and process governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, the clinical trials must be conducted in accordance with the ICH GCP and the applicable regulatory requirements and the ethical principles that have their origin in the Declaration of Helsinki. In the European Economic Area, or EEA (which is comprised of the 27 Member States of the European Union plus Norway, Iceland and Liechtenstein), medicinal products can only be commercialized after obtaining a Marketing Authorization, or MA. There are two types of marketing authorizations: the Community MA, which is issued by the European Commission through the Centralized Procedure based on the opinion of the Committee for Medicinal Products for Human Use, a body of the European Medicines Agency, or the EMA, and which is valid throughout the entire territory of the EEA; and the National MA, which is issued by the competent authorities of the Member States of the EEA and only authorized marketing in that Member State's national territory and not the EEA as a whole.

The Centralized Procedure is mandatory for certain types of products, such as biotechnology medicinal products, orphan medicinal products and medicinal products containing a new active substance indicated for the treatment of AIDS, cancer, neurodegenerative disorders, diabetes, auto-immune and viral diseases. The Centralized Procedure is optional for products containing a new active substance not yet authorized in the EEA, or for products that constitute a significant therapeutic, scientific or technical innovation or which are in the interest of public health in the EU. The National MA is for products not falling within the mandatory scope of the Centralized Procedure. Where a product has already been authorized for marketing in a Member State of the EEA, this National MA can be recognized in another Member States through the Mutual Recognition Procedure. If the product has not received a National MA in any Member State at the time of application, it can be approved simultaneously in various Member States through the Decentralized Procedure. Under the Decentralized Procedure an identical dossier is submitted to the competent authorities of each of the Member States in which the MA is sought, one of which is selected by the applicant as the Reference Member state, or RMS. If the RMS proposes to authorize the product, and the other Member States do not raise objections, the product is granted a national MA in all the Member States where the authorization was sought. Before granting the MA, the EMA or the competent authorities of the Member States of the EEA make an assessment of the risk-benefit balance of the product on the basis of scientific criteria concerning its quality, safety and efficacy.

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If we fail to comply with applicable foreign regulatory requirements, we may be subject to, among other things, fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

### **Employees**

As of August 31, 2014, we had 14 employees. None of our employees is represented by labor unions or covered by collective bargaining agreements. We consider our relationship with our employees to be good.

### **Facilities**

Our headquarters is currently located in Palo Alto, California, and consists of approximately 16,065 square feet of space, consisting of 10,155 square feet used primarily for our corporate offices and laboratory operations and 5,910 square feet that we sublease. The current term of our lease expires in February 2016. We intend to relocate to a new facility prior to the expiration of our existing lease. We believe that a suitable new facility will be available on commercially reasonable terms.

### **Legal Proceedings**

We are not currently a party to any material legal proceedings.

## Management

### Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of September 1, 2014:

Name	Age	Position(s)
<i>Executive Officers and Key Employees</i>		
David M. Renzi	57	President, Chief Executive Officer and Director
T. Michael White	39	Chief Financial Officer and Vice President, Finance
Marcee M. Maroney	44	Vice President, Clinical Affairs & Marketing
David M. Gravett, Ph.D.	48	Vice President, Research & Development
Hayley Lewis, RAC	39	Vice President, Regulatory Affairs & Quality Assurance
Timothy L. Trapp	58	Vice President, Manufacturing Operations
<i>Non-Employee Directors</i>		
Steven L. Basta <sup>(1)</sup>	48	Director
Albert Cha, M.D., Ph.D. <sup>(2)</sup>	42	Director
Guy P. Nohra <sup>(1)</sup>	54	Director
Reza Zadno, Ph.D. <sup>(2)</sup>	59	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

### Executive Officers

*David M. Renzi* has served as our president and chief executive officer and as a member of our board of directors since June 2013. From May 2009 to December 2012, Mr. Renzi served as president and chief executive officer of Neomend, a privately-held company that developed and commercialized sprayable surgical sealants and anti-adhesion products, which was acquired by C.R. Bard in December 2012. From January 2005 to December 2008, Mr. Renzi served as the vice president of sales and marketing and the chief commercial officer of SurgRx, a medical device company acquired by the Ethicon Endo-Surgery division of Johnson & Johnson, a medical company, in October 2008. From June 2000 to December 2004, Mr. Renzi served as vice president of sales and marketing and chief marketing officer at Cytyc Surgical Products (formerly Novacept), a medical device company. From 1983 to 1997, Mr. Renzi held various sales and marketing positions at Ethicon Endo-Surgery, a medical company, most recently as its regional director of sales and director of marketing. Mr. Renzi received his B.S. in Marketing from the Kelley School of Business at Indiana University. We believe Mr. Renzi is qualified to serve on our board of directors because, as our chief executive officer, Mr. Renzi manages and oversees all facets of our operations and also because Mr. Renzi has experience serving as an officer and member of the board of directors of other companies.

*T. Michael White* has served as our chief financial officer and vice president of finance since July 2014. From February 2014 to June 2014, Mr. White served as an independent consultant. From June 2008 to January 2014, Mr. White served as a vice president and director in the healthcare investment banking group at Barclays, a financial services company, advising clients on a variety of strategic alternatives including equity and debt capital raises and mergers and acquisitions. From August 2002 to June 2008, Mr. White served in a series of positions of increasing responsibility in the healthcare investment banking group at Bear, Stearns & Co. Inc., a financial services company. Mr. White received his B.S. in Finance from the University of Alabama and his M.B.A. from the University of Chicago.

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*Marcee Maroney* has served as our vice president of clinical affairs and marketing since June 2008. Ms. Maroney joined us as vice president of marketing in February 2006. From April 2003 to February 2006, Ms. Maroney served as a group manager at Baxter Healthcare, a healthcare company. Ms. Maroney received a B.S. in Physiology and an M.S. in Immunology, both from San Jose State University.

*David M. Gravett, Ph.D.* has served as our vice president of research and development since October 2007. Dr. Gravett joined us as a senior chemist in March 2007. From 2004 to 2007, Dr. Gravett served as vice president of formulations and polymer chemistry at Angiotech Pharmaceuticals, a medical drug and device company. Dr. Gravett received his BSc and MSc in Chemistry at the University of Natal, South Africa and a Ph.D. in Physical Chemistry from the University of Toronto in Canada.

*Hayley Lewis, RAC* has served as our vice president of regulatory affairs and quality assurance since May 2014. From May 2003 to May 2014, Ms. Lewis held positions of increasing responsibility at Depomed, a pharmaceutical company, most recently as its senior director of regulatory affairs. Ms. Lewis received a B.S. in Pharmaceutical Sciences from the University of Greenwich in England.

*Timothy L. Trapp* has served as our vice president of manufacturing operations since May 2014. From January 2012 to May 2014, Mr. Trapp served as director of manufacturing at Heron Therapeutics (formerly AP Pharma), a pharmaceutical company. From January 2008 to September 2011, Mr. Trapp served as senior director of manufacturing at ChemGenex Pharmaceuticals Ltd., a pharmaceutical company. From December 2003 to November 2007, Mr. Trapp served as director of research and development operations at ALZA Corporation, a subsidiary of Johnson & Johnson, a medical company. Mr. Trapp received a B.S. in Biochemistry from Loma Linda University.

### **Non-Employee Directors**

*Steven L. Basta* has served as a member of our board of directors since September 2009. Since October 2011 Mr. Basta has served as chief executive officer of AlterG, a privately-held medical device company. From November 2002 to February 2010, Mr. Basta served as chief executive officer of BioForm Medical, a medical aesthetics company, and from February 2010 to September 2011 served as chief executive officer of Merz Aesthetics, the successor to BioForm Medical. Mr. Basta received a B.A. from The Johns Hopkins University and a Master of Management degree from the Kellogg Graduate School of Management at Northwestern University. We believe Mr. Basta is qualified to serve on our board because of his extensive experience in leadership and management roles at various life sciences companies.

*Albert Cha, M.D., Ph.D.* has served as a member of our board of directors since November 2007. In September 2000, Dr. Cha joined Vivo Capital, a healthcare investment firm, where he has served in various positions, most recently as a managing partner. Dr. Cha currently serves as a member of the boards of directors of several privately-held biotechnology and medical device companies. Dr. Cha received a B.S. and an M.S. from Stanford University and an M.D. and a Ph.D. from the University of California at Los Angeles. We believe Dr. Cha is qualified to serve on our board because of his medical background, venture capital experience and significant experience serving as a director of other life sciences companies.

*Guy P. Nohra* has served as a member of our board of directors since December 2005. In March 1996, Mr. Nohra co-founded Alta Partners, a life sciences venture capital firm, and he has since been involved in the funding and development of numerous medical technology and life sciences companies. Mr. Nohra currently serves as a member of the boards of directors of several privately-held life sciences companies. Mr. Nohra received a B.A. in History from Stanford University and an M.B.A. from the University of Chicago. We believe Mr. Nohra is qualified to serve on our board because of his extensive experience in the life sciences industry, his investment and development experience, and his service as a director of other life sciences companies.

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*Reza Zadno, Ph.D.* has served as a member of our board of directors since March 2013. Since January 2012, Dr. Zadno has served as a venture partner at InterWest Partners, a venture capital firm. From January 2011 to January 2012, Dr. Zadno served as a venture partner at New Leaf Venture Partners, a venture capital firm. From March 2001 to September 2009, Dr. Zadno was founder, president, and chief executive officer of Visiogen, a medical device company, which was acquired by Abbott-Medical Optics, a medical supply company, in 2009, at which time Dr. Zadno served as its general manager until January 2011. From August 2000 to March 2001, Dr. Zadno worked as entrepreneur-in-residence at Three Arch Partners, a healthcare investment firm. Dr. Zadno received a Ph.D. (Docteur-Ingenieur) from Ecole des Mines de Paris. We believe Dr. Zadno is qualified to serve on our board because of his medical background, venture capital experience and his leadership and management experience.

### **Board Composition**

Our business and affairs are organized under the direction of our board of directors, which currently consists of five members. The primary responsibilities of our board of directors are to provide oversight, strategic guidance, counseling and direction to our management. Our board of directors meets on a regular basis and additionally as required.

Our board of directors has determined that all of our directors other than David Renzi are independent directors, as defined by Rule 5605(a)(2) of the Nasdaq Listing Rules.

Effective upon the closing of this offering, we will divide our board of directors into three classes, as follows:

- Class I, which will consist of David Renzi and Albert Cha, whose terms will expire at our annual meeting of stockholders to be held in 2015;
- Class II, which will consist of Guy Nohra and Reza Zadno, whose terms will expire at our annual meeting of stockholders to be held in 2016; and
- Class III, which will consist of Steven L. Basta and \_\_\_\_\_, whose terms will expire at our annual meeting of stockholders to be held in 2017.

At each annual meeting of stockholders to be held after the initial classification, the successors to directors whose terms then expire will serve until the third annual meeting following their election and until their successors are duly elected and qualified. The authorized size of our board of directors is eight members. The authorized number of directors may be changed only by resolution of the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed between the three classes so that, as nearly as possible, each class will consist of one-third of the directors. This classification of the board of directors may have the effect of delaying or preventing changes in our control or management. Our directors may be removed for cause by the affirmative vote of the holders of at least 66 <sup>2</sup>/<sub>3</sub>% of our voting stock.

### **Board Leadership Structure**

Our bylaws provide our board of directors with flexibility to combine or separate the positions of chairman of the board and chief executive officer in accordance with its determination that utilizing one or the other structure would be in our best interests. At the current time, we do not have a chairman of the board. Our board of directors believes that oversight of our company is the responsibility of our board of directors as a whole, and this responsibility can be properly discharged without a chairman. Our chief executive officer, Mr. Renzi, facilitates communications between members of our board of directors and works with our senior management in the preparation of the agenda for each board meeting. All of our directors are encouraged to make suggestions for board of director's agenda items or pre-meeting materials.



## **Role of the Board in Risk Oversight**

One of the key functions of our board of directors is informed oversight of our risk management process. The board of directors does not have a standing risk management committee, but rather administers this oversight function directly through the board of directors as a whole, as well as through various standing committees of our board of directors that address risks inherent in their respective areas of oversight. In particular, our board of directors is responsible for monitoring and assessing strategic risk exposure and our audit committee has the responsibility to consider and discuss our major financial risk exposures and the steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. The audit committee also monitors compliance with legal and regulatory requirements. Our compensation committee assesses and monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking.

## **Board Committees**

Our board of directors has established an audit committee and a compensation committee.

### ***Audit Committee***

Our audit committee consists of Steven L. Basta, Guy P. Nohra and \_\_\_\_\_, who serves as the chair of our audit committee. Our board of directors has determined that each of the members of our audit committee satisfies Nasdaq and SEC independence requirements. The functions of this committee include, among other things:

with respect to the auditors,

- exercising sole authority to appoint, compensate, retain, terminate, oversee and evaluate the activities of the auditors;
- having a constructive and positive working relationship with the auditors;
- ensuring that it receives from the auditors a formal written statement delineating all relationships between the auditors and our company, actively engaging in a dialogue with the auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors, or recommending that our board of directors take appropriate action to oversee the independence of the auditors;
- at least annually, obtaining and reviewing a report by the independent auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;
- meeting with the independent auditors prior to the annual audit to discuss planning and staffing of the audit;
- setting clear hiring policies for employees or former employees of the auditors, including but not limited to, those required by all applicable laws and listing rules;
- reviewing and approving the retention of the auditors for the performance of all audit and lawfully permitted non-audit services and the fees and other compensation for such services;

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- reviewing with representatives of the auditors: (i) the proposed audit scope, approach and independence, (ii) the auditors' periodic peer review, (iii) the financial statements and audit findings, (iv) any reports prepared by the auditors relating to significant financial reporting issues and judgments, and (v) other applicable matters required to be discussed by generally accepted auditing standards and applicable SEC and listing requirements and rules;
- resolving any disagreements between management and the auditors regarding financial reporting;
- conducting a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the auditors;
- directing the auditors to review before filing with the SEC our interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews; and
- evaluating annually the performance and independence of the auditors;

with respect to our financial reporting process,

- overseeing our accounting and financial reporting processes and the audits of our financial statements;
- discussing with our financial management and auditors the annual audited financial statements and quarterly unaudited financial statements, including the disclosures contained under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to filing our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively, with the SEC;
- reviewing and discussing with our financial management and auditors our policies and procedures concerning earnings press releases and review the type and presentation of information to be included in earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies;
- providing a report in the proxy statement in accordance with the rules and regulations of the SEC;

with respect to our internal audit process, if applicable,

- overseeing the internal audit process and the activities, organizational structure and qualifications of any internal audit department;
- reviewing, in consultation with management, the auditors and the senior internal auditing executive, and approving the annual internal audit plan;
- reviewing, assessing and approving the charter for any internal audit department;
- reviewing significant reports to management prepared by the internal auditing department and management's responses to such reports;
- discussing with the internal audit department any changes to, and the implementation of, the internal audit plan and any special projects and discuss with the internal audit department the results of the internal audits and any special projects;

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with respect to our risks and control environment,

- reviewing on a continuing basis the adequacy of our system of internal controls;
- discussing our major business, operational, and financial risk exposures and the guidelines, policies and practices regarding risk assessment and risk management;
- overseeing the process by which management shall design, implement, amend, maintain, and enforce a comprehensive system of financial controls (including the right internal and external people and resources, policies, processes and enforcement) aimed at ensuring the integrity and compliance of our books and records with generally accepted accounting principles and sound business practices, as well as protecting the value of our assets and safeguarding the credibility of our brand, employees, management team, board of directors, and stockholders;
- overseeing compliance with the requirements of the SEC for disclosure of auditors' services and audit committee members, member qualifications and activities;
- establishing procedures for receiving, retaining and treating complaints we received regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- investigating, in conjunction with counsel, any legal matter that could have a significant impact on our financial statements or any matter brought to its attention within the scope of its duties;

with respect to other matters:

- reviewing all related party transactions and ensuring they are disclosed as required by applicable law in the financial report that SEC rules require be included in our annual proxy statement;
- reviewing and reassessing the adequacy of the committee charter on an annual basis;
- reviewing reports and any financial information we submitted to the public;
- reporting to our board of directors the matters discussed at each committee meeting;
- performing an evaluation of its performance from time to time to determine whether it is functioning effectively; and
- performing any other activities consistent with the committee charter, the bylaws and governing law as our board of directors and this committee shall deem appropriate.

Our board of directors has determined that \_\_\_\_\_ qualifies as an audit committee financial expert within the meaning of SEC regulations and meets the financial sophistication requirements of the Nasdaq Listing Rules. In making this determination, our board has considered \_\_\_\_\_'s previous and current experience. Both our independent registered public accounting firm and management periodically meet privately with our audit committee.

### ***Compensation Committee***

Our compensation committee consists of Albert Cha, M.D., Ph.D., Reza Zadno, Ph.D., and \_\_\_\_\_, who serves as the chair of our compensation committee. Our board of directors has determined that each of the

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members of our compensation committee is a non-employee director, as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or Exchange Act, is an outside director, as defined pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, and satisfies Nasdaq and SEC independence requirements. The functions of this committee include, among other things:

- assisting our board of directors in developing and evaluating potential candidates for executive positions (including the chief executive officer) and overseeing the development of executive succession plans;
- reviewing and approving corporate goals and objectives relevant to the chief executive officer and other executive officer compensation, evaluating the performance of the chief executive officer and other executive officers in light of those goals and objectives and, either as a committee or together with the other independent directors (as directed by our board of directors), determining and approving, or recommending to our board of directors for approval, the compensation levels for the chief executive officer and other executive officers based on this evaluation with the deliberations and voting on the chief executive officer's compensation to be conducted without the chief executive officer present;
- making recommendations to our board of directors about the compensation of the directors;
- administering our equity-based plans and management incentive compensation plans and making recommendations to our board of directors about amendments to such plans and the adoption of any new employee incentive compensation plans;
- in its sole discretion, appointing, retaining or obtaining the advice of a compensation consultant, legal counsel or other adviser, which includes the sole authority and direct responsibility to approve such compensation consultant's or other adviser's fees and other retention terms, to oversee the work of and to terminate such compensation consultant or other adviser, and the authority and responsibility to pay from our company funds reasonable compensation to such compensation consultant or other adviser retained by this committee, with such funding to be provided by us, as appropriate, as determined by this committee.
- before selecting or obtaining the advice of a compensation consultant, legal counsel or other adviser (other than in-house legal counsel), considering all factors relevant to the independence of such consultant, counsel or adviser from management, including the factors set forth in the Nasdaq listing standards then in effect and any other applicable laws, rules or regulations;
- producing a compensation committee report on executive compensation for inclusion in our annual proxy statement in accordance with the proxy rules;
- reviewing and assessing the adequacy of this charter and submitting any changes to our board of directors for approval on an annual basis;
- reporting its actions and any recommendations to our board of directors on a periodic basis; and
- annually performing, or participating in, an evaluation of the performance of this committee, the results of which shall be presented to our board of directors.

### **Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee has ever been an executive officer or employee of ours. None of our executive officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

***Code of Business Conduct and Ethics***

We will adopt a code of business conduct and ethics that applies to all of our officers, including those officers responsible for financial reporting, directors and employees prior to the closing of this offering. We will post a copy of our code of business conduct and ethics, and intend to post amendments to this code, or any waivers of its requirements, on our website at [www.carbylan.com](http://www.carbylan.com), as permitted under SEC rules and regulations. The reference to our web address does not constitute incorporation by reference of the information contained on or available through this site.

***Director Nominations***

We do not have a standing nominating committee. In accordance with Rule 5605(e)(2) of the Nasdaq Listing Rules, a majority of the independent directors may recommend a director nominee for selection by our board of directors. Our board of directors believes that the independent directors can satisfactorily carry out the responsibility of properly selecting or approving director nominees without the formation of a standing nominating committee. In accordance with Rule 5605(e)(1)(A) of the Nasdaq Listing Rules, all of our directors other than David Renzi are independent. As there is no standing nominating committee, we do not have a nominating committee charter in place.

The board of directors will also consider director candidates recommended for nomination by our stockholders during such times as they are seeking proposed nominees to stand for election at the next annual meeting of stockholders (or, if applicable, a special meeting of stockholders). Our stockholders that wish to nominate a director for election to our board of directors should follow the procedures set forth in Section 1.2 of our bylaws.

We have not formally established any specific, minimum qualifications that must be met or skills that are necessary for directors to possess. In general, in identifying and evaluating nominees for director, our board of directors considers educational background, diversity of professional experience, knowledge of our business, integrity, professional reputation, independence, wisdom, and the ability to represent the best interests of our stockholders.

## Executive and Director Compensation

### Executive Compensation

This section describes the material elements of the compensation, with respect to fiscal year 2013, awarded to, earned by, or paid to (i) our president and chief executive officer, David M. Renzi, (ii) our two most highly compensated executive officers (other than our chief executive officer), David M. Gravett, Ph.D., our vice president of research and development, and Marcee M. Maroney, our vice president of clinical affairs and marketing, (iii) our former president and chief executive officer, George Daniloff, who resigned in April 2013, and (iv) our former interim chief executive officer and acting chief financial officer, Samuel Lynch, who held those roles in 2013, from the time of Mr. Daniloff's resignation in April to Mr. Renzi's hiring in June. These executives are collectively referred to in this prospectus as our named executive officers. In June 2014, we hired T. Michael White to serve as our vice president of finance and chief financial officer. Because he was hired after the close of fiscal year 2013, Mr. White is not a named executive officer for fiscal year 2013.

Each year, the compensation committee of our board of directors and our board of directors review and determine the compensation of our named executive officers.

This discussion contains forward looking statements that are based on our current plans, considerations, expectations and determinations regarding future compensation programs. Actual compensation programs that we adopt may differ materially from currently planned programs as summarized in this discussion. As an "emerging growth company" as defined in the JOBS Act, we are not required to include a Compensation Discussion and Analysis section and have elected to comply with the scaled disclosure requirements applicable to emerging growth companies.

### Elements of Executive Compensation

As described further below, the compensation of our named executive officers consists of base salary, annual cash bonuses, equity awards and employee benefits that are made available to all salaried employees. Our named executive officers are also entitled to compensation and benefits upon certain terminations of employment and change in control transactions.

*Base Salaries.* Base salaries of our named executive officers are reviewed and approved annually by our compensation committee, and adjustments to base salaries are based on individual and corporate performance, anonymous private company compensation surveys, the rate of inflation, internal pay equity considerations and the experience of members of our compensation committee. We do not assign a specific weight to any single factor in making decisions regarding base salary adjustments. In determining base salary, our compensation committee uses each named executive officer's current level of compensation as the starting point.

In connection with the commencement of his employment, our compensation committee approved a base salary of \$350,000 for Mr. Renzi. In January 2013, the compensation committee increased the base salary for Dr. Gravett and Ms. Maroney to \$257,500 from their 2012 base salary of \$250,000. In addition, effective April 2013, our compensation committee approved an increased base salary of \$267,500 for Dr. Gravett and Ms. Maroney. Mr. Daniloff did not receive a base salary increase for 2013, and his base salary for 2013 remained at \$381,315.

Mr. Lynch commenced service with us as a member of our board of directors in March 2013 and became our interim chief executive officer and acting chief financial officer in April 2013. During the two months he served as an officer, he received additional compensation, as described below in the "Summary Compensation Table."

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*Annual Cash Bonuses.* Our named executive officers are eligible to receive an annual cash bonus upon the achievement of certain performance objectives. As with base salary, the target annual incentive compensation opportunity for Mr. Renzi was initially established through arm's-length negotiations when he was hired, taking into account Mr. Renzi's target bonus opportunity at his prior employer, anonymous private company compensation surveys and internal pay equity considerations, and his qualifications and experience. For 2013, the annual incentive compensation target for Mr. Renzi was 20% of his base salary, and was prorated to reflect his June 2013 hire date. The 2013 bonuses for Dr. Gravett and Ms. Maroney were discretionary and were not based on pre-established incentive compensation target.

Notwithstanding the establishment or achievement of annual corporate and departmental goals for Mr. Renzi's annual bonus, the compensation committee retains the discretion to alter the amount of any actual award, to account for unforeseen material developments. Bonuses for 2013 were approved by the compensation committee of our board of directors in February 2014, and paid in April 2014. For 2013, Mr. Renzi received a bonus of \$30,625, which is based on a payout at 75% of his incentive compensation target (and reflects a pro-rata based on his June 2013 hire date), and Dr. Gravett and Ms. Maroney each received a bonus of \$12,038, representing 4.5% of their 2013 base salary. The compensation committee determined bonus amounts based on a recommendation from Mr. Renzi as to the Company's overall performance during fiscal year 2013.

Neither Mr. Daniloff nor Mr. Lynch was eligible for a cash bonus for fiscal year 2013.

*Equity Awards.* Our named executive officers have been granted stock options under the our Amended and Restated 2004 Stock Option Plan, as amended on December 19, 2012, which we refer to as our "2004 Plan." See "— Equity and Incentive Plans — 2004 Stock Plan" below for additional details about this plan. Awards are generally subject to four year ratable time-based vesting conditions and, in some cases, performance-based vesting conditions. See "— Outstanding Equity Awards at Fiscal Year-End" below for a description of the vesting and other material terms applicable to awards granted to our named executive officers, including those granted in fiscal year 2013.

On June 6, 2013, Mr. Renzi was granted an option to purchase 2,103,305 shares of our common stock that vests as to one-quarter of the shares on the one-year anniversary of the date of grant, and thereafter in equal monthly installments over the following 36 months, subject to Mr. Renzi's continued employment.

On March 5, 2013, Dr. Gravett and Ms. Maroney were granted options to purchase 128,566 and 145,156 shares of our common stock, respectively. Fifty percent (50%) of each award vests in equal monthly installments over 48 months on each successive one-month anniversary of December 7, 2012. The remaining fifty percent (50%) of each award vests in equal monthly installments over 48 months on each successive one-month anniversary of the achievement of certain Company performance milestones relating to the recruitment of participants for certain clinical studies, as determined by our board of directors. The vesting of such options is subject to the executive's continued employment.

In addition, effective June 6, 2013, we amended certain outstanding stock options held by Dr. Gravett and Ms. Maroney to reduce the exercise price to \$0.14 per share. For a description of the option re-pricing, see "— 2013 Option Repricing" below.

On March 5, 2013, Mr. Lynch received an option to purchase 829,460 shares of our common stock that vests in equal monthly installments over 48 months on each successive one-month anniversary of the vesting commencement date of March 1, 2013. Mr. Lynch's stock option award will become fully vested on a change in control of the Company.

Stock option awards serve to align the interests of our named executive officers with our stockholders because no value is created unless the value of our common stock appreciates after grant. Stock option awards also encourage retention through the use of time-based vesting and the achievement of key strategic goals

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through the use of performance-based vesting. Pursuant to agreements with Mr. Renzi, Dr. Gravett and Ms. Maroney, all or a portion of the executive's stock option awards will vest automatically upon certain terminations of employment following certain change in control transactions. See "— Potential Payments Upon Termination or Change in Control" below for additional details about these agreements.

The 2004 Plan was replaced by our 2014 Stock Option Plan, which we refer to as the "2014 Plan," in April 2014. As described further below, in connection with this offering, we intend to adopt a public-company plan, referred to as our 2014 Equity Incentive Plan, or the 2014 Equity Plan.

**Benefits.** We provide benefits to our named executive officers, which we believe to be competitive for our peer group. These benefits include participation in our 401(k) plan and health and welfare benefit coverage. These benefits are available to all of our salaried employees.

**Employment and Letter Agreements.** We have entered into an employment agreements with Mr. Renzi and Mr. Daniloff and letter agreements with Dr. Gravett, and Ms. Maroney, each of which includes severance and change-of-control protections. We also entered into a letter agreement with Mr. Lynch for services rendered as executive chairman of our board of directors. Mr. Lynch did not enter into a separate employment or letter agreement with us for the portion of 2013 during which he served as an officer.

### Summary Compensation Table

The following table sets forth the compensation earned by our named executive officers in fiscal year 2013.

Name and principal position	Year	Salary (\$) <sup>(2)</sup>	Bonus (\$) <sup>(3)</sup>	Option Awards (\$) <sup>(4)</sup>	All Other Compensation (\$)	Total (\$)
David M. Renzi, <i>President and Chief Executive Officer</i> <sup>(1)</sup>	2013	\$189,583	\$30,625	\$491,803	—	\$712,011
David M. Gravett, Ph.D. <i>Vice President, Research and Development</i>	2013	\$264,694	\$12,038	\$41,284	—	\$318,016
Marcee M. Maroney, <i>Vice President, Clinical Affairs and Marketing</i>	2013	\$264,694	\$12,038	\$45,155	—	\$321,887
George Daniloff, <i>Former President and Chief Executive Officer</i> <sup>(1)</sup>	2013	\$158,880	\$0	—	\$54,998 <sup>(5)</sup>	\$213,878
Samuel Lynch, <i>Former Interim Chief Executive Officer and Acting Chief Financial Officer</i> <sup>(1)</sup>	2013	\$22,611 <sup>(6)</sup>	\$0	\$193,518	\$41,667 <sup>(7)</sup>	\$257,796

(1) Mr. Renzi became our president and chief executive officer, effective June 3, 2013. Mr. Daniloff served as our president and chief executive officer through April 2013, and remained an employee through May 2013. Mr. Lynch served as our interim chief executive officer and acting chief financial officer from April 2013 to June 2013.

(2) Salaries include amounts contributed by the named executive officer to our 401(k) plan.

(3) Amount shown for Mr. Renzi reflects bonus equal to 75% of his incentive compensation target for fiscal year 2013 (with pro-ration based on his June 2013 hire date). Amounts shown for Dr. Gravett and Ms. Maroney reflect bonuses earned for the 2013 fiscal year equal to 4.5% of each executive's 2013 base salary. Dr. Gravett and Ms. Maroney each received a bonus of \$12,038. All amounts were paid in April 2014. Neither Mr. Daniloff nor Mr. Lynch received a cash bonus for 2013. For more information, please see the section above entitled "Elements of Executive Compensation — Annual Cash Bonuses."

(4) Amounts shown reflect the aggregate grant date fair value of stock options awarded in fiscal 2013, computed in accordance with FASB ASC Topic 718 and exclude the value of estimated forfeitures. Amounts shown also reflect the incremental fair value of options that were re-priced during fiscal 2013, computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in the notes to our financial statements included elsewhere in this prospectus, which are incorporated herein by reference.



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- (5) Amount represents payment of accrued paid-time off in connection with Mr. Daniloff's employment termination.
- (6) Amounts shown reflect the compensation received by Mr. Lynch for services provided as an interim officer between April and June 2013, as determined by our board of directors.
- (7) Amounts shown reflect a fee for the services performed by Mr. Lynch as a member of our board of directors.

### **2013 Option Repricing**

Effective June 2013, we amended certain outstanding stock options to reduce the exercise price to \$0.14 per share, which was determined by our board of directors to be the fair market value of a share of our common stock on such date. All other terms and conditions applicable to such awards remained the same. In connection with the option repricing, the exercise price of options to purchase 75,000 shares of our common stock originally granted to each of Dr. Gravett and Ms. Maroney in December 2010 were reduced from \$0.28 per share to \$0.14 per share.

### **Agreements with our Named Executive Officers**

Below are descriptions of the material terms of the employment and letter agreements with our named executive officers. We did not enter into any agreement with Mr. Lynch for the approximately two-month period during which he served as an officer, but we did enter into a letter agreement with Mr. Lynch for services provided to us as executive chairman of our board of directors.

*Employment Agreement with Mr. Renzi.* We have entered into an executive employment agreement with Mr. Renzi, effective June 3, 2013. Pursuant to this agreement, Mr. Renzi is entitled to an annual base salary of \$350,000, and is eligible to receive a target annual cash performance bonus of 20% of base salary, based upon achievement of performance goals determined by the board of directors in consultation with Mr. Renzi. Mr. Renzi also received an option to purchase 2,103,305 shares of our common stock, the terms of which are described below under the "Outstanding Equity Awards at Fiscal Year-End" table. Mr. Renzi is also entitled to certain severance and change-of-control benefits, the terms of which are described below under "— Potential Payments Upon Termination or Change in Control."

*Letter Agreements with Dr. Gravett and Ms. Maroney.* We have entered into letter agreements with Dr. Gravett, dated February 9, 2007, and Ms. Maroney, dated January 3, 2006, each of which was amended and restated effective July 21, 2014. Pursuant to the amended and restated letter agreements, Dr. Gravett and Ms. Maroney are each entitled to an annual base salary of \$267,500, and are each eligible to receive a target annual cash performance bonus of 25% of base salary, based upon achievement of performance goals determined by the board of directors. Dr. Gravett and Ms. Maroney also received options to purchase 96,000 and 93,730 shares of our common stock, respectively, in connection with their commencement of employment, the terms of which are described below under the "Outstanding Equity Awards at Fiscal Year-End" table. Dr. Gravett and Ms. Maroney are also entitled to certain severance and change in control benefits, the terms of which are described below under "— Potential Payments Upon Termination or Change in Control."

*Employment Agreement with Mr. Daniloff.* We entered into an employment agreement with Mr. Daniloff, effective December 16, 2005. Pursuant to this agreement, Mr. Daniloff was entitled to an annual base salary that was paid at a rate of \$381,315 for fiscal year 2013, and was eligible to receive a target annual cash performance bonus of 10% of base salary, based upon achievement of performance goals mutually agreed-upon by the board of directors and Mr. Daniloff, and approved in advance by the board of directors. Mr. Daniloff also received an option to purchase 515,582 shares of our common stock, the terms of which are described below under the "Outstanding Equity Awards at Fiscal Year-End" table. Mr. Daniloff resigned from the Company, effective May 31, 2013. The terms of his resignation are described below under "— Potential Payments Upon Termination or Change in Control."

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*Letter Agreement with Mr. Lynch.* We entered into a letter agreement with Mr. Lynch, dated February 23, 2013, for services rendered as executive chairman of our board of directors. Pursuant to this agreement, Mr. Lynch was entitled to an annual fee of \$50,000 (pro-rated for fiscal year 2013). Mr. Lynch also received an option to purchase 829,460 shares of our common stock, the terms of which are described below under the “Outstanding Equity Awards at Fiscal Year-End” table.

### Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding equity awards held by our named executive officers as of December 31, 2013. Our named executive officers do not hold any equity awards other than stock options.

Name	Vesting commencement date of options	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	OPTION AWARDS		Option exercise price (\$)	Option expiration date
				Equity incentive plan awards: Number of securities underlying unexercised options (#)	Equity incentive plan awards: Number of securities underlying unexercised options (#)		
David M. Renzi	6/6/2013	—	2,103,305 <sup>(1)</sup>	—	—	0.14	6/5/2023
David M. Gravett	3/12/2007	96,000 <sup>(2)</sup>	—	—	—	0.25	8/8/2017
	5/16/2008	140,000 <sup>(3)</sup>	—	—	—	0.30	5/15/2018
	9/1/2009	35,000 <sup>(4)</sup>	—	35,000 <sup>(5)</sup>	—	0.24	12/10/2019
	12/7/2012	16,070 <sup>(3)</sup>	48,213 <sup>(3)</sup>	64,283 <sup>(6)</sup>	—	0.14	3/4/2023
	12/21/2010	57,812 <sup>(8)</sup>	17,118 <sup>(8)</sup>	—	—	0.14	12/20/2020
Marcee M. Maroney	6/6/2013	5,125 <sup>(3)</sup>	35,875 <sup>(3)</sup>	—	—	0.14	6/5/2023
	2/1/2006	93,730 <sup>(7)</sup>	—	—	—	0.20	2/2/2016
	1/7/2007	4,000 <sup>(3)</sup>	—	—	—	0.20	12/15/2016
	5/16/2008	200,000 <sup>(3)</sup>	—	—	—	0.30	5/15/2018
	9/1/2009	29,000 <sup>(4)</sup>	—	29,000 <sup>(5)</sup>	—	0.24	12/10/2019
	12/7/2012	18,114 <sup>(3)</sup>	54,464 <sup>(3)</sup>	72,578 <sup>(6)</sup>	—	0.14	3/4/2023
George Daniloff	11/23/2010	57,812 <sup>(8)</sup>	17,188 <sup>(8)</sup>	—	—	0.14	12/20/2020
	6/6/2013	5,125 <sup>(3)</sup>	35,875 <sup>(3)</sup>	—	—	0.14	6/5/2023
	12/1/2005	515,582 <sup>(9)</sup>	—	—	—	0.20	2/2/2016
	5/16/2008	715,000 <sup>(3)</sup>	—	—	—	0.30	5/15/2018
	9/1/2009	50,000 <sup>(4)</sup>	—	50,000 <sup>(5)</sup>	—	0.24	12/10/2019
Samuel Lynch	11/23/2010	62,500 <sup>(3)</sup>	—	—	—	0.28	12/20/2020
	12/7/2012	24,408 <sup>(3)</sup>	—	—	—	0.14	3/4/2023
Samuel Lynch	3/1/2013	155,523 <sup>(3)</sup>	673,937 <sup>(3)</sup>	—	—	0.14	3/4/2023

- (1) Reflects time-based options to purchase shares of our common stock that vest as to 1/4 of the shares on the one-year anniversary of the date of grant, and thereafter in equal monthly installments over the following 36 months, generally subject to the executive’s continued employment.
- (2) Reflects time-based options to purchase shares of our common stock that vest as to 1/4 of the shares on the one-year anniversary of the vesting commencement date, and thereafter in equal monthly installments over the following 48 months, generally subject to the executive’s continued employment. These options also provide for the early exercise of unvested shares subject to the stock options into shares of restricted stock that remain subject to the stock option’s original vesting schedule. None of these options have been exercised early.
- (3) Reflects time-based options to purchase shares of our common stock that vest in equal monthly installments over 48 months on each successive one-month anniversary of the vesting commencement date, generally subject to the executive’s continued employment or provision of services. Certain of these options also provide for the early exercise of unvested shares subject to stock options into shares of restricted stock that remain subject to the stock option’s original vesting schedule. None of these options have been exercised early. A portion of Mr. Daniloff’s stock option awards were forfeited in connection with his resignation from employment effective May 31, 2013. Mr. Lynch’s stock option award will become fully vested on a change in control.

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- (4) Reflects time-based options to purchase shares of our common stock that were fully vested on the vesting commencement date.
- (5) Reflects performance-based options to purchase shares of our common stock that become fully vested upon achievement of certain performance milestones relating to the treatment of patients in connection with certain clinical studies, as determined by our board of directors, and generally subject to the executive's continued employment.
- (6) Reflects performance-based options to purchase shares of our common stock that vest in equal monthly installments over 48 months on each successive one-month anniversary of the achievement of certain performance milestones relating to the recruitment of participants in connection with certain clinical studies, as determined by our board of directors, and generally subject to the executive's continued employment.
- (7) Reflects time-based options to purchase shares of our common stock that vest as to 1/5 of the shares on the one-year anniversary of the vesting commencement date, and thereafter in equal monthly installments over the following 48 months, generally subject to the executive's continued employment. These options also provide for early exercise of unvested shares subject to the stock options into shares of restricted stock that remain subject to the stock option's original vesting schedule. None of these options have been exercised early.
- (8) Reflects time-based options to purchase shares of our common stock that vest in equal monthly installments over 48 months on each successive one-month anniversary of the vesting commencement date, generally subject to the executive's continued employment or provision of services. Effective June 6, 2013, the board reduced the exercise price of certain stock options originally granted to each of Dr. Gravett and Ms. Maroney on December 21, 2010 from \$0.28 per share to \$0.14 per share. All other terms and conditions applicable to such awards remained consistent with their original terms. These options also provide for early exercise of unvested shares subject to the stock options into shares of restricted stock that remain subject to the stock option's original vesting schedule. None of these options have been exercised early.
- (9) Reflects time-based options to purchase shares of our common stock that vest as to 3/48 of the shares on the vesting commencement date, and thereafter in equal monthly installments over the following 48 months, generally subject to the executive's continued employment. These options also provide for early exercise of unvested shares subject to the stock options into shares of restricted stock that remain subject to the stock option's original vesting schedule. None of these options have been exercised early.

## **Retirement Benefits**

We do not maintain any qualified or non-qualified defined benefit plans or supplemental executive retirement plans that cover our named executive officers. Our 401(k) plan permits eligible employees to defer their annual eligible compensation subject to certain limitations imposed by the Internal Revenue Service. Our 401(k) plan does not provide for employer contributions.

## **Potential Payments Upon Termination or Change in Control**

*Mr. Renzi, Dr. Gravett and Ms. Maroney — Termination of Employment without Cause or for Good Reason.* Pursuant to Mr. Renzi's, Dr. Gravett's and Ms. Maroney's employment or letter agreements, as applicable, if the executive's employment is terminated by us without cause or by the executive for good reason (as such terms are defined in the executive's employment agreement or letter agreement, as applicable), the executive will be entitled to (1) continued payment of the executive's base salary for a period of 12 months (for Mr. Renzi) or 6 months (for Dr. Gravett and Ms. Maroney) following such termination of employment, (2) payment of the executive's COBRA premiums until the earliest of 12 months (for Mr. Renzi) or 6 months (for Dr. Gravett and Ms. Maroney) following such termination of employment, the date on which he or she becomes eligible for group health insurance coverage through a new employer, or the date he or she ceases to be eligible for COBRA continuation coverage for any reason, and (3) accelerated vesting as to the portion of his or her stock options that would have vested in the 12-months (for Mr. Renzi) or 6-months (for Dr. Gravett and Ms. Maroney) following such termination of employment had the executive remained employed with the Company. In the event of Dr. Gravett's or Ms. Maroney's death during the 6-month severance period, the remainder of the severance benefits set forth above will be paid to his or her estate.

Notwithstanding the foregoing, the severance benefits for Dr. Gravett and Ms. Maroney will immediately cease in the event that the executive obtains new full-time employment (or a full-time consulting or similar arrangement) within 6 months after the termination date, provided, however, that the Company will thereafter continue to pay the executive, through the 6-month severance payment period, the excess, if any, of the Company base salary on the date of termination over the base salary for the new employment relationship.

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*Mr. Renzi — Termination of Employment in Connection with a Change in Control.* If Mr. Renzi's employment is terminated by us without cause or by him for good reason (as such terms are defined in Mr. Renzi's employment agreement) either three months prior to or within one year following the effective date of a change in control (as such term is defined in Mr. Renzi's employment agreement), in addition to the benefits described above under "*— Mr. Renzi, Dr. Gravett and Ms. Maroney — Termination of Employment without Cause or for Good Reason,*" all stock options held by such him will vest in full.

*Dr. Gravett and Ms. Maroney — Termination of Employment in Connection with a Change in Control.* If Dr. Gravett's or Ms. Maroney's employment is terminated by us without cause or by the executive for good reason (as such terms are defined in the executive's letter agreement) within one year following the effective date of a change in control (as such term is defined in the executive's letter agreement), in addition to the benefits described above under "*— Mr. Renzi, Dr. Gravett and Ms. Maroney — Termination of Employment without Cause or for Good Reason,*" (1) all stock options held by such executive will vest in full, and (2) the executive will be eligible to receive a pro-rated bonus payment for the year in which his or her employment terminates, with such bonus amount to be based upon the achievement of the bonus objectives prior to such termination or resignation of employment. The executive will also be entitled to receive the full 6 months' base salary continuation, regardless of whether he or she obtains new full-time employment (or a full-time consulting or similar arrangement).

*Mr. Renzi, Dr. Gravett and Ms. Maroney — Severance Subject to Release of Claims and Restrictive Covenants.* Our obligation to provide our named executive officers with any severance payments or other benefits under his or her employment agreement or letter agreement, as applicable, is conditioned on the executive signing and not revoking a separation agreement and effective release of claims in our favor. Mr. Renzi is also subject to a 12-month post-termination non-solicitation of employees, independent contractor and consultants.

*Mr. Daniloff — Resignation of Employment.* Mr. Daniloff resigned his employment with the Company, effective May 31, 2013. Upon Mr. Daniloff's resignation, all vesting of Mr. Daniloff's outstanding options immediately ceased. In addition, on May 30, 2013, our board of directors amended the terms of Mr. Daniloff's vested stock options to extend the post-termination exercise period until the earlier of May 30, 2014 or the original expiration date. Mr. Daniloff did not receive any severance in connection with his resignation.

### Director Compensation

The following table sets forth information concerning the compensation earned by our directors during fiscal year 2013.

DIRECTOR COMPENSATION			
Name	Fees earned or paid in cash (\$) <sup>(1)</sup>	Option awards (\$) <sup>(2)</sup>	Total (\$)
Steve L. Basta	—	\$18,219	\$18,219

(1) Other than compensation paid to Mr. Lynch, none of our directors received compensation for their services in 2013. See the "Summary Compensation Table" above for additional details about Mr. Lynch's compensation received for his service as a director.

(2) Amount represents the aggregate grant date fair value of an option to purchase 63,000 shares of our common stock granted to Mr. Basta in fiscal 2013, at an exercise price of \$0.14 per share. These amounts were computed in accordance with FASB ASC Topic 718 and exclude the value of estimated forfeitures. Assumptions used in the calculation of these amounts are included in the notes to our financial statements included elsewhere in this prospectus. As of the end of fiscal year 2013, Mr. Basta held options for 143,360 shares of common stock.

On June 6, 2013, Mr. Basta received an option to purchase 63,000 shares of our common stock that vest in equal monthly installments over 48 months on each successive one-month anniversary of the grant date, subject to Mr. Basta's continued service through each such vesting date. Mr. Basta's stock option award will become fully vested on a change in control of the Company.

## Equity and Incentive Plans

### *2014 Equity Incentive Plan*

Prior to the closing of this offering, our board intends to adopt the 2014 Equity Plan and following this offering, all equity-based awards will be granted under the 2014 Equity Plan. As of the date of this prospectus, no awards have been made under the 2014 Equity Plan. The following summary describes the material terms of the 2014 Equity Plan. This summary is not a complete description of all provisions of the 2014 Equity Plan and is qualified in its entirety by reference to the 2014 Equity Plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

*Purpose.* The purpose of the 2014 Equity Plan is to advance our interests by providing for the grant to participants of equity incentive awards.

*Plan administration.* The 2014 Equity Plan will be administered by the compensation committee of our board of directors, or the Administrator. The Administrator will have the authority to, among other things, interpret the 2014 Equity Plan, determine eligibility for, grant and determine the terms of awards under the 2014 Equity Plan, and to do all things necessary to carry out the purposes of the 2014 Equity Plan. The Administrator's determinations under the 2014 Equity Plan will be conclusive and binding.

*Authorized shares.* Subject to adjustment, the maximum number of shares of our common stock that may be delivered in satisfaction of awards under the 2014 Equity Plan, including shares issuable, but not yet issued, under outstanding awards granted under the 2014 Plan, as well as shares available for future awards, will be shares. The number of shares available for issuance under our 2014 Equity Plan will be automatically increased on the first day of each fiscal year beginning in 2014, equal to .

Shares of common stock to be issued under the 2014 Equity Plan may be authorized but unissued shares of common stock or previously-issued shares. Any shares of common stock underlying awards that are forfeited, surrendered, expire or become unexercisable without having been exercised in full, or that are repurchased or otherwise reacquired by us, will again be available for issuance under the 2014 Equity Plan. In addition, all awards granted under the 2014 Plan and the 2004 Plan, both of which are described below, that are repurchased, forfeited, expired or are cancelled will become available for grant under our 2014 Equity Plan. Any shares of common stock underlying awards that are withheld to cover the exercise price or any applicable tax withholding will not again become available for issuance under the 2014 Equity Plan.

*Individual limits.* The maximum number of shares for which stock options may be granted and the maximum number of shares of stock subject to stock appreciation rights to any person in any calendar year will each be \_\_\_\_\_ shares. The maximum number of shares subject to other awards granted to any person in any calendar year will be \_\_\_\_\_ shares.

*Eligibility.* The Administrator will select participants from among our key associates, directors, consultants and advisors and its affiliates who are in a position to make a significant contribution to our success. Eligibility for stock options intended to be incentive stock options (ISOs) is limited to our employees or certain affiliates.

*Types of awards.* The 2014 Equity Plan provides for grants of stock options, stock appreciation rights, restricted and unrestricted stock and stock units, performance awards and other awards convertible into or otherwise based on shares of our stock. Dividend equivalents may also be provided in connection with an award under the 2014 Equity Plan.

- *Stock options and stock appreciation rights:* The exercise price of an option, and the base price against which a stock appreciation right is to be measured, are not permitted to be less than the fair market value

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(or, in the case of an ISO granted to a ten-percent stockholder, 110% of the fair market value) of a share of common stock on the date of grant. The Administrator will determine the time or times at which stock options or stock appreciation rights become exercisable and the terms on which such awards remain exercisable.

- *Restricted and unrestricted stock:* A restricted stock award is an award of common stock subject to forfeiture restrictions, while an unrestricted stock award is not subject to restrictions under the 2014 Equity Plan.
- *Stock units:* A stock unit award is denominated in shares of common stock and entitles the participant to receive stock or cash measured by the value of the shares in the future. The delivery of stock or cash under a stock unit may be subject to the satisfaction of performance conditions or other vesting conditions.
- *Performance awards:* A performance award is an award the vesting, settlement or exercisability of which is subject to specified performance criteria. Performance awards may be stock-based or cash-based.

*Vesting.* The Administrator will have the authority to determine the vesting schedule applicable to each award, and to accelerate the vesting or exercisability of any award.

*Termination of employment.* The Administrator will determine the effect of termination of employment or service on an award. Unless otherwise provided by the Administrator or in an award agreement, upon a termination of employment all unvested options and other awards requiring exercise will terminate, all other unvested awards will be forfeited and vested options will terminate if not exercised within post-termination exercise windows set forth in the 2014 Equity Plan.

*Performance criteria.* The 2014 Equity Plan will provide that grants of performance awards will be made based upon, and subject to achieving, “performance objectives” over a performance period, which may be one or more periods as established by the Administrator. Performance objectives with respect to those awards that are intended to qualify as “performance-based compensation” for purposes of Section 162(m) are limited to an objectively determinable measure or objectively determinable measures of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof) : sales; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings.

To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the Administrator may provide in the case of any award intended to qualify for such exception that one or more of the performance objectives applicable to an award will be adjusted in an objectively determinable manner to reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period of such award that affect the applicable performance objectives.

*Transferability.* Awards under the 2014 Equity Plan may not be transferred except by will or by the laws of descent and distribution, unless (for awards other than ISOs) otherwise provided by the Administrator.

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*Corporate transactions.* In the event of a consolidation, merger or similar transaction, a sale or transfer of all or substantially all of our assets or a dissolution or liquidation, the Administrator may, among other things, provide for continuation or assumption of outstanding awards, for new grants in substitution of outstanding awards, for the accelerated vesting or delivery of shares under awards, or for a cash-out of outstanding awards, in each case on such terms and with such restrictions as it deems appropriate. Except as the Administrator may otherwise determine, awards not assumed will terminate upon the closing of such corporate transaction.

*Adjustment.* In the event of certain corporate transactions (including a stock dividend, stock split or combination of shares, recapitalization or other change in our capital structure, the Administrator will make appropriate adjustments to the maximum number of shares that may be delivered under and the individual limits included in the 2014 Equity Plan, and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, the exercise prices of such awards or any other terms of awards affected by such change. The Administrator will also make the types of adjustments described above to take into account distributions and other events other than those listed above if it determines that such adjustments are appropriate to avoid distortion and preserve the value of awards.

*Amendment and termination.* The Administrator will be able to amend the 2014 Equity Plan or outstanding awards, or terminate the 2014 Equity Plan as to future grants of awards, except that the Administrator will not be able alter the terms of an award if it would affect materially and adversely a participant's rights under the award without the participant's consent (unless expressly provided in the 2014 Equity Plan or reserved by the Administrator). Stockholder approval will be required for any amendment to the extent such approval is required by law, including the Code or applicable stock exchange requirements.

### ***Annual Incentive Plan***

Prior to the closing of this offering, our board of directors intends to adopt an annual incentive plan, or the Annual Plan. Starting with our 2015 fiscal year, annual award opportunities for certain key employees, including our named executive officers, will be granted under the Annual Plan. The following summary describes what we anticipate to be the material terms of the Annual Plan. This summary is not a complete description of all provisions of the Annual Plan. You are encouraged to read the full text of the Annual Plan, which has been filed as an exhibit to the registration statement of which this prospectus forms a part.

The Annual Plan will be administered by the compensation committee of our board of directors. Executive officers and other key employees of us and our affiliates will be selected from time to time by the compensation committee to participate in the Annual Plan. Award opportunities under the Annual Plan will be granted by the compensation committee prior to, or within a specified period of time following the beginning of, the fiscal year or other performance period selected by the compensation committee. The compensation committee will establish the performance criteria applicable to the award, the amount or amounts payable if the performance criteria are achieved, and such other terms as the compensation committee deems appropriate. The Annual Plan permits the grant of awards that are intended to qualify as exempt performance-based compensation under Section 162(m) as well as awards that are not intended to so qualify.

Awards under the Annual Plan will be made based on, and subject to achieving, performance criteria established by the compensation committee. Performance criteria for awards intended to qualify as performance-based compensation for purposes of Section 162(m) are limited to the objectively determinable measures of performance relating to any or any combination of the performance criteria set forth above under "— 2014 Equity Incentive Plan." To the extent consistent with the requirements of Section 162(m), the compensation committee may establish, in the case of any award intended to qualify as exempt performance-based compensation under Section 162(m), that one or more of the performance criteria applicable to such award be adjusted in an objectively determinable manner to reflect events occurring during the performance period of such award that affect the applicable performance criteria.

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A participant will be entitled to payment under an award only if all conditions to payment have been satisfied under the award. Following the close of the performance period, the compensation committee will determine (and, to the extent required by Section 162(m), certify) whether and to what extent the applicable performance criteria have been satisfied. The compensation committee will then determine the actual payment, if any, under each award. The maximum payment to any participant under the Annual Plan for any fiscal year will in no event exceed \$ . The compensation committee may amend or terminate the Annual Plan at any time, provided that any amendment will be approved by our stockholders if required by Section 162(m).

### **2014 Stock Option Plan**

On April 8, 2014, our board adopted the 2014 Plan. This summary is not a complete description of all provisions of the 2014 Plan and is qualified in its entirety by reference to the 2014 Plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

*Purpose.* The purpose of the 2014 Plan is to advance our company's interests by providing for the grant to participants of equity-based awards.

*Plan administration.* The 2014 Plan is administered by the board of directors (the "Administrator"). The Administrator has the authority to, among other things, interpret the 2014 Plan, determine eligibility for, grant and determine the terms of awards under the 2014 Plan, and to do all things necessary to carry out the purposes of the 2014 Plan. The Administrator's determinations under the 2014 Plan are conclusive and binding.

*Authorized shares.* Subject to adjustment, the number of shares of our common stock that may be delivered in satisfaction of awards under the 2014 Plan is 1,000,000 shares. In addition, shares that remain available for issuance under the 2004 Plan following its expiration, as well as shares that become available for grant under the 2004 Plan following its expiration as a result of the forfeiture of awards granted under such plan, are available for issuance under the 2014 Plan.

Shares of common stock to be issued under the 2014 Plan may be authorized but unissued shares of common stock or previously-issued shares. Any shares of common stock underlying awards that are forfeited, surrendered, expire or become unexercisable without having been exercised in full, or that are repurchased or otherwise reacquired by us, will again be available for issuance under the 2014 Plan. Any shares of common stock underlying awards that are withheld to cover the exercise price or any applicable tax withholding will not again become available for issuance under the 2014 Plan.

*Eligibility.* The Administrator may select participants from among our key employees, directors, and consultants and its affiliates who are in a position to make a significant contribution to our success. Eligibility for stock options intended to be incentive stock options (ISOs) is limited our employees and certain affiliates.

*Types of awards; vesting.* The 2014 Plan provides for grants of stock options, certain of which may be exercised prior to vesting at the election of the participant in exchange for an award of restricted stock.

- *Stock options:* The exercise price of an option, and the base price against which a stock appreciation right is to be measured, may not be less than the fair market value (or, in the case of an ISO granted to a ten percent stockholder, 110% of the fair market value) of a share of common stock on the date of grant. The Administrator determines the time or times at which stock options become exercisable and the terms on which such awards remain exercisable. Unless otherwise provided for in an award agreement, all stock options, whether vested or not, expire on the tenth anniversary of their date of grant unless earlier terminated.
- *Restricted stock:* A restricted stock award is an award of common stock subject to forfeiture restrictions.



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*Termination of employment or service.* The Administrator will determine the effect of termination of employment or service on an award. Unless otherwise provided by the Administrator or in an award agreement, upon a termination of employment or service all unvested options will terminate, and vested options will remain outstanding and exercisable for three months, or one year in the case of death or disability, or, in each case, until the applicable expiration date, if earlier. If a participant's employment or service relationship is terminated for cause, as determined by the Administrator, all options held by such participant (whether or not vested) will immediately terminate on the date of such termination. With respect to restricted stock, if a participant's employment or service relationship is terminated for any reason, including death or disability, we will have the right for 90 days to repurchase from the participant the restricted stock at the lesser of the price paid by the participant for such restricted stock or the fair market value of such shares on the repurchase date; if we do not exercise this repurchase right, the repurchase right will terminate.

*Transferability.* Awards under the 2014 Plan may not be transferred except by will or by the laws of descent and distribution, unless otherwise provided by the Administrator.

*Corporate transactions.* In the event of a merger, consolidation or similar transaction, or a sale or transfer of all or substantially all of our assets, each outstanding award will be assumed or substituted by the successor entity or parent or subsidiary thereof (collectively, the "successor entity"); provided that if the successor entity refuses such assumption or substitution, each outstanding award will become fully vested in lieu of such assumption or substitution, and each stock option will be exercisable for a period of time determined by the Administrator. In the event of our dissolution or liquidation, each outstanding option will terminate immediately prior to the closing of such transaction.

*Adjustment.* In the event of certain corporate transactions (including a stock dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities or other change in the corporate structure affecting the shares), the Administrator may make appropriate adjustments to the number of shares that may be delivered under the 2014 Plan, and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, the exercise prices of such awards.

*Amendment and termination.* The board may amend the 2014 Plan or outstanding awards, or terminate the 2014 Plan as to future grants of awards. Except as otherwise provided for in the 2014 Plan, the terms of an award cannot be altered if it would affect materially and adversely a participant's rights under the award without the participant's consent (unless expressly reserved by the Administrator at the time of grant). The board will obtain stockholder approval for any amendment to the extent such approval is required by law, including the Code or applicable stock exchange requirements.

### **2004 Stock Option Plan**

Prior to adoption of the 2014 Plan, we granted all equity awards under the 2004 Plan. The 2004 Plan was replaced by the 2014 Plan in April 2014, and no awards have been granted under the 2004 Plan since that time. The terms and conditions of the 2004 Plan are substantially similar to the 2014 Plan, except that, in addition to the types of awards subject to the 2014 Plan, the 2004 Plan provides for the grant of stock purchase rights. As of the date of this prospectus, there are options outstanding to acquire \_\_\_\_\_ shares under the 2004 Plan, and there are no outstanding stock purchase rights.

### ***Limitation of Liability and Indemnification***

Our amended and restated certificate of incorporation, which will become effective upon the closing of this offering, limits the liability of directors to the fullest extent permitted by Delaware law as it presently exists or may be amended from time to time. Our directors will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any of the following acts:

- any breach of their duty of loyalty to the corporation or its stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not apply to liabilities arising under federal securities laws and do not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated bylaws, which will become effective upon the closing of this offering, provide that we will indemnify our directors, officers, employees and other agents to the fullest extent permitted by Delaware law or other applicable law. Our amended and restated bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for us, or anybody serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise for any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, regardless of whether we have the power to indemnify such person against such liability under the provisions of Delaware law. We have obtained an insurance policy that insures our directors and officers against certain liabilities, including liabilities arising under applicable securities laws.

We intend to enter into separate indemnification agreements with our directors and executive officers, in addition to the indemnification provided for in our amended and restated bylaws. These agreements, among other things, provide that we will indemnify our directors and executive officers for certain expenses, including attorneys' fees, judgments, penalties, fines and settlement amounts incurred by a director or executive officer in any action or proceeding arising out of their services as one of our directors or executive officers, or any of our subsidiaries or any other company or enterprise to which the person provides services at our request. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder. At present, there is no pending litigation or proceeding involving any of our directors or executive officers as to which indemnification is required or permitted, and we are not aware of any threatened litigation or proceeding that may result in a claim for indemnification.

## Certain Relationships and Related Party Transactions

The following includes a summary of transactions since January 1, 2011 to which we have been a party, in which the amount involved in the transaction exceeded \$120,000, and in which any of our directors, executive officers or, to our knowledge, beneficial owners of more than 5% of our capital stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than equity and other compensation, termination, change in control and other arrangements, which are described under “Executive and Director Compensation.”

### Preferred Stock Financings

#### December 2012, February 2013 and June 2013 Series B Preferred Stock Financing

The table below sets forth the number of shares of Series B convertible preferred stock sold to our directors, executive officers or owners of more than 5% of a class of our capital stock, or an affiliate or immediate family member thereof:

<u>Investor</u>	<u>Aggregate Series B Shares Sold in December 2012- June 2013 Closings</u>	<u>Aggregate Purchase Price</u>
ACP IV, L.P. <sup>(1)</sup>	3,326,127	\$ 4,000,000
InterWest Partners IX, L.P. <sup>(2)</sup>	3,326,127	\$ 4,000,000
Entities affiliated with Vivo Ventures <sup>(3)</sup>	3,326,127	\$ 4,000,000

(1) Guy P. Nohra, a member of our board of directors, is associated with ACP IV, L.P.

(2) Reza Zadno, Ph.D., a member of our board of directors, is associated with InterWest Partners IX, L.P.

(3) Albert Cha, M.D., Ph.D., a member of our board of directors, is associated with the entities affiliated with Vivo Ventures.

*Series B preferred adjustment.* In connection with the 2012 and 2013 Series B financing, in December 2012, we approved the adjustment of the Series B preferred stock liquidation preference from \$1.38 per share to \$1.2026 per share. In order to preserve the aggregate liquidation preference of the holders of pre-2012 issued Series B preferred stock, we issued 2,137,879 shares of Series B preferred stock to such holders for no payment. ACP IV, L.P., InterWest Partners IX, L.P., and entities affiliated with Vivo Ventures received 591,124 shares, 675,570 shares and 855,152 shares, respectively, as a result of this adjustment. See Note 7 to our financial statements appearing elsewhere in this prospectus for further details on the issuance of additional Series B convertible preferred stock.

### Registration Rights

We have entered into an amended and restated registration rights agreement with purchasers of our preferred stock and warrants to purchase preferred stock that provides for certain rights relating to the registration of their shares of common stock issuable upon conversion of their preferred stock and warrants to purchase preferred stock, as applicable. These rights will continue following this offering and will terminate no later than seven years following the closing of this offering, or for any particular holder with registration rights, at such time following this offering when all securities held by that stockholder subject to registration rights may be sold pursuant to Rule 144 under the Securities Act. All holders of our preferred stock and warrants to purchase preferred stock, as applicable, are parties to this agreement. See “Description of Capital Stock — Registration Rights” for additional information.

**Indemnification Agreements**

We have entered into indemnification agreements with each of our directors and executive officers. These agreements require us to indemnify these individuals and, in certain cases, affiliates of such individuals, to the fullest extent permissible under Delaware law against liabilities that may arise by reason of their service to us or at our direction, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified.

**Policies and Procedures for Transactions with Related Persons**

We intend to adopt a related person transaction approval policy that will govern the review of related person transactions following the closing of this offering. Pursuant to this policy, if we want to enter into a transaction with a related person or an affiliate of a related person, our chief financial officer will review the proposed transaction to determine, based on applicable Nasdaq and SEC rules, if such transaction qualifies as a related person transaction. If the chief financial officer determines that the proposed transaction is a related person transaction, then the proposed transaction shall be submitted to the audit committee for pre-approval at the next regular or special audit committee meeting; if the chief financial officer, in consultation with the chief executive officer, determines that it is not practicable to wait until the next meeting of the audit committee, then the chief financial officer may submit the proposed transaction to the chairperson of the audit committee. In the event that our chief executive officer or chief financial officer becomes aware of a related person transaction that has not been previously approved or previously ratified under our related person transaction approval policy, the transaction, if ongoing, will be promptly submitted to the audit committee or the chairperson of the audit committee for consideration. If the transaction is already completed, the audit committee or the chairperson of the audit committee shall evaluate the transaction to determine if rescission of the transaction and/or any disciplinary action is appropriate.

### Principal Stockholders

The following table sets forth certain information regarding the beneficial ownership of our common stock as of September 1, 2014 with respect to:

- each person known by us to beneficially own 5% or more of the outstanding shares of our common stock;
- each member of our board of directors and each named executive officer; and
- the members of our board of directors and our current executive officers as a group.

Unless otherwise noted below, the address of each beneficial owner listed in the table below is c/o Carbylan Therapeutics, Inc., 3181 Porter Drive, Palo Alto, CA 94304.

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

Each stockholder's percentage ownership before and after the offering is based on 35,828,016 shares of our common stock outstanding as of September 1, 2014, assuming (1) the automatic conversion of all outstanding shares of our preferred stock pursuant to a stockholder vote into 33,074,166 shares of common stock, and (2) excluding the exercise of any outstanding warrants. For purposes of the table below, we have assumed that \_\_\_\_\_ shares of common stock will be outstanding upon completion of the offering. The percentage ownership information assumes no exercise of the underwriters' option to purchase additional shares. Beneficial ownership of shares and percentage ownership are determined in accordance with the rules of the SEC. In calculating the number of shares beneficially owned by an individual or entity and the percentage ownership of that individual or entity, shares underlying options or warrants held by that individual or entity that are either exercisable on September 1, 2014 or exercisable within 60 days from September 1, 2014 are deemed outstanding. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other individual or entity. Unless otherwise indicated and subject to community property laws where applicable, the individuals and entities named in the table below have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
<b>5% or Greater Stockholders:</b>			
ACP IV, L.P. <sup>(1)</sup>	10,834,857	30.2%	
InterWest Partners IX, L.P. <sup>(2)</sup>	11,907,533	33.2%	
Entities affiliated with Vivo Ventures <sup>(3)</sup>	9,978,381	27.9%	
<b>Directors and Named Executive Officers:</b>			
David M. Renzi <sup>(4)</sup>	701,101	1.9%	
Marcee M. Maroney <sup>(5)</sup>	477,660	1.3%	
David M. Gravett, Ph.D. <sup>(6)</sup>	424,129	1.2%	
Steven L. Basta <sup>(7)</sup>	101,360	*	
Albert Cha, M.D., Ph.D. <sup>(8)</sup>	9,978,381	27.9%	
Guy P. Nohra <sup>(9)</sup>	10,834,857	30.2%	
Reza Zadno, Ph.D. <sup>(10)</sup>	—	—	
George Daniloff <sup>(11)</sup>	315,984	*	
Samuel Lynch <sup>(12)</sup>	207,365	*	
All executive officers and directors as a group <sup>(13)</sup> (10 persons)	22,517,488	60.0%	

\* Represents beneficial ownership of less than one percent.

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- (1) Consists of (i) 2,910,360 shares of common stock issuable upon conversion of shares of Series A preferred stock and (ii) 7,924,497 shares of common stock issuable upon conversion of shares of Series B preferred stock. ACP IV, L.P. is a Delaware limited partnership, whose general partner is ACMP IV, LLC, a Delaware limited liability company. Guy Nohra is a director of ACMP IV, LLC and he exercises shared voting and investment power with respect to the securities held by ACP IV, L.P. Each of Messrs. Dan Janney, David Mack and Guy Nohra disclaims beneficial ownership of such securities, except to the extent of their pecuniary interest therein. The address for ACP IV, L.P. is One Embarcadero Center, Suite 3700, San Francisco, CA 94111.
- (2) Consists of (i) 3,326,126 shares of common stock issuable upon conversion of shares of Series A preferred stock and (ii) 8,581,407 shares of common stock issuable upon conversion of shares of Series B preferred stock. InterWest Partners IX, L.P. is a California limited partnership, whose general partner is InterWest Management Partners IX, LLC. Each managing director and venture member of InterWest Management Partners IX, LLC shares voting and investment power with respect to the securities held by InterWest Partners IX, L.P. and disclaims beneficial ownership of such shares except to the extent of his or her pecuniary interest therein. The address for InterWest Partners IX, L.P. is 2710 Sand Hill Road, Second Floor, Menlo Park, CA 94025.
- (3) Consists of (i) 9,905,811 shares of common stock issuable upon conversion of shares of Series B preferred stock held in the name of Vivo Ventures VI Affiliates Fund, L.P. Vivo Ventures Fund VI, L.P. and (ii) 72,570 shares of common stock issuable upon conversion of shares of Series B preferred stock held in the name of Vivo Ventures VI Affiliates Fund, L.P. Vivo Ventures Fund VI, L.P. and Vivo Ventures VI Affiliates Fund, L.P. are Delaware limited partnerships, whose general partner is Vivo Ventures VI, LLC, a Delaware limited liability company, whose managing members are Dr. Albert Cha, Dr. Edgar Engleman and Dr. Frank Kung. The managing members share the voting and dispositive power of the shares. Each of Messrs. Cha, Engleman and Kung hereby disclaim any beneficial ownership of any shares directly held by Vivo Ventures Fund VI, L.P. and Vivo Ventures VI Affiliates Fund, L.P., except to the extent of the pecuniary interest therein. The address Vivo Ventures Fund VI, L.P. and Vivo Ventures VI Affiliates Fund, L.P. is 575 High Street, Suite 201, Palo Alto, California 94301.
- (4) Consists of 701,101 shares of common stock issuable upon the exercise of stock options within 60 days of September 1, 2014. Mr. Renzi became our president and chief executive officer on June 3, 2013.
- (5) Consists of 477,660 shares of common stock issuable upon exercise of stock options within 60 days of September 1, 2014, 476,097 of which are fully vested and 1,563 will not be vested but are eligible for early exercise.
- (6) Consists of 424,129 shares of common stock issuable upon exercise of stock options within 60 days of September 1, 2014, 422,566 of which are fully vested and 1,563 will not be vested but are eligible for early exercise.
- (7) Consists of 101,360 shares of common stock issuable upon exercise of stock options within 60 days of September 1, 2014.
- (8) Consists of 9,978,381 shares held of record by entities affiliated with Vivo Ventures listed in footnote (3) above.
- (9) Consists of 10,834,857 shares held of record by ACP IV, L.P. listed in footnote (1) above.
- (10) Dr. Zadno, a member of our board of directors, is affiliated with InterWest Partners, but is not a managing director or venture member of InterWest Management Partners IX, LLC, and is therefore not a beneficial owner of the shares held of record by the entities affiliated with InterWest Partners listed in footnote (2) above.
- (11) Consists of (i) 274,408 shares of common stock and (ii) 41,576 shares of common stock issuable upon conversion of Series A preferred stock. Mr. Daniloff served as our president and chief executive officer through May 31, 2013.
- (12) Consists of 207,365 shares of common stock issuable upon exercise of stock options within 60 days of September 1, 2014. Mr. Lynch, a former member of our board of directors, served as our interim chief executive officer and acting chief financial officer from April to June 2013.
- (13) Consists of 22,517,488 shares, 1,704,250 shares of which may be acquired pursuant to the exercise of stock options within 60 days of September 1, 2014.

## Description of Capital Stock

*The following summary describes our capital stock and the material provisions of our amended and restated certificate of incorporation and our amended and restated bylaws, which will become effective immediately prior to the closing of this offering, of the registration rights agreement to which we and certain of our stockholders are parties, and of the Delaware General Corporation Law. Because the following is only a summary, it does not contain all of the information that may be important to you. For a complete description, you should refer to our amended and restated certificate of incorporation, amended and restated bylaws and amended and restated registration rights agreement, as amended, copies of which have been filed as exhibits to the registration statement of which this prospectus forms a part.*

### General

Immediately prior to the closing of this offering, we will file our amended and restated certificate of incorporation that authorizes \_\_\_\_\_ shares of common stock, \$0.001 par value per share, and \_\_\_\_\_ shares of preferred stock, \$0.001 par value per share. As of June 30, 2014, there were outstanding:

- 35,725,913 shares of our common stock, on an as-converted basis, held by 41 stockholders of record;
- 424,082 shares of our common stock issuable upon exercise of outstanding warrants; and
- 3,953,242 shares of our common stock issuable upon exercise of outstanding stock options.

In connection with this offering, we will consummate a reverse stock split of our outstanding capital stock at a ratio to be determined.

### Common Stock

#### *Voting*

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, including the election of directors, and do not have cumulative voting rights. Accordingly, the holders of a majority of the shares of our common stock entitled to vote in any election of directors can elect all of the directors standing for election.

#### *Dividends*

Subject to preferences that may be applicable to any then outstanding preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. In addition, pursuant to our loan and security agreement with Silicon Valley Bank, we are prohibited from paying cash dividends without the prior consent of Silicon Valley Bank.

#### *Liquidation*

In the event of our liquidation, dissolution or winding up, holders of our common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities, subject to the satisfaction of any liquidation preference granted to the holders of any outstanding shares of preferred stock.

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### ***Rights and Preferences***

Holders of our common stock have no preemptive, conversion or subscription rights, and there are no redemption or sinking fund provisions applicable to our common stock. The rights, preferences and privileges of the holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our preferred stock that we may designate and issue in the future.

### ***Fully Paid and Nonassessable***

All of our outstanding shares of common stock are, and the shares of common stock to be issued in this offering will be, fully paid and nonassessable.

### **Preferred Stock**

All currently outstanding shares of preferred stock will be automatically converted to common stock immediately prior to the closing of this offering pursuant to a stockholder vote.

Following the closing of this offering, our board of directors will have the authority, without further action by our stockholders, to issue up to \_\_\_\_\_ shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, to fix the rights, preferences and privileges of the shares of each wholly unissued series and any qualifications, limitations or restrictions thereon, and to increase or decrease the number of shares of any such series, but not below the number of shares of such series then outstanding.

Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of us and may adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until the board of directors determines the specific rights attached to that preferred stock.

We have no present plans to issue any shares of preferred stock.

### **Stock Options**

As of June 30, 2014, options to purchase 3,953,242 shares of our common stock at a weighted-average exercise price of \$0.1676 per share were outstanding.

### ***Warrants***

Each of the following warrants were issued to Silicon Valley Bank as part of the debt facilities it has provided to us.

As of June 30, 2014, a single warrant to purchase a total of 83,153 shares of our Series A preferred stock was outstanding with an exercise price of \$1.2026 per share, which will be converted into a warrant to purchase 83,153 shares of common stock upon the completion of this offering. The warrant is exercisable immediately and will expire in December 2016.

As of June 30, 2014, a warrant to purchase a total of 199,569 shares of our Series B preferred stock was outstanding with an exercise price of \$1.2026 per share, which will be converted into a warrant to purchase 199,569 shares of common stock upon the completion of this offering. The warrant is exercisable immediately and will expire in October 2021.



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As of June 30, 2014, a warrant to purchase a total of 141,360 shares of our Series B preferred stock was outstanding with an exercise price of \$1.2026 per share, which will be converted into a warrant to purchase 141,360 shares of common stock upon the completion of this offering. The warrant is exercisable immediately and expires in February 2023.

### **Registration Rights**

Following the closing of this offering, certain holders of our common stock, or their transferees, will be entitled to the registration rights set forth below with respect to registration of the resale of such shares under the Securities Act pursuant to an amended and restated registration rights agreement by and among us and certain of our stockholders.

#### ***Demand Registration Rights***

At any time beginning 180 days following the closing of this offering, and before December 21, 2017, the holders of at least 20% of the registrable securities, as defined in the amended and restated registration rights agreement, have the right to make up to three demands that we file a registration statement under the Securities Act covering registrable securities with an aggregate offering price to the public of not less than \$10,000,000, subject to specified exceptions.

#### ***Form S-3 Registration Rights***

If we are eligible to file a registration statement on Form S-3, holders of registrable securities have the right to two demands in any 12-month period that we file a registration statement on Form S-3 so long as the aggregate amount of securities to be sold under the registration statement on Form S-3 is at least \$1.0 million, subject to specified exceptions, conditions and limitations.

#### ***“Piggyback” Registration Rights***

If we register any securities for public sale, subject to certain exceptions, holders of registration rights will have the right to include their shares in the registration statement. The underwriters of any underwritten offering will have the right to limit the number of shares having registration rights to be included in the registration statement, but not below 20% of the total number of shares requested by the holders to be included in the registration statement, except this offering in which the aggregate amount of registrable securities, if any, may be reduced to zero.

#### ***Expenses of Registration***

Generally, we are required to bear all registration and selling expenses incurred in connection with the demand, piggyback and Form S-3 registrations described above, other than underwriting discounts and commissions.

#### ***Expiration of Registration Rights***

All registration rights discussed above will terminate no later than seven years following the closing of this offering, when there are no longer any registrable securities outstanding or, as to a given holder of registrable securities, when such holder is able to sell all of their registrable securities in a single 90-day period under Rule 144 of the Securities Act, or Rule 144.

## **Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation, Our Bylaws and Delaware Law**

### ***Delaware Anti-Takeover Law***

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation’s voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions: before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; upon closing of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

### ***Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws***

Our certificate of incorporation and bylaws will contain certain provisions that are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and which may have the effect of delaying, deferring or preventing a future takeover or change in control of the company unless such takeover or change in control is approved by the board of directors.

These provisions include:

***Classified Board.*** Our certificate of incorporation will provide that our board of directors will be divided into three classes of directors, with the classes as nearly equal in number as possible. As a result, approximately one-third of our board of directors will be elected each year. The classification of directors will have the effect of making it more difficult for stockholders to change the composition of our board. Our bylaws will also provide that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances, the number of directors will be fixed exclusively pursuant to a resolution adopted by our board of directors.

***Action by Written Consent; Special Meetings of Stockholders.*** Our certificate of incorporation will provide that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting. Our bylaws will also provide that, subject to any special rights of the

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holders of any series of preferred stock, and to the requirements of applicable law, special meetings of the stockholders can be called only by or at the direction of the board of directors pursuant to a resolution adopted by a majority of the total number of directors which our board of directors would have if there were no vacancies. Except as described above, stockholders will not be permitted to call a special meeting or to require the board of directors to call a special meeting.

*Removal of Directors.* Our bylaws will provide that our directors may be removed only for cause by the affirmative vote of at least 66<sup>2</sup>/<sub>3</sub>% of the voting power of our voting stock, voting together as a single class. This requirement of a supermajority vote to remove directors could enable a minority of our stockholders to prevent a change in the composition of our board.

*Advance Notice Procedures.* Our bylaws will establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to the board of directors. Stockholders at an annual meeting will only be able to consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of the board of directors or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given our Secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting. Although the bylaws will not give the board of directors the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, the bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the company.

*Super Majority Approval Requirements.* The Delaware General Corporation Law generally provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless either a corporation's certificate of incorporation or bylaws requires a greater percentage. Our certificate of incorporation and bylaws will provide that the affirmative vote of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the total votes eligible to be cast in the election of directors will be required to amend, alter, change or repeal certain provisions of the certificate of incorporation and bylaws. This requirement of a supermajority vote to approve amendments to certain provisions of our certificate of incorporation and bylaws could enable a minority of our stockholders to exercise veto power over any such amendments.

*Authorized but Unissued Shares.* Our authorized but unissued shares of common stock and preferred stock will be available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of a majority of our common stock by means of a proxy contest, tender offer, merger or otherwise.

*Exclusive Forum.* Our certificate of incorporation will provide that, to the fullest extent permitted by applicable law, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law, our certificate of incorporation or our bylaws, or (iv) any other action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. Although we believe these provisions benefit us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, the provisions may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar choice of forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is

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possible that, in connection with one or more actions or proceedings described above, a court could find the choice of forum provisions contained in our certificate of incorporation to be inapplicable or unenforceable.

**Nasdaq Global Market Listing**

We intend to apply for listing of our common stock on The NASDAQ Global Market under the symbol “CBYL.”

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is . The transfer agent and registrar’s address is .

### Shares Eligible For Future Sale

Immediately prior to this offering, there has been no public market for our common stock. Future sales of substantial amounts of common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale described below, sales of substantial amounts of common stock in the public market after the restrictions lapse could adversely affect the prevailing market price for our common stock as well as our ability to raise equity capital in the future.

Based on the number of shares of common stock outstanding as of June 30, 2014, upon the closing of this offering, \_\_\_\_\_ shares of common stock will be outstanding, assuming no exercise of the underwriters' option to purchase additional shares of common stock and no exercise of options. All of the shares sold in this offering will be freely tradable unless held by an affiliate of ours. Except as set forth below, the remaining \_\_\_\_\_ shares of common stock outstanding after this offering will be restricted as a result of securities laws or lock-up agreements. These remaining shares will generally become available for sale in the public market as follows:

- No restricted shares will be eligible for immediate sale upon the closing of this offering;
- Up to \_\_\_\_\_ restricted shares will be eligible for sale under Rule 144 or Rule 701 of the Securities Act upon expiration of lock-up agreements at least 180 days after the date of this offering; and
- The remainder of the restricted shares will be eligible for sale from time to time thereafter upon expiration of their respective holding periods under Rule 144, as described below, but could be sold earlier if the holders exercise any available registration rights.

#### Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, any person who is not an affiliate of ours and has held their shares for at least six months, including the holding period of any prior owner other than one of our affiliates, may sell shares without restriction, provided current public information about us is available. In addition, under Rule 144, any person who is not an affiliate of ours and has held their shares for at least one year, including the holding period of any prior owner other than one of our affiliates, would be entitled to sell an unlimited number of shares immediately upon the closing of this offering without regard to whether current public information about us is available. Beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who is an affiliate of ours and who has beneficially owned restricted securities for at least six months, including the holding period of any prior owner other than one of our affiliates, is entitled to sell a number of restricted shares within any three-month period that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately \_\_\_\_\_ shares immediately after this offering (calculated as of June 30, 2014, on the basis of the assumptions described above and assuming no exercise of the underwriter's option to purchase additional shares and no exercise of outstanding options); or
- the average weekly trading volume of our common stock on The NASDAQ Global Market during the four calendar weeks preceding the filing of a notice on Form 144 pursuant to Rule 144 with respect to the sale.

Sales of restricted shares under Rule 144 held by our affiliates are also subject to requirements regarding the manner of sale, notice and the availability of current public information about U.S. Rule 144 also provides that affiliates relying on Rule 144 to sell shares of our common stock that are not restricted shares must nonetheless comply with the same restrictions applicable to restricted shares, other than the holding period requirement.

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Notwithstanding the availability of Rule 144, the holders of substantially all of our restricted shares have entered into lock-up agreements as described below and their restricted shares will become eligible for sale at the expiration of the restrictions set forth in those agreements.

### **Rule 701**

Under Rule 701 of the Securities Act, or Rule 701, shares of our common stock acquired upon the exercise of currently outstanding options or pursuant to other rights granted under our stock plans may be resold by:

- persons other than affiliates, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, subject only to the manner-of-sale provisions of Rule 144; and
- our affiliates, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, subject to the manner-of-sale and volume limitations, current public information and filing requirements of Rule 144, in each case, without compliance with the six-month holding period requirement of Rule 144.

As of June 30, 2014, options to purchase a total of 3,953,242 shares of common stock were outstanding, of which 1,893,262 were vested. Of the total number of shares of our common stock issuable under these options, substantially all are subject to contractual lock-up agreements with us or the underwriters described below under “Underwriting” and will become eligible for sale at the expiration of those agreements unless held by an affiliate of ours.

### **Lock-Up Agreements**

We, along with our directors, executive officers and all of our other stockholders and optionholders, have agreed that for a period of 180 days after the date of this prospectus, subject to specified exceptions, we or they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock. Upon expiration of the “lock-up” period, certain of our stockholders will have the right to require us to register their shares under the Securities Act. See “Registration Rights” below.

### **Registration Rights**

Upon the completion of this offering, the holders of an aggregate of 33,498,248 shares of common stock, including shares of common stock issuable upon the automatic conversion of all outstanding shares of our preferred stock pursuant to a stockholder vote and exercise of outstanding warrants, or their permitted transferees, will be entitled to rights with respect to the registration of these shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming fully tradable without restriction under the Securities Act immediately upon the effectiveness of the registration statement. See “Description of Capital Stock — Registration Rights” for additional information.

### **Stock Plans**

We intend to file with the SEC a registration statement under the Securities Act covering the shares of common stock that we may issue upon exercise of certain outstanding options granted under our 2004 Plan, 2014 Plan and 2014 Equity Plan. Such registration statement is expected to be filed and become effective as soon as practicable after the closing of this offering. Accordingly, shares registered under such registration statement will be available for sale in the open market following its effective date, subject to Rule 144 volume limitations and the lock-up agreements described above, if applicable.

**Material U.S. Federal Income Tax Consequences  
to Non-U.S. Holders of Our Common Stock**

The following summary describes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our common stock acquired in this offering by Non-U.S. Holders (as defined below). This discussion does not address all aspects of U.S. federal income taxes that may be relevant to Non-U.S. Holders in light of their particular circumstances, does not deal with foreign, state, local or estate tax consequences and does not address U.S. federal tax consequences other than income taxes. Special rules different from those described below may apply to certain Non-U.S. Holders that are subject to special treatment under the Internal Revenue Code of 1986, as amended, or the Code, such as financial institutions, insurance companies, persons subject to the alternative minimum tax, tax-exempt organizations, broker-dealers and traders in securities, U.S. expatriates or former citizens or long-term residents of the United States, “controlled foreign corporations,” “passive foreign investment companies,” corporations that accumulate earnings to avoid U.S. federal income tax, persons that own, or are deemed to own, more than five percent of our capital stock, persons that hold our common stock as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or integrated investment or other risk reduction strategy, persons deemed to sell our common stock under the constructive sale provisions of the Code, tax-qualified retirement plans, partnerships and other pass-through entities, and investors in such pass-through entities or an entity that is treated as a disregarded entity for U.S. federal income tax purposes (regardless of its place of organization or formation). Such Non-U.S. Holders are urged to consult their own tax advisors to determine the U.S. federal, state, local, estate and other tax consequences that may be relevant to them. Furthermore, the discussion below is based upon the provisions of the Code, and U.S. Department of the Treasury, or Treasury, regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. We have not requested a ruling from the U.S. Internal Revenue Service, or IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions. This discussion assumes that the Non-U.S. Holder holds our common stock as a “capital asset” within the meaning of Section 1221 of the Code (generally, property held for investment).

If an entity treated as a partnership for U.S. federal income tax purposes holds our common stock, the tax treatment of a partner in the partnership will depend on the status of the partner, the activities of the partnership and certain determinations made at the partner level. Accordingly, partnerships holding our common stock and the partners in such partnerships should consult their tax advisors regarding the U.S. federal income tax consequences to them.

Persons considering the purchase of our common stock pursuant to this offering should consult their own tax advisors concerning the U.S. federal income and any other tax consequences of acquiring, owning and disposing of our common stock in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction, including any state, local or foreign tax consequences.

For the purposes of this discussion, a “Non-U.S. Holder” is, for U.S. federal income tax purposes, a beneficial owner of our common stock that has not been excluded from this discussion and is not a U.S. Holder. A “U.S. Holder” means a beneficial owner of our common stock that is for U.S. federal income tax purposes (a) an individual who is a citizen or resident of the United States, (b) a corporation or other entity treated as a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or (d) a trust if it (1) is subject to the primary supervision of a court within the United States and one or more “U.S. persons” (within the meaning of Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

## **Distributions**

Subject to the discussion below, distributions, if any, made on our common stock to a Non-U.S. Holder of our common stock to the extent made out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles) generally will constitute dividends for U.S. tax purposes and will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder generally will be required to provide us with a properly executed IRS Form W-8BEN or W-8BEN-E, or other appropriate form, certifying the Non-U.S. Holder's entitlement to benefits under that treaty. If you are eligible for a reduced rate of U.S. federal withholding tax under an income tax treaty, you should consult with your own tax advisor to determine if you are able to obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for a refund with the IRS.

We generally are not required to withhold tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment that such holder maintains in the United States) if a properly executed IRS Form W-8ECI, or other appropriate form, stating that the dividends are so connected, is furnished to us (or, if stock is held through a financial institution or other agent, to such agent). In general, such effectively connected dividends will be subject to U.S. federal income tax, on a net income basis at the regular graduated rates, unless a specific treaty exemption applies. A corporate Non-U.S. Holder receiving effectively connected dividends may also be subject to an additional "branch profits tax," which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) on the corporate Non-U.S. Holder's effectively connected earnings and profits, subject to certain adjustments. Non-U.S. Holders should consult their tax advisors regarding any applicable tax treaties that may provide for different rules.

To the extent distributions on our common stock, if any, exceed our current and accumulated earnings and profits, they will constitute a non-taxable return of capital to the extent of your adjusted basis and will first reduce your adjusted basis in our common stock, but not below zero, and then will be treated as gain and taxed in the same manner as gain realized from a sale or other disposition of common stock as described in the next section.

## **Gain on Disposition of Our Common Stock**

Subject to the discussion below regarding backup withholding and foreign accounts, a Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock unless (a) the gain is effectively connected with a trade or business of such Non-U.S. Holder in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that such holder maintains in the United States), (b) the Non-U.S. Holder is a non-resident alien individual and is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met, or (c) we are or have been a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code at any time within the shorter of the five-year period ending on the date of such disposition or such holder's holding period. In general, we would be a United States real property holding corporation if interests in U.S. real estate comprised (by fair market value) at least half of our business assets (which include U.S. real property interests). We believe that we are not, and do not anticipate becoming, a United States real property holding corporation. Even if we are treated as a United States real property holding corporation, gain realized by a Non-U.S. Holder on a disposition of our common stock will not be subject to U.S. federal income tax so long as (1) the Non-U.S. Holder owned, directly, indirectly and constructively, no more than 5% of our common stock at all times within the shorter of (i) the five-year period ending on the date of the disposition or (ii) the holder's holding period, and (2) our common stock is regularly traded on an established securities market. We do not make any assurances that our common stock will qualify or continue to qualify as regularly traded on an established securities market.



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If you are a Non-U.S. Holder described in (a) above, you will be required to pay tax on the net gain derived from the sale at regular graduated U.S. federal income tax rates, unless a specific treaty exemption applies, and corporate Non-U.S. Holders described in (a) above may be subject to the additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual Non-U.S. Holder described in (b) above, you will be required to pay a flat 30% tax on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States).

### **Information Reporting Requirements and Backup Withholding**

Generally, we or certain financial middlemen must report information to the IRS with respect to any dividends we pay on our common stock including the amount of any such dividends, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder to whom any such dividends are paid. Pursuant to tax treaties or certain other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Dividends paid by us (or our paying agents) to a Non-U.S. Holder may also be subject to U.S. backup withholding. U.S. backup withholding generally will not apply to a Non-U.S. Holder who provides a properly executed IRS Form W-8BEN, W-8BEN-E, W-8ECI, or W-8EXP, or otherwise establishes an exemption. The backup withholding rate is 28%.

Under current U.S. federal income tax law, U.S. information reporting and backup withholding requirements generally will apply to the proceeds from a disposition of our common stock effected by or through a U.S. office of any broker, U.S. or foreign, except that information reporting and such requirements may be avoided if the holder provides a properly executed IRS Form W-8BEN, W-8BEN-E, W-8ECI, or W-8EXP, or otherwise meets documentary evidence requirements for establishing Non-U.S. Holder status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding requirements will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. For information reporting purposes, certain brokers with substantial U.S. ownership or operations will generally be treated in a manner similar to U.S. brokers.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a Non-U.S. Holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS. If backup withholding is applied to you, you should consult with your own tax advisor to determine if you are able to obtain a tax benefit or credit with respect to such backup withholding.

### **Foreign Accounts**

Withholding taxes are imposed on certain types of payments made to a foreign financial institution or a non-financial foreign entity (as specifically defined for this purpose), including when the foreign financial institution holds our common stock on behalf of a non-U.S. Holder, unless additional certification, information reporting and other specified requirements are satisfied. The failure of a foreign financial institution or non-financial foreign entity to comply with the reporting requirements could result in a 30% withholding tax being imposed on certain "Withholdable Payments" paid to such entity. For this purpose, subject to certain exceptions, the term "Withholdable Payment" generally includes payment of dividends if such payment is from sources within the United States, as well as any gross proceeds from the sale or other disposition of any property of a type which can produce, among other things, dividends from sources within the United States. If a Non-U.S. Holder does not provide the withholding agent with the information necessary for it to comply with this legislation, it is possible that payments of dividends as well as payments received from sales proceeds to such Non-U.S. Holder will be subject to the 30% withholding tax. Under the applicable Treasury Regulations, such withholding obligations

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will generally apply to payments made after June 30, 2014 (in the case of dividends) and to payments made after December 31, 2016 (in the case of certain sales proceeds). Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. Non-U.S. Holders are encouraged to consult with their own tax advisors regarding the possible implications of the legislation on their investment in our common stock.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW.

## Underwriting

Leerink Partners LLC and RBC Capital Markets, LLC are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in an underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the number of shares of common stock set forth opposite its name below.

<u>Underwriter</u>	<u>Number of Shares</u>
Leerink Partners LLC	
RBC Capital Markets, LLC	
Wedbush Securities Inc.	
Total	

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

### Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares to the public at the public offering price set forth on the cover of this prospectus and to dealers at that price less a concession not in excess of \$        per share. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares of our common stock.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$       . We also have agreed to reimburse the underwriters for up to \$        for their FINRA counsel fee. In accordance with FINRA Rule 5110, this reimbursed fee is deemed underwriting compensation for this offering.

### **Option to Purchase Additional Shares**

We have granted an option to the underwriters, exercisable for 30 days after the date of this prospectus, to purchase up to \_\_\_\_\_ additional shares at the public offering price, less the underwriting discount. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

### **No Sales of Similar Securities**

We, our executive officers, directors and certain of our other existing security holders have agreed, subject to certain exceptions, not to sell or transfer any common stock or securities convertible into or exchangeable or exercisable for common stock, for 180 days after the date of this prospectus without first obtaining the written consent of Leerink Partners LLC. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- otherwise dispose of or transfer any common stock;
- request or demand that we file a registration statement related to the common stock; or
- enter into any swap or other agreement or any transaction that transfers, in whole or in part, the economic consequence of ownership of any common stock, whether any such swap, agreement or transaction is to be settled by delivery of shares or other securities, in cash or otherwise.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The restrictions described in the preceding paragraphs do not apply to:

- transfers or dispositions of shares of common stock (or any security convertible into or exercisable or exchangeable for common stock):
  - as a bona fide gift;
  - to the immediate family of or any trust for the direct or indirect benefit of the person subject to the lock-up restrictions;
  - if the person subject to the lock-up restriction is an entity, as a distribution to the limited partners, members, stockholders or other equity holders of the such entity or as a part of a disposition, transfer or distribution without consideration by such entity to its equity holders;
  - to the undersigned's affiliates or to any investment fund or other entity controlled or managed by the undersigned;

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- by operation of law, including pursuant to a qualified domestic order or in connection with a divorce settlement;
- by will or intestate succession upon the death of the undersigned; or

*provided* that in the case of any transfer or distribution pursuant to the above subclauses, (i) each donee or distributee shall sign and deliver a lock-up letter substantially in the form executed by the party subject to the lock up restrictions, (ii) such transfer shall not involve a disposition for value, (iii) no filing under Section 16(a) of the Exchange Act, reporting a reduction in beneficial ownership of shares of common stock, shall be required or shall be voluntarily made during the restricted period (except than with respect to transfers by operation of law or by will or intestate succession) and (iv) the person subject to the lock-up restriction does not voluntarily effect and public filing or report;

- sales or transfers to the underwriters in the this offering;
- transfers to the company upon a vesting event of the company’s securities or to the company upon the exercise or conversion of options or warrants to purchase the company’s securities, in each case, on a “cashless” or “net exercise” basis or to cover tax withholding obligations of the undersigned in connection with such vesting or exercise;
- the conversion of shares of preferred stock of the company into shares of common stock;
- transfers to the company pursuant to agreements under which the company has the option to repurchase or the company has a right of first refusal;
- transfers pursuant to a bona fide third-party tender offer, merger, consolidation or other similar transaction involving a change in control of the company;
- sales of shares of common stock acquired in open market transactions after the completion of the offering of the shares, *provided* such sales are not required during the 180-day period to be reported in any press release or public report or filing with SEC, or otherwise and the person subject to the lock-up restriction does not otherwise voluntarily effect any press release, public filing or report regarding such sales during the 180-day period; or
- exercises of any rights to purchase, exchange or convert any stock options granted pursuant to our equity incentive plans or warrants or any other securities existing as of the date of this prospectus, which securities are convertible into or exchangeable or exercisable for common stock, if and only if (but subject to any transfers made in connection with “cashless” or “net exercise” transactions described above) the shares of common stock received upon such exercise, purchase, exchange or conversion shall remain subject to the terms of the lock-up agreement.

### **NASDAQ Global Market Listing**

We intend to apply for the listing of our common stock on The NASDAQ Global Market, subject to notice of issuance, under the symbol “CBYL.”

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined through negotiations between us and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;
- our financial information;

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- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

### **Price Stabilization, Short Positions and Penalty Bids**

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our common stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option described above. The underwriters may close out any covered short position by either exercising their option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option granted to them. "Naked" short sales are sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of common stock made by the underwriters in the open market prior to the closing of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on The NASDAQ Global Market, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

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### **Electronic Distribution**

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as e-mail.

### **Other Relationships**

Some of the underwriters and their affiliates may in the future engage in investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They may in the future receive customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers.

Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area (each, a “Relevant Member State”), no offer of shares may be made to the public in that Relevant Member State other than:

- A to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of shares shall require the Company or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

The company, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

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This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the company nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for the company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.



### **Legal Matters**

The validity of the issuance of the shares of common stock being offered by this prospectus will be passed upon for us by Ropes & Gray LLP. The underwriters are being represented by Latham & Watkins LLP in connection with this offering.

### **Experts**

The financial statements as of December 31, 2012 and 2013 and for each of the two years in the period ended December 31, 2013 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

### **Where You Can Find Additional Information**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act, with respect to the shares of common stock being offered by this prospectus. This prospectus does not contain all of the information in the registration statement and its exhibits. For further information with respect to us and the common stock offered by this prospectus, we refer you to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract, agreement or any other document referred to are not necessarily complete, and in each instance, we refer you to the copy of the contract or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street NE, Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. You may also request a copy of these filings, at no cost, by writing us at 3181 Porter Drive, Palo Alto, CA 94304 or telephoning us at (650) 855-6777.

Upon the closing of this offering, we will be subject to the information reporting requirements of the Exchange Act, and we will file reports, proxy statements and other information with the SEC. These reports, proxy statements and other information will be available for inspection and copying at the public reference room and web site of the SEC referred to above. We also maintain a website at [www.carbylan.com](http://www.carbylan.com), at which, following the closing of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. The information contained in, or that can be accessed through, our website is incorporated by reference in, and is not part of, this prospectus.

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Carbylan Therapeutics, Inc:

In our opinion, the accompanying balance sheets and the related statements of operations and comprehensive loss, of convertible preferred stock and stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Carbylan Therapeutics, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
September 18, 2014

## Carbylan Therapeutics, Inc.

**Balance Sheets**  
(in thousands, except share and per share amounts)

	<u>December 31,</u>		<u>June 30,</u>	<b>Pro Forma Stockholders' Equity June 30, 2014 (Note 2)</b>
	<u>2012</u>	<u>2013</u>	<u>2014</u>	
				(unaudited)
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 8,242	\$ 9,781	\$ 7,176	
Prepaid expenses and other current assets	83	129	183	
Total current assets	8,325	9,910	7,359	
Property and equipment, net	84	75	131	
Restricted cash	50	50	50	
Other assets	70	70	95	
Total assets	<u>\$ 8,529</u>	<u>\$ 10,105</u>	<u>\$ 7,635</u>	
<b>Liabilities, convertible preferred stock and stockholders' equity (deficit)</b>				
Current liabilities:				
Accounts payable	\$ 147	\$ 462	\$ 737	
Accruals	213	396	746	
Loans payable	2,685	3,063	4,107	
Deferred licensing revenue	23	29	29	
Total current liabilities	3,068	3,950	5,619	
Preferred stock warrant liability	79	184	394	
Deferred licensing revenue, net of current portion	114	114	102	
Deferred rent, net of current portion	7	9	9	
Total liabilities	<u>3,268</u>	<u>4,257</u>	<u>6,124</u>	
Commitments and contingencies (Note 4)				
Convertible preferred stock, \$.001 par value; 34,371,305 shares authorized, 28,064,186 shares issued and outstanding as of December 31, 2012 and 33,074,166 issued and outstanding at December 31, 2013 and June 30, 2014 (unaudited)	33,546	39,556	39,556	\$ —
Stockholders' equity (deficit)				
Common stock, \$.001 par value; 45,000,000 authorized; 1,684,649 issued and outstanding at December 31, 2012, 1,769,649 shares issued and outstanding as of December 31, 2013 and 2,651,747 shares issued and outstanding as of June 30, 2014 (unaudited); 35,725,913 (unaudited) shares outstanding, pro forma	2	2	3	36
Additional paid-in-capital	451	706	1,018	40,935
Accumulated deficit	(28,738)	(34,416)	(39,066)	(39,066)
Total stockholders' equity (deficit)	<u>(28,285)</u>	<u>(33,708)</u>	<u>(38,045)</u>	<u>\$ 1,905</u>
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	<u>\$ 8,529</u>	<u>\$ 10,105</u>	<u>\$ 7,635</u>	

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

Carbylan Therapeutics, Inc.

Statements of Operations and Comprehensive Loss  
(in thousands, except share and per share amounts)

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013 (unaudited)	2014
License revenue	\$ 1,538	\$ 415	\$ 11	\$ 11
<b>Operating expenses:</b>				
Research and development	1,959	4,229	1,786	3,175
General and administrative	1,412	1,402	624	1,128
Total operating expenses	3,371	5,631	2,410	4,303
Loss from operations	(1,833)	(5,216)	(2,399)	(4,292)
<b>Other income (expense), net:</b>				
Interest income	1	2	1	1
Interest expense	(256)	(405)	(289)	(163)
Other income (expense), net	35	(59)	4	(196)
Total other income (expense), net	(220)	(462)	(284)	(358)
Net loss and comprehensive loss	\$ (2,053)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Deemed dividend (Note 7)	(111)	—	—	—
Net loss attributable to common shareholders	\$ (2,164)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Net loss per share attributable to common stockholders, basic and diluted	\$ (1.28)	\$ (3.36)	\$ (1.59)	\$ (2.16)
Weighted average common shares outstanding, basic and diluted	1,684,649	1,692,279	1,684,649	2,157,261
Pro forma net loss per share attributable to common stockholders, basic and diluted (unaudited)		\$ (0.17)		\$ (0.13)
Pro forma weighted average common shares outstanding, basic and diluted (unaudited)		32,659,252		35,231,427

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

**Carbylan Therapeutics, Inc.**

**Statements of Changes in Convertible Preferred Stock and Stockholders' Equity (Deficit)**  
(in thousands, except share and per share amounts)

	Series A and B Convertible Preferred Stock		Common Stock		Additional Paid-in-Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
<b>Balance as of January 1, 2012</b>	20,937,118	\$27,482	1,684,649	\$ 2	\$ 515	\$ (26,685)	\$ (26,168)
Issuance of Series B convertible preferred stock at \$1.2026, net of issuance costs of \$47	4,989,189	5,953	—	—	—	—	—
Issuance of Series B convertible preferred stock and resulting deemed dividend in connection with the modification of Series B convertible preferred stock liquidation preference	2,137,879	111	—	—	(111)	—	(111)
Stock-based compensation expense			—	—	47	—	47
Net loss	—	—	—	—	—	(2,053)	(2,053)
<b>Balance at December 31, 2012</b>	<u>28,064,186</u>	<u>33,546</u>	<u>1,684,649</u>	<u>2</u>	<u>451</u>	<u>(28,738)</u>	<u>(28,285)</u>
Exercise of stock options	—	—	85,000	—	17	—	17
Issuance of Series B convertible preferred stock at \$1.2026, net of issuance costs of \$14	5,009,980	6,010	—	—	—	—	—
Stock-based compensation expense			—	—	238	—	238
Net loss	—	—	—	—	—	(5,678)	(5,678)
<b>Balance at December 31, 2013</b>	<u>33,074,166</u>	<u>39,556</u>	<u>1,769,649</u>	<u>2</u>	<u>706</u>	<u>(34,416)</u>	<u>(33,708)</u>
Exercise of stock options (unaudited)	—	—	882,098	1	203	—	204
Stock-based compensation expense (unaudited)	—	—	—	—	109	—	109
Net loss (unaudited)	—	—	—	—	—	(4,650)	(4,650)
<b>Balance at June 30, 2014 (unaudited)</b>	<u><u>33,074,166</u></u>	<u><u>\$39,556</u></u>	<u><u>2,651,747</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 1,018</u></u>	<u><u>\$ (39,066)</u></u>	<u><u>\$ (38,045)</u></u>

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

**Carbylan Therapeutics, Inc.**
**Statements of Cash Flows**  
**(in thousands)**

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
	(unaudited)			
<b>Cash flows from operating activities</b>				
Net loss	\$(2,053)	\$(5,678)	\$(2,683)	\$(4,650)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	38	27	11	20
Stock based compensation expense	47	238	108	109
Change in fair value of preferred stock warrant liability	(6)	63	—	191
Non-cash interest expense	104	32	(35)	93
Changes in operating assets and liabilities:				
Prepaid expenses and other current asset	1	(46)	(13)	(54)
Other assets	(38)	—	(4)	—
Accounts payable	(8)	315	(80)	275
Accruals	(64)	183	190	335
Deferred licensing revenue	137	6	(11)	(11)
Deferred rent	7	2	—	—
<b>Net cash used in operating activities</b>	<u>(1,835)</u>	<u>(4,858)</u>	<u>(2,517)</u>	<u>(3,692)</u>
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(91)	(18)	(12)	(76)
<b>Net cash used in investing activities</b>	<u>(91)</u>	<u>(18)</u>	<u>(12)</u>	<u>(76)</u>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of common stock, net	—	17	—	205
Proceeds from issuance of convertible preferred stock, net	5,953	6,010	6,010	—
Deferred public offering costs	—	—	—	(10)
Proceeds from loans payable	—	546	546	1,250
Repayment of loans payable	(389)	(158)	(158)	(282)
<b>Net cash provided by financing activities</b>	<u>5,564</u>	<u>6,415</u>	<u>6,398</u>	<u>1,163</u>
<b>Net increase (decrease) in cash and cash equivalent</b>	3,638	1,539	3,869	(2,605)
<b>Cash and cash equivalents at beginning of period</b>	4,604	8,242	8,242	9,781
<b>Cash and cash equivalents at end of period</b>	<u>\$ 8,242</u>	<u>\$ 9,781</u>	<u>\$12,111</u>	<u>\$ 7,176</u>
<b>Supplemental cash flow information</b>				
Cash paid for interest	\$ 152	\$ 367	\$ 39	\$ 59
<b>Supplemental disclosure of non-cash financing activities</b>				
Issuance of preferred stock warrants	18	42	42	19
Deemed dividend on preferred stock	111	—	—	—
Deferred public offering cost	—	—	—	15

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

**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

**1. Organization and Basis of Presentation**

Carbylan Therapeutics, Inc. (the “Company”) is a clinical-stage specialty pharmaceutical company focused on the development and commercialization of novel and proprietary combination therapies that address significant unmet medical needs. The Company’s initial focus is on the development of Hydros-TA, its proprietary, potentially best-in-class intra-articular injectable product candidate to treat pain associated with osteoarthritis of the knee. The Company was incorporated in the state of Delaware on March 26, 2004 as Sentrx Surgical, Inc. The name of the Company was changed to Carbylan Biosurgery, Inc. on December 14, 2005. The name of the Company was changed to Carbylan Therapeutics, Inc. on March 7, 2014.

Since commencing operations in 2004, the Company has devoted substantially all of its efforts to identifying and developing product candidates for therapeutic markets, recruiting personnel and raising capital. The Company has devoted predominantly all of its resources to the preclinical and clinical development of, and manufacturing capabilities for, Hydros-TA. The Company has never been profitable and has not yet commenced commercial operations.

The financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In order to continue its operations, the Company must raise additional equity or debt financings and achieve profitable operations. Although management has been successful in raising capital in the past, there can be no assurance that the Company will be able to obtain additional equity or debt financing on terms acceptable to the Company, or at all. The failure to obtain sufficient funds on acceptable terms when needed could have a material adverse effect on the Company’s business, results of operations, future cash flows and financial condition. As a company with no commercial operating history, the Company is subject to all of the risks and expenses associated with a start-up company. The Company must among other things respond to competitive developments, attract, retain and motivate qualified personnel and support the expense of marketing new products based on innovative technology. The Company has incurred operating losses and negative cash flow from operations in each year since inception. The Company has not generated any revenue from product sales to date and will continue to incur significant research and development and other expenses related to its ongoing operations. The Company has incurred net losses of \$2,053,000, \$5,678,000, \$2,683,000 and \$4,650,000 for the years ended December 31, 2012 and 2013 and the six months ended June 30, 2013 and 2014 (unaudited), and had an accumulated deficit to December 31, 2013 and June 30, 2014 (unaudited) of \$34,416,000 and \$39,066,000, respectively. The Company has funded its operations primarily through the sale and issuance of convertible preferred stock and conventional debt with a financial institution. As of December 31, 2013 and June 30, 2014 (unaudited), the Company had capital resources consisting of cash and cash equivalents of \$9,781,000 and \$7,176,000. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

***Use of Estimates***

The preparation of the accompanying financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the



**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, the Company evaluates its estimates, including those related to common stock, stock-based compensation expense, warrant liabilities, accruals, deferred tax valuation allowance and revenue recognition. Management bases its estimates on historical experience or on various other assumptions, including information received from its service providers, which it believes to be reasonable under the circumstances. Actual results could differ from those estimates.

***Unaudited Interim Financial Information***

The accompanying balance sheet as of June 30, 2014, the statements of operations and comprehensive loss, of convertible preferred stock and stockholders' equity (deficit) and of cash flows for the six months ended June 30, 2013 and 2014 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary for a fair statement of the Company's financial position as of June 30, 2014 and the results of its operations and comprehensive loss and its cash flows for the six months ended June 30, 2013 and 2014. The financial data and other information disclosed in these notes related to the six months ended June 30, 2013 and 2014 are unaudited. The results for the six months ended June 30, 2014 are not necessarily indicative of results to be expected for the year ending December 31, 2014, any other interim periods, or any future year or period.

***Unaudited Pro Forma Stockholders' Equity***

The unaudited pro forma stockholders' equity has been prepared assuming immediately prior to the closing of the Company's initial public offering: (i) the automatic conversion of all outstanding shares of convertible preferred stock into shares of common stock, and (ii) the conversion of preferred stock warrants into warrants exercisable for common stock and the related reclassification of the convertible preferred stock warrant liability to common stock and additional paid-in-capital. The unaudited pro forma stockholders' equity does not assume any proceeds from the proposed initial public offering.

***Risks and Uncertainties***

The product candidates developed by the Company require approvals from the U.S. Food and Drug Administration (FDA) or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company's current and future product candidates will receive the necessary approvals. If the Company is denied approval or approval is delayed, it may have a material adverse impact on the Company's business and its financial statements.

The Company is subject to risks common to companies in the specialty pharmaceutical industry with no commercial operating history, including, but not limited to, dependency on the clinical and commercial success of its product candidates, ability to obtain regulatory approval of its product candidates, the need for substantial additional financing to achieve its goals, uncertainty of broad adoption of its approved products, if any, by physicians and consumers, significant competition and untested manufacturing capabilities.

The Company expects to incur substantial operating losses for the next several years and will need to obtain additional financing in order to launch and commercialize any products or product candidates for which it receives regulatory approval. There can be no assurance that such financing will be available or will be at terms acceptable by the Company.

**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents. The Company invests its excess cash in money market accounts. The Company's cash and cash equivalents are held by a single financial institution and all cash is held in the United States. Such deposits may, at times, exceed federally insured limits. The Company has not recognized any losses during the periods presented and management does not believe that the Company is exposed to significant credit risk from its cash and cash equivalents.

***Segment Reporting***

The Company manages its operations as a single operating segment for the purposes of assessing performance and making operating decisions. The Company is a specialty pharmaceutical company focused on the development and commercialization of novel and proprietary combination therapies that address significant unmet medical needs. No product revenue has been generated since inception, and all assets are held in the United States.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original maturity date of 90 days or less on the date of purchase to be cash equivalents. The Company invests its cash in bank deposits and money market funds.

***Restricted Cash***

The Company is required to guarantee the credit limit on its corporate credit card with a certificate of deposit of \$50,000. The balance is included as restricted cash on the accompanying balance sheets.

***Fair Value of Financial Instruments***

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). As of December 31, 2013 and June 30, 2014 (unaudited), based on borrowing rates that are available to the Company for loans of similar terms and consideration of the Company's credit risk, the carrying value of the loan payable approximates the fair value using Level 2 inputs.

***Property and Equipment, Net***

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

Computer equipment	3 years
Lab equipment	3 years
Furniture and fixtures	5 years
Machinery and equipment	3 years

**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

Leasehold improvements are amortized over the lesser of their useful lives or the term of the lease. Upon sale or retirement of the assets, the cost and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss is recognized in the accompanying statement of operations and comprehensive loss in other income (expense), net. Maintenance and repairs are charged to operations as incurred.

***Pre-clinical and Clinical Trial Accruals***

The Company's clinical trial accruals are based on estimates of patient enrollment and related costs at clinical investigator sites as well as estimates for the services received and efforts expended pursuant to contracts with clinical research organizations that conduct and manage preclinical and clinical trials on the Company's behalf. If timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, the Company modifies the estimates of accrued expenses accordingly. To date, there have been no material differences from its estimates to the amount actually incurred.

***Preferred Stock Warrant Liability***

The Company accounts for its warrants as either equity or liabilities based upon the characteristics and provisions of each instrument. Warrants classified as derivative liabilities are recorded on the Company's accompanying balance sheets at their fair value on the date of issuance and are revalued at each subsequent balance sheet date, with fair value changes recognized as increases or reductions to other income (expense), net in the statements of operations and comprehensive loss.

***Deferred Offering Costs***

The Company capitalizes certain legal, accounting and other third-party fees that are directly associated with in-process equity financings as other assets until such financings are consummated. After closing of the equity financing, these costs are recorded in stockholders' equity (deficit) as a reduction of additional paid-in-capital generated as a result of the offering. As of June 30, 2014 (unaudited), the Company recorded deferred offering costs of \$25,000 on the accompanying balance sheet in contemplation of an initial public offering. Should the closing of the initial public offering no longer be considered probable, the deferred offering costs would be expensed immediately as a charge to operating expenses in the accompanying statement of operations and comprehensive loss. The Company did not record any deferred offering costs as of December 31, 2012 or 2013.

***License Revenue***

Revenue under the Company's license arrangement is recognized based on the performance requirements of the contract. Determinations of whether persuasive evidence of an arrangement exists and whether delivery has occurred or services have been rendered are based on management's judgments regarding the fixed nature of the fees charged for deliverables and the collectability of those fees. Should changes in conditions cause management to determine that these criteria are not met for any new or modified transactions, revenue recognized could be adversely affected.

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**Notes to Financial Statements**

The Company recognizes revenue related to its license arrangement in accordance with the provisions of Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 605-25, *Revenue Recognition — Multiple-Element Arrangements* (“ASC Topic 605-25,”) which provides guidance on how deliverables in an arrangement should be separated and how the arrangement consideration should be allocated to the separate units of accounting:

- requiring an entity to determine the selling price of a separate deliverable using a hierarchy of (i) vendor-specific objective evidence (“VSOE,”) (ii) third-party evidence (“TPE,”) or (iii) best estimate of selling price (“BESP”); and
- requiring the allocation of the arrangement consideration, at the inception of the arrangement, to the separate units of accounting based on relative fair value.

The Company evaluates all deliverables within an arrangement to determine whether or not they provide value on a stand-alone basis. Based on this evaluation, the deliverables are separated into units of accounting. The arrangement consideration that is fixed or determinable at the inception of the arrangement is allocated to the separate units of accounting based on their relative selling prices. The Company may exercise significant judgment in determining whether a deliverable is a separate unit of accounting, as well as in estimating the selling prices of such unit of accounting.

To determine the selling price of a separate deliverable, the Company uses the hierarchy as prescribed in ASC Topic 605-25 based on VSOE, TPE or BESP. VSOE is based on the price charged when the element is sold separately and is the price actually charged for that deliverable. TPE is determined based on third-party evidence for a similar deliverable when sold separately and BESP is the price at which the Company would transact a sale if the elements of collaboration and license arrangements were sold on a stand-alone basis. The Company may not be able to establish VSOE or TPE for the deliverables within collaboration and license arrangements, as the Company does not have a history of entering into such arrangements or selling the individual deliverables within such arrangements separately. In addition, there may be significant differentiation in these arrangements, which indicates that comparable third-party pricing may not be available. The Company may determine that the selling price for the deliverables within collaboration and license arrangements should be determined using BESP. The process for determining BESP involves significant judgment on the Company’s part and includes consideration of multiple factors such as estimated direct expenses and other costs, and available data.

For each unit of accounting identified within an arrangement, the Company determines the period over which the performance obligation occurs. The Company allocates the arrangement consideration to the separate units of accounting based on the relative selling prices. Revenue is recognized immediately if the performance obligation has been met. The Company recognizes the revenue that is deferred using the straight-line method over the expected delivery period of the unit of accounting.

***Research and Development Expenditures***

Costs incurred to further the Company’s research and development include salaries and related employee benefits, stock-based compensation expense, costs associated with clinical studies, nonclinical research and development activities, regulatory activities, research-related overhead expenses and fees paid to external service providers and contract research and manufacturing organizations that conduct certain research and development activities on behalf of the Company.

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**Notes to Financial Statements**

***Income Taxes***

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company accounts for uncertain tax positions in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The Company assesses all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of the recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

***Stock-Based Compensation***

The Company maintains performance incentive plans under which incentive stock options and non-qualified stock options may be granted to employees and non-employees. The Company accounts for stock-based compensation arrangements with employees in accordance with ASC 718, *Compensation — Stock Compensation*. ASC 718 requires the recognition of compensation expense, using a fair value-based method, for costs related to all share-based payments including stock options.

The Company's determination of the fair value of stock options on the date of grant utilizes the Black-Scholes option-pricing model, and is impacted by its common stock price as well as changes in assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected term that options will remain outstanding, expected common stock price volatility over the term of the option awards, risk-free interest rates and expected dividends.

The fair value is recognized over the period during which an optionee is required to provide services in exchange for the option award, known as the requisite service period (usually the vesting period), on a straight-line basis. Stock-based compensation expense recognized at fair value includes the impact of estimated forfeitures. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic adjustments as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. The non-employee stock-based compensation expense was not material for all periods presented.

***Net Loss per Common Share and Unaudited Proforma Net Loss per Share Attributable to Common Shareholders***

The Company calculates its basic and diluted net income (loss) per share attributable to common stockholders in conformity with the two-class method required for companies with participating securities, which

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are securities other than common stock that are entitled to receive dividends. The Company's convertible preferred stockholders are entitled to participate in dividends and earnings of the Company when dividends are paid on common stock. Under the two-class method, the Company determines whether it has net income attributable to common stockholders, which includes the results of operations, capital contributions and deemed dividends less current period convertible preferred stock non-cumulative dividends. If it is determined that the Company does have net income attributable to common stockholders during a period, the related undistributed earnings are then allocated between common stock and the convertible preferred stock based on the weighted average number of shares outstanding during the period to determine the numerator for the basic net income per share attributable to common stockholders. In computing diluted net income attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities to determine the numerator for the diluted net income per share attributable to common stockholders.

The Company's basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) by the weighted average number of shares of common stock outstanding for the period. The diluted net income (loss) per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock and common stock warrants are considered common stock equivalents. For periods in which the Company has reported net losses, diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders, since dilutive common shares are not assumed to have been issued if their effect is anti-dilutive. Potential common shares will always be anti-dilutive for periods in which the Company has reported a net loss. Diluted net loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for the six months ended June 30, 2013 and 2014 (unaudited) and for the years ended December 31, 2012 and 2013.

***Unaudited Pro Forma Net Loss per Common Share***

The unaudited pro forma basic and diluted net loss per share attributable to common stockholders has been computed to give effect to the automatic conversion immediately prior to the closing of the initial public offering of the convertible preferred stock into common stock as of the beginning of January 1, 2013 or the issuance date, if later and the conversion of all of our warrants exercisable for convertible preferred stock into warrants exercisable for shares of our common stock. Also, the numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove the gains and losses resulting from the re-measurement of the convertible preferred stock warrant liability as these amounts will be reclassified to additional paid-in-capital upon the closing of the initial public offering of the Company's common stock.

***Recent Accounting Pronouncements***

In June 2014, the FASB issued ASU No. 2014-12, *Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved After a Requisite Service Period* ("ASU 2014-12.") Companies commonly issue share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period should be treated as a performance condition. The performance target should not be reflected in estimating the grant date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 will be effective for the Company's fiscal years beginning fiscal 2016 and interim reporting periods within that year, using either the retrospective or prospective transition method. Early adoption is permitted. The Company is currently evaluating the effect of the adoption of this guidance on the financial statements.

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In June 2014, the FASB issued ASU No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation* (“ASU 2014-10.”) ASU 2014-10 removes all incremental financial reporting requirements regarding development-stage entities, including the removal of Topic 915 from the FASB Accounting Standards Codification. In addition, ASU 2014-10 adds an example disclosure in Risks and Uncertainties (Topic 275) to illustrate one way that an entity that has not begun planned operations could provide information about risks and uncertainties related to the company’s current activities. ASU 2014-10 also removes an exception provided to development-stage entities in Consolidations (Topic 810) for determining whether an entity is a variable interest entity. Effective with the first quarter of our fiscal year ended March 31, 2015, the presentation and disclosure requirements of Topic 915 will no longer be required. The revisions to Consolidation (Topic 810) are effective the first quarter of our fiscal year ended March 31, 2017. Early adoption is permitted. The Company has elected to early adopt this guidance as it relates to all incremental financial reporting requirements regarding development-stage entities.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers Topic 606*, (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 requires entities to disclose both qualitative and quantitative information that enables users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including disclosure of significant judgments affecting the recognition of revenue. ASU 2014-09 will be effective for the Company’s fiscal years beginning fiscal 2018 and interim reporting periods within that year, using either the retrospective or cumulative effect transition method. Early adoption is not permitted. The Company is currently evaluating the effect of the adoption of this guidance on the financial statements.

***Fair Value Measurements***

The Company follows ASC 820-10, *Fair Value Measurements and Disclosures*, which among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

- |         |   |
|---------|---|
| Level 1 | Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.   |
| Level 2 | Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.               |
| Level 3 | Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. |

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

The Company's investments in money market funds are measured at fair value on a recurring basis. The money market funds comply with Rule 2a-7 of the Investment Company Act of 1940 and are required to be priced and have a fair value of \$1.00 net asset value per share. These money market funds are actively traded and reported daily through a variety of sources. Due to the structure and valuation required by the Investment Company Act of 1940 regarding Rule 2a-7 funds, the fair value of the money market fund investments is classified as Level 1.

The fair value of the certificates of deposit is classified as Level 2 due to the nature of a contractual restriction with a financial institution that requires the certificate of deposit to remain in place as collateral for the credit card, and therefore the ability to liquidate the investment is limited.

There were no transfers between Level 1 and Level 2 during the periods presented.

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3. Level 3 liabilities that are measured at fair value on a recurring basis consist of the convertible preferred stock warrant liability. In 2012, the Company estimated the fair value of the preferred stock warrant liability by using the backsolve method to determine an enterprise value of the Company. The enterprise value was allocated using the Black-Scholes option-pricing model. In 2013, the Company estimated the fair value of the warrant liability by calculating the enterprise value by applying a probability of two scenarios, going public or remaining private. To allocate the enterprise value, the Company used the current value method in the scenario of going public or being acquired. The Company used the Black-Scholes option-pricing method to allocate the enterprise value for the remaining private scenario. Generally, increases or decreases in the fair value of the underlying convertible preferred stock would result in a directionally similar impact in the fair value measurement of the warrant liability.

The following table presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, 2013 and June 30, 2014 (unaudited)

	Fair Value Measurements as of December 31, 2012 (in thousands)			Total
	Quoted Price in Active Markets for Identical Assets Level 1	Significant other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<b>Assets</b>				
Money market funds <sup>(1)</sup>	\$ 8,201	\$ —	\$ —	\$8,201
Certificate of deposit	—	50	—	50
	<u>\$ 8,201</u>	<u>50</u>	<u>—</u>	<u>8,251</u>
<b>Liabilities</b>				
Preferred stock warrant liability	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 79</u>	<u>\$ 79</u>



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Notes to Financial Statements

	Fair Value Measurements as of December 31, 2013 (in thousands)			Total
	Quoted Price in Active Markets for Identical Assets Level 1	Significant other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<b>Assets</b>				
Money market funds <sup>(1)</sup>	\$ 9,716	\$ —	\$ —	\$9,716
Certificate of deposit	—	50	—	50
	<u>\$ 9,716</u>	<u>\$ 50</u>	<u>\$ —</u>	<u>\$9,766</u>
<b>Liabilities</b>				
Preferred stock warrant liability	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 184</u>	<u>\$ 184</u>

	Fair Value Measurements as of June 30, 2014 (unaudited) (in thousands)			Total
	Quoted Price in Active Markets for Identical Assets Level 1	Significant other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<b>Assets</b>				
Money market funds <sup>(1)</sup>	\$ 7,109	\$ —	\$ —	\$7,109
Certificate of deposit	—	50	—	50
	<u>\$ 7,109</u>	<u>\$ 50</u>	<u>—</u>	<u>\$7,159</u>
<b>Liabilities</b>				
Preferred stock warrant liability	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 394</u>	<u>\$ 394</u>

<sup>(1)</sup> Included in cash and cash equivalents in the Company's balance sheet.

The change in fair value of the warrant liability is summarized below:

Fair value as of January 1, 2012	\$ 67
Fair value of new warrant issued	18
Change in fair value recorded in other income (expense), net	(6)
Fair value as of December 31, 2012	\$ 79
Fair value of new warrant issued	42
Change in fair value recorded in other income (expense), net	63
Fair value as of December 31, 2013	\$184
Fair value of new warrant issued (unaudited)	19
Change in fair value recorded in other income (expense), net (unaudited)	191
Fair value as of June 30, 2014 (unaudited)	<u>\$394</u>

## Carbylan Therapeutics, Inc.

## Notes to Financial Statements

## 3. Balance Sheet Components

*Property and Equipment, Net*

Property and equipment, net, as of December 31, 2012 and 2013 and June 30, 2014 (unaudited) consisted of the following (in thousands):

	December 31,		June 30,
	2012	2013	2014 (unaudited)
Computer equipment	\$ 24	\$ 26	\$ 30
Lab equipment	406	402	478
Furniture and fixtures	6	21	21
Machinery and equipment	9	12	8
Leasehold improvement	53	55	55
	498	516	592
Less: Accumulated depreciation and amortization	(414)	(441)	(461)
Total property and equipment, net	<u>\$ 84</u>	<u>\$ 75</u>	<u>\$ 131</u>

Depreciation expense for the years ended December 31, 2012 and 2013, and for the six months ended June 30, 2013 and 2014 (unaudited) is \$38,000, \$27,000, \$11,000 and \$20,000, respectively.

*Accrued Liabilities*

(in thousands)

	December 31,		June 30,
	2012	2013	2014 (unaudited)
Accrued payroll and related expenses	\$ 117	\$ 201	\$ 371
Accrued legal expenses	33	10	29
Accrued research and clinical trial expenses	—	141	210
Accrued professional services and other	63	44	136
	<u>\$213</u>	<u>\$396</u>	<u>\$ 746</u>

## 4. Commitments and Contingencies

*Operating Lease*

The Company leases its facilities under a noncancelable operating lease which expires in February 2016. The terms of the lease agreement required the Company to provide a security deposit of \$69,000. The security deposit is included in other assets on the accompanying balance sheets. The Company has a sub-lease agreement with a tenant for approximately thirty-seven percent of the square footage of the corporate headquarters. Under this agreement, the Company receives \$16,000 per month as rental income which is accounted for a reduction of rent expense. The sub-lease agreement continues until February 29, 2016.

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

At December 31, 2013, the aggregate future minimum lease payments under this operating lease are as follows:

<b>Years ending December 31,</b>	<b>(in thousands)</b>
2014	\$ 428
2015	438
2016	73
Total minimum lease payments	<u>\$ 939</u>

Gross rent expense for the years ended December 31, 2012 and 2013 and for the six months ended June 30, 2013 and 2014 (unaudited) was \$306,000, \$413,000, \$208,000 and \$217,000, respectively. The rental expense is reduced by the sublease rental income amounts of \$75,000, \$186,000, \$92,000 and \$94,000, respectively, for the same periods.

**Indemnification**

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnification. The Company's exposure under these agreements is unknown because it involves future claims that may be made against the Company but have not yet been made. To date, the Company has not paid any claims or been required to defend any action related to its indemnification obligations. However, the Company may record charges in the future as a result of these indemnification obligations.

No amounts associated with such indemnifications have been recorded to date.

**Contingencies**

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. There have been no contingent liabilities requiring accrual or disclosure at December 31, 2012 and 2013 or June 30, 2014 (unaudited).

**5. License Agreement with Shanghai Jingfeng Pharmaceutical Co. Ltd.**

In November 2012, the Company entered into a technology license agreement (the "Agreement") with Shanghai Jingfeng Pharmaceutical Co. Ltd. ("Jingfeng"), pursuant to which the Company granted to Jingfeng the exclusive right and license under certain patents to develop, manufacture and commercialize Hydros-TA for human and veterinary uses in China, Taiwan, Hong Kong and Macau. In these countries, Jingfeng is responsible for the manufacture and supply of Hydros-TA, the management and funding of all development activities, regulatory submissions and regulatory approvals for Hydros-TA and the commercialization of Hydros-TA. The Company has also agreed to provide know-how and reasonable professional and technical support services to Jingfeng until Jingfeng performs all efforts necessary to bring the product to commercialization and begins selling the product upon regulatory approval in the aforementioned territory. The Agreement provides for an up-front license payment of \$2,000,000 (\$1,674,000 net of Chinese withholding taxes), regulatory milestone payments of up to \$2,000,000 (excluding Chinese withholding taxes) and future commercial milestone payments of up to approximately \$5,000,000 (excluding Chinese withholding taxes) at current exchange rates based on Jingfeng achieving certain gross sales thresholds.

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**Notes to Financial Statements**

The Company has identified the following non-contingent performance deliverables at the inception of the Agreement: (i) an exclusive royalty bearing license to certain of the Company's patents relating to Hydros-TA (the "License"), which was transferred immediately upon signing of the Agreement, and (ii) know-how, reasonable professional and technical support services to be provided by the Company to assist Jingfeng in manufacturing, developing and/or commercializing the licensed product (the "Services") throughout the period of the Agreement. The Company has determined that the License represents a separate unit of accounting as the License has standalone value apart from the Services because the development, manufacturing and commercialization rights conveyed would allow Jingfeng to perform all efforts necessary to use the Company's technologies to bring the product to commercialization and begin selling the product upon regulatory approval. Jingfeng can sublicense its rights to the License for a reasonable amount of consideration; and the Services provided by the Company could be performed by a third-party. Therefore, the License and Services represent separate units of accounting.

The Company has determined the BEBP for the License unit of accounting using a discounted cash flow analysis. This measurement is based on the value indicated by current estimates of future payments to be received under the agreement and reflects management determined estimates and assumptions. These estimates and assumptions include but are not limited to estimated sales prices, estimated market opportunity, expected market share, the likelihood that clinical trials will be successful, the likelihood that regulatory approval will be received, the likelihood that the products will become commercialized, the determination of the markets served and the discount rate. The Company reduced the future payment to be received by the estimated amount of the professional service costs plus an estimated margin, which was based on industry benchmarking of similar companies. These estimates and assumptions formed the basis of an expected net future cash flow that was discounted based on an estimated weighted average cost of capital. The Company has also determined the BEBP for the Services unit of accounting based on the estimated cost of the professional services plus an estimated margin which was based on industry benchmarking of similar companies. These estimates and assumptions formed the basis of an expected net future cash flow that was discounted based on an estimated weighted average cost of capital.

The considerations of the Agreement have been allocated to the units of accounting based on the relative selling price method. Of the \$1,674,000 up-front payment received, \$1,534,000 was allocated to the License and \$140,000 to the Services. The Company has recognized license revenue upon execution of the Agreement as the license has been delivered pursuant to the terms of the Agreement. The \$140,000 allocated to Services will be recognized as revenue on a straight-line over the performance period which is currently estimated to be January 2019. The way in which the Company will provide professional services does not give rise to a more precise pattern of recognition and the Company therefore will recognize revenue on a straight-line basis over the performance period.

Of the \$421,000 regulatory milestone payment received in November 2013, \$385,000 was allocated to the License and \$35,000 was allocated to the Services. The Company has recognized license revenue upon execution of the Agreement as the associated unit of accounting had been delivered pursuant to the terms of the Agreement. The \$35,000 allocated to Services will be recognized as revenue on a straight-line basis over the performance period which is currently estimated to be January 2019.

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

Total revenue recognized with respect to the Agreement consisted of the following (in thousands):

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
License and Services revenue	<u>\$1,538</u>	<u>\$415</u>	<u>\$ 11</u>	<u>\$ 11</u>

**6. Loan and Security Agreement**

In October 2011, the Company entered into a loan and security agreement (the "Loan and Security Agreement") with a financial institution that provided for the Company to borrow \$3,000,000. Upon the drawdown of the \$3,000,000, the Company issued a warrant to purchase 86,957 shares of Series B convertible preferred stock. The fair value of the warrant of \$34,000 was recorded as a debt discount and is included as a reduction of loans payable on the accompanying balance sheets. The discount is amortized using the effective interest method over the life of the loan. Interest only payments were required through July 2012, and the principal amount of the loan was repayable in thirty-six equal monthly installments plus accrued interest beginning August 2012. The interest rate on the loan was 5.15% per annum, with a final interest payment of \$270,000. In addition, Loan and Security Agreement allowed the Company to borrow another \$2,000,000, if the Company presents evidence satisfactory to the financial institution that the Company has obtained pivotal trial guidance from the FDA. The Loan and Security Agreement is collateralized by the personal property of the Company but excludes the intellectual property of the Company.

In July 2012, the Loan and Security Agreement was amended to extend the commitment period for the additional \$2,000,000 loan to November 2012, and the amendment noted that the pivotal trial conditions had been satisfied. The Company did not draw on the second term loan for \$2,000,000. The Company issued a warrant to purchase 57,971 shares of Series B convertible preferred stock. The fair value of the warrant of \$18,000 was recorded as other assets in the accompanying balance sheets and amortized over the access period of the loan. This amount was expensed to interest expense during 2012 when the access period ended. No other provisions were changed by this amendment. The amendment was accounted for as a modification of the loan payable and the unamortized debt discount as of the date of the modification will be amortized over the new loan period, using the effective interest rate method.

In February 2013, the Loan and Security Agreement was amended to provide for a new loan of \$3,000,000 and repayment of the outstanding principal of the original loan entered into October 2011, with the remaining proceeds provided to the Company. The Company amended a warrant to purchase 33,263 shares of Series B convertible preferred stock. The fair value of this warrant of \$10,500 was recorded as other assets in the accompanying balance sheets and amortized over the access period of the loan. This amount was expensed to interest expense during 2013 when the access period ended. Additionally, the Company issued a separate warrant to purchase 99,784 shares of Series B convertible preferred stock. The fair value of the warrant of \$32,000 was recorded as a debt discount and is included as a reduction of loans payable in the accompanying balance sheets. The interest rate is 3.25% per annum and the loan is repayable in thirty equal monthly installments, following a ten-month interest only period. The final balloon interest payment is \$345,000. Additionally, the amendment provided the terms for a second loan for \$1,250,000 that would be available through November 2013, contingent on satisfying a clinical trial milestone. The amendment was accounted for as a modification of loans payable, and the unamortized debt discount as of the date of the modification will be amortized over the new loan period, using the effective interest rate method.

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

In December 2013, the Loan and Security Agreement was again amended to extend the commitment date for the second loan of \$1,250,000 to January 31, 2014. The amendment extended the interest only period for four additional months and reduced the number of payments to twenty-nine equal monthly installments if the new loan is drawn. The amendment was accounted for as a modification of the loans payable, and the unamortized debt discount as of the date of the modification will be amortized over the new payment period, using the effective interest rate method.

In January 2014, the Company drew the second loan of \$1,250,000. The Company issued a warrant to purchase 41,576 shares of Series B convertible preferred stock. The fair value of the warrant of \$20,000 was recorded as a debt discount and is included as a reduction of loans payable in the accompanying balance sheets. The discount is amortized using the effective interest method over the life of the loan. The interest rate is 3.59% per annum and the loan is repayable in twenty-nine equal monthly installments, following a three-month interest only period. The final balloon interest payment is \$144,000.

The Loan and Security Agreement contains customary representations and warranties, covenants, closing and advancing conditions, events of defaults and termination provisions. The Loan and Security Agreement provides that an event of default will occur if (1) the financial institution determines that it is the clear intention of the Company's investors to not continue to fund the Company in the amounts and timeframe necessary to enable the Company to satisfy the Company's financial obligations, (2) there is a material impairment in the financial institution's security interest in the personal property that is the collateral, (3) the Company defaults in the payment of any amount payable under the agreement when due or (4) the Company breaches any negative covenant or certain affirmative covenants in the agreement (subject to a grace period in certain cases). The repayment of the loan is accelerated following the occurrence of an event of default or otherwise, which would require the Company to immediately pay an amount equal to: (i) all outstanding principal plus accrued but unpaid interest, (ii) the final payment, plus (iii) all other sums, that shall have become due and payable but have not been paid, including interest at the default rate with respect to any past due amounts. As of December 31, 2013, the Company was in compliance with all the covenants in the Loan and Security Agreement.

As disclosed in footnote 1, there is substantial doubt about the Company's ability to continue as a going concern. If, in fact, the Company is unable to meet its payment obligations under the Loan and Security Agreement during the twelve months following the balance sheet date, the lender may choose to accelerate repayment under the definition of the event of default provisions and, as such, the loans payable are classified as a current liability on the accompanying balance sheet.

Aggregated annual payments due under the Loan and Security Agreement are as follows:

<b>Years ending December 31, (in thousands)</b>	
2014	\$ 994
2015	1,293
2016	1,208
Total payments	3,495
Less: Interest	(495)
Present value of loans payable	3,000
Less: Debt discount	(42)
Add: Final payment	345
Less: Unamortized portion of final payment	(240)
Loans payable	<u>\$3,063</u>

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<b>As of June 30, 2014 (unaudited) (in thousands)</b>	
2014	\$1,070
2015	1,834
2016	1,712
Total payments	4,616
Less: Interest	(648)
Present value of loans payable	3,968
Less: Debt discount	(46)
Add: Final payment	489
Less: Unamortized portion of final payment	(304)
Loans payable	<u>\$4,107</u>

**7. Convertible Preferred Stock**

Convertible preferred stock as of December 31, 2012 consisted of the following (in thousands, except share data):

Series	Shares		Liquidation Amount	Proceeds Net of Issuance Costs
	Authorized	Outstanding		
A	6,574,364	6,444,364	\$ 7,750	\$ 7,595
B	27,796,941	21,619,822	26,000	25,951
	<u>34,371,305</u>	<u>28,064,186</u>	<u>\$ 33,750</u>	<u>\$33,546</u>

Convertible preferred stock as of December 31, 2013 and June 30, 2014 (unaudited) consisted of the following (in thousands, except share data):

Series	Shares		Liquidation Amount	Proceeds Net of Issuance Costs
	Authorized	Outstanding		
A	6,574,364	6,444,364	\$ 7,750	\$ 7,595
B	27,796,941	26,629,802	32,025	31,961
	<u>34,371,305</u>	<u>33,074,166</u>	<u>\$ 39,775</u>	<u>\$39,556</u>

The rights, privileges and preferences of convertible preferred stock are as follows:

**Dividends**

The holders of the Series A and Series B convertible preferred stock are entitled to receive noncumulative annual dividends at the rate of 8% of the original issuance price, or approximately \$0.10 per share, respectively, when, as and if declared by the Board of Directors. Dividends on preferred stock shall be payable in preference to and prior to payment of dividends on common stock. In the event that dividends are paid on common stock, an additional dividend shall be paid on preferred stock in an amount equal per share (on an as-if-converted basis) to the amount paid for each share of common stock. No dividends have been declared from inception to June 30, 2014.

**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

***Liquidation Rights***

In the event of any liquidation, dissolution or winding up of the Company, the holders of the Company's convertible preferred stock shall be entitled to receive, prior to any distribution of the Company's assets to the holders of common stock, an amount equal to \$1.2026 per share for each outstanding share of Series A and Series B convertible preferred stock, plus any declared but unpaid dividends. If the Company's assets shall be insufficient to provide for such preferential distributions, the preferred stockholders shall be entitled to pro rata distributions. The remaining assets of the Company shall be distributed among the preferred stockholders and the common stockholders pro rata on an as-if-converted basis until the holders of Series A and Series B preferred stock have received an aggregate of \$3.607 per share, respectively. Thereafter, if assets remain in the Company, the common stockholders shall receive all of the Company's remaining assets on a pro rata basis. A sale of all or substantially all of the assets of the Company, merger or consolidation, which result in the Company's stockholders immediately prior to such transaction not holding at least 50% of the voting power of the surviving, continuing or purchasing entity shall be deemed a liquidation of the Company.

Due to the liquidation rights in a deemed liquidation, the Company's convertible preferred stock is classified outside of permanent equity (deficit) as mezzanine.

***Modification of Series B Convertible Preferred Stock***

In December 2012, the Company approved the adjustment of the Series B convertible preferred stock liquidation preference from \$1.38 per share to \$1.2026 per share. In order to preserve the aggregate liquidation preference of the Series B convertible preferred stockholders at that time, the Company issued 2,137,879 shares of Series B convertible preferred stock to such holders. As part of this analysis, the Company assessed the economic characteristics and risks of its convertible preferred stock, including conversion, liquidation and redemption features, as well as dividend and voting rights. Based on the Company's determination that each series of its convertible preferred stock is an "equity host," the Company determined that the features of the convertible preferred stock are most closely associated with an equity host and, although the convertible preferred stock includes conversion features, such conversion features do not require bifurcation as a derivative liability. The Company also determined that the conversion option with a contingent reduction in the conversion price, upon occurrence of certain dilutive events, is a potential contingent beneficial conversion feature. In accordance with certain antidilution provisions contained in the Series B convertible preferred stock agreements, issuances of Series B convertible preferred stock in 2012 resulted in an antidilution adjustment of the conversion prices for the Series B convertible preferred stock during the year ended December 31, 2012. As a result, the Company performed a calculation to determine if a beneficial conversion feature was triggered for the Series B convertible preferred stock at each issuance of Series B in 2012. The fair value of common stock, as determined by management and the Board of Directors, on the corresponding issuance dates of Series B convertible preferred stock in each instance was below the adjusted accounting conversion prices. Therefore, no beneficial conversion feature was identified. The Company will continue to evaluate if a beneficial conversion feature needs to be recorded upon each subsequent adjustment of the conversion price based upon the difference between the adjusted conversion price and the fair market value of common stock at the original issuance date. This change is treated as a modification of the Series B preferences and results in a deemed dividend of Series B convertible preferred stock of \$111,000. This amount is recorded as a reduction of additional paid-in-capital and an increase in the Series B convertible preferred stock in the accompanying financial statements.



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**Notes to Financial Statements**

***Conversion Rights***

The Company's preferred stock is convertible, at the option of the holder, into common stock on a one-for-one basis with the conversion ratio subject to adjustment in the event of certain dilutive stock issuances or other future events. Conversion is automatic upon the closing of a firm commitment underwritten public offering in which the public offering price equals or exceeds \$6.00 per share (adjusted to reflect stock dividends, stock splits or recapitalization) and the aggregate gross proceeds equals or exceeds \$30,000,000, or the date specified by written agreement of the holders of at least two-thirds of the preferred stock then issued and outstanding on an as-if-converted basis.

***Voting Rights***

The holder of each share of the Company's convertible preferred stock has the right to one vote for each share of common stock into which such convertible preferred stock could be converted. The holders of Series A convertible preferred stock and series B convertible preferred stock, voting as separate classes, are entitled to elect two members each of the Board of Directors, and the holders of common stock, voting as a separate class, are entitled to elect one member of the Board of Directors. The holders of common stock and preferred stock, voting together as a single class on an as-if-converted basis, are entitled to elect all remaining members of the Board of Directors.

**8. Convertible Preferred Stock Warrants**

The Company issued warrants to purchase shares of the Company's convertible preferred stock at various times between the years ended December 31, 2004 and 2013 in connection with loans payable. The convertible preferred stock warrants outstanding as of December 31, 2012 and 2013 and June 30, 2014 (unaudited) were issued as follows:

***Series A Warrant***

During 2006, the Company issued a warrant to purchase a total of which is exercisable for 83,153 shares of Series A convertible preferred stock, with an exercise price of \$1.2026 per share and a contractual term of 10 years. The fair value of the warrant of \$79,000 was recorded as a warrant liability upon issuance.

***Series B Warrants***

In October 2011, the Company issued a warrant to purchase 86,957 shares of Series B convertible preferred stock in connection with the Loan and Security Agreement. This warrant originally had an exercise price of \$1.38 per share. The fair value of the warrant issued in the amount of \$34,000 was recorded as a warrant liability upon issuance. The Company estimated the fair value of the preferred stock warrant liability by using the backsolve method to determine an enterprise value of the Company. The Black-Scholes option-pricing model was used to allocate the value of the Company to the warrant, with the following assumptions: a time to liquidity event of 5 years, 65.0% expected volatility, 0.83% risk-free interest rate and no expected dividend.

In July 2012, the Company issued a warrant to purchase 57,971 shares of Series B convertible preferred stock at \$1.38 per share in connection with the modification of the Loan and Security Agreement. The fair value of the warrant issued in the amount of \$18,000 was recorded as a warrant liability upon issuance. The Company estimated the fair value of the preferred stock warrant liability by using the backsolve method to determine an

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

enterprise value of the Company. The Black-Scholes option-pricing model was used to allocate the value of the Company to the warrants, with the following assumptions: a time to liquidity event of 4 years, 65.0% expected volatility, 0.50% risk-free interest rate and no expected dividend.

In December 2012, the Company issued a warrant to purchase 21,378 shares of Series B convertible preferred stock at \$1.2026 per share in connection with the reduction in the liquidation price of the Series B convertible preferred stock previously discussed. The warrant was issued to maintain the aggregate liquidation preferences. The fair value of the warrant issued in the amount of \$6,700 was recorded as a warrant liability upon issuance. The Company estimated the fair value of the preferred stock warrant liability by using the backsolve method to determine an enterprise value of the Company. The Black-Scholes option-pricing model was used to allocate the value of the Company to the warrants, with the following assumptions: a time to liquidity event of 4 years, 60.0% expected volatility, 0.54% risk-free interest rate and no expected dividend. In connection with the reduction in liquidation preference of Series B convertible preferred shares the Company decreased the liquidation preference of the Series B warrants to \$1.2026.

In February 2013, the Company issued a warrant to purchase 133,047 shares of Series B convertible preferred stock in connection with the modification of the Loan and Security Agreement. The warrant has an exercise price of \$1.2026 per share. The fair value of the warrant issued in the amount of \$31,500 was recorded as a warrant liability upon issuance. The Company estimated the fair value of the preferred stock warrant liability for the February 2013 warrants by using the backsolve method to determine an enterprise value of the Company. The Black-Scholes option-pricing model was used to allocate the value of the Company to the warrants, with the following assumptions: a time to liquidity event of 4 years, 60.0% expected volatility, 0.54% risk-free interest rate and no expected dividends.

In January 2014, in connection with the second draw down under the Loan and Security Agreement the Company issued a warrant to purchase 41,576 shares of Series B convertible preferred stock. The warrant has an exercise price of \$1.2026 per share and a contractual term of ten years from issuance. The fair value of the warrant issued in the amount of \$19,000 was recorded as a warrant liability upon issuance. The Company estimated the fair value of the preferred stock warrant liability by calculating the enterprise value by applying a probability of two scenarios, going public or remaining private. To allocate the enterprise value, the Company used the current value method in the scenario of going public or being acquired with the assumption of a going public return rate of 30%. The Company used the Black-Scholes option-pricing method to allocate the enterprise value for remaining private in the near to mid-term with the following assumptions: a time to liquidity event of 3 years, 60.0% expected volatility, 0.78% risk-free interest rate and no expected dividend.

As of December 31, 2012 and 2013 and June 30, 2014 (unaudited), the following convertible preferred stock warrants were outstanding (in thousands, except share and per share amounts):

	<b>Number of Shares Underlying Warrants</b>	<b>Exercise Price per Share</b>	<b>Fair Value, as of December 31, 2012</b>
Series A preferred stock	83,153	\$ 1.20	\$ 26
Series B preferred stock	166,306	1.20	53
<b>Total</b>	<b>249,459</b>		<b>\$ 79</b>

## Carbylan Therapeutics, Inc.

## Notes to Financial Statements

	Number of Shares Underlying Warrants	Exercise Price per Share	Fair Value, as of December 31, 2013
Series A preferred stock	83,153	\$ 1.20	\$ 40
Series B preferred stock	299,353	1.20	144
Total	<u>382,506</u>		<u>\$ 184</u>

	Number of Shares Underlying Warrants	Exercise Price per Share	Fair Value, as of June 30, 2014
Series A preferred stock	83,153	\$ 1.20	\$ 77
Series B preferred stock	340,929	1.20	317
Total	<u>424,082</u>		<u>\$ 394</u>

The fair value of the convertible preferred stock warrant liability was remeasured as of each period end. As of December 31, 2012, the Company remeasured the fair value by using the backsolve method to determine an enterprise value of the Company. The Black-Scholes option-pricing model was used to allocate the value of the Company to the warrants, with the following assumptions: a time to liquidity event of 4 years, 60.0% expected volatility, 0.54% risk-free interest rate and no expected dividend. As of December 31, 2013 and June 30, 2014 (unaudited), the Company remeasured the fair value by calculating the enterprise value by applying a probability of two scenarios, going public or remaining private. To allocate the enterprise value, the Company used the current value method in the scenario of going public or being acquired. The Company used the Black-Scholes option-pricing method to allocate the enterprise value for remaining private in the near to mid-term with the following assumptions: a time to liquidity event of 3 years, 60.0% and 55% expected volatility, respectively, 0.78% and 0.88% risk-free interest rate, respectively and no expected dividend. The Company evaluated the down-round protection provisions of the warrant agreements by using a Monte Carlo simulation model and determined that the impact of such provisions was immaterial to the fair value of the warrants at the reporting dates. The assumptions are further described as follows:

*Expected Time to liquidity event* — The Company estimated the time to liquidity event based on management's analysis of the business, market conditions and clinical development.

*Expected Volatility* — The Company estimates the expected volatility based on the average volatility for comparable publicly traded biopharmaceutical companies over a period equal to the expected time to liquidity event. When selecting the publicly traded biopharmaceutical companies, the Company selected companies with comparable characteristics to it, including enterprise value, risk profiles, position within the industry, and with historical share price information sufficient to meet the time to liquidity event. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

*Risk-Free Interest Rate* — The risk-free interest rate is based on U.S. Treasury zero-coupon issues with remaining terms similar to the expected time to the liquidity event.

*Expected Dividend Rate* — The Company has never paid any dividends and does not plan to pay dividends in the foreseeable future, and, therefore, used an expected dividend rate of zero in the valuation model.

**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

**9. Common Stock**

The Company's Amended and Restated Certificate of Incorporation, as amended, has authorized 45,000,000 shares of common stock at \$0.001 par value.

Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, as may be declared by the board of directors, if any, subject to the preferential dividend rights of the holders of the Series A and B convertible preferred stock. As of June 30, 2014 (unaudited), no dividends have been declared.

During 2004, the Company issued a warrant to purchase 4,812 shares of common stock to an investor. The warrant had an exercise price of \$0.001 per share and a contractual term of ten years from issuance. The warrant expired in March 2014 and was never exercised. The fair value of the warrant was immaterial.

**10. 401 (K) Plan**

The Company sponsors a 401(k) Plan that stipulates that eligible employees can elect to contribute to the 401(k) Plan, subject to certain limitations, on a pretax basis. Pursuant to the 401(k) Plan, the Company does not match any employee contributions.

**11. Stock Option Plan**

***2004 Stock Incentive Plan***

In 2004, the Board of Directors approved the 2004 Stock Incentive Plan (the 2004 Plan), which provides for the granting of incentive and non-statutory stock options to employees, directors, and consultants at the discretion of management and the Board of Directors. In December 2005, the Board of Directors authorized the number of shares available for grant under the Plan to be 959,300. In February 2006, the Board of Directors authorized an additional 250,000 shares available for grant under the Plan. In June 2007, the Board of Directors authorized an additional 80,000 shares available for grant under the Plan. In November 2007, the Board of Directors authorized an additional 2,500,000 shares available for grant under the Plan. In December 2012, the Board of Directors authorized an additional 2,257,159 shares available for grant under the Plan. In June 2013, the Board of Directors authorized an additional 692,870 shares available for grant under the Plan.

Incentive stock options are granted with exercise prices not less than the estimated fair value of common stock, and non-statutory stock options may be granted with an exercise price of not less than 100% of the estimated fair value of the common stock on the date of grant. Options granted under the Plan expire no later than 10 years from the date of grant. Incentive stock options granted under the Plan vest over periods determined by the Board of Directors, generally over four years. Non-statutory stock options vest based on the terms of the individual agreement, generally from six months to four years.

In April 2014, the Company terminated the 2004 Plan and the Board of Directors approved the 2014 Equity Incentive Plan (the 2014 Plan). Shares underlying any outstanding stock awards or stock option grants previously awarded remain subject to the terms of the 2004 Plan. Any shares available for grant or any shares canceled or forfeited prior to vesting or exercise subsequent to the termination of the 2004 Plan become available for use under the 2014 Plan. Upon the effectiveness of the 2014 Plan, the Company ceased granting any equity awards under the 2004 Plan. Subsequent awards have been and will be granted under the 2014 Plan.

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***Stock Option Modifications***

On June 6, 2013, the Company's Board of Directors approved the reduction of the exercise prices of certain outstanding stock options previously granted to employees of the Company who were still providing services to the Company as of that date. The Company repriced options to purchase 178,000 shares of the Company's common stock that included both vested and unvested stock options granted in December 2010 with original exercise prices of \$0.28 per share. The Company's Board of Directors adjusted all of the original exercise prices for the repriced options to \$0.14 per share. No other terms of the repriced options were modified and these repriced stock options will continue to vest according to their original vesting schedules and will retain their original expiration dates. These modifications were treated as one-for-one exchanges of the previously issued stock options for new stock options with an exercise price of \$0.14 per share. The Company recorded stock-based compensation expense of \$4,000 for the incremental value of the vested options. In addition, the Company will recognize additional stock-based compensation expense of \$2,400 for the incremental value of the unvested repriced options over the remaining vesting period of the replacement award.

On April 20, 2012, the Company's Board of Directors approved the extension of the post-termination exercise period for the vested options of a former consultant. The Company extended the exercise period to purchase 607,690 shares of the Company's stock from the original 90 days post-termination to one year after the end of the contract with the nonemployee. The final contract date was November 30, 2012 and the exercise period extended to November 30, 2013. The Company recorded stock-based compensation expense of \$14,000 for the incremental value of the vested options.

On May 31, 2013, the Company's Board of Directors approved the extension of the post-termination exercise period to purchase 1,417,490 shares of the Company's stock from the original 90 days post-termination to the updated one year post-termination. The termination date was May 31, 2013 and the exercise period extended to May 31, 2014. The former employee exercised 274,408 options to purchase common stock on May 30, 2014 and the remaining 1,143,082 options were cancelled. The Company recorded stock-based compensation expense of \$34,000 for the incremental value of the vested options.

On August 29, 2013, the Company's Board of Directors approved a second extension of the post-termination exercise period for the vested options of a former consultant. The exercise period had previously been extended to November 30, 2013 as noted previously in this section. The Company extended the exercise period to purchase 607,690 shares of the Company's stock or an additional four months past the one year post-termination period. The one year post-termination date was November 30, 2013 and the exercise period extended to March 31, 2014. The Company recorded stock-based compensation expense of \$4,000 for the incremental value of the vested options.

***Performance Grants***

In 2009, the Company granted 368,560 options to purchase shares of common stock, and 255,000 of those options granted to certain employees contained a performance based vesting condition. 127,500 of those options vested immediately, and 127,500 of the options vest contingently upon the safe treatment of the first ten patients in the Company's Phase 2b trial known as COR1.0 The grant date fair value of the performance options was \$19,000. In March 2013, 127,500 options were deemed to be vested and expense of \$19,000 was recognized. No expense had been recognized previously related to these options as the performance conditions were not considered probable of achievement prior to that date.

In 2010, the Company granted 963,000 options to purchase shares of common stock, and 600,000 of those options granted to certain employees and nonemployees contained a performance based vesting condition. The

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options will vest upon (1) a sale/merger of the Company including a carveout transaction; (2) an up-front investment or payment from a corporate partner together with an option to purchase the Company; (3) an equity investment by a corporate partner in the Company Series C financing in an amount equal to or greater than 25% of the total funds raised in the round. In April 2013, 380,000 shares of unvested performance options were cancelled as the performance condition was not met and 220,000 shares of unvested performance options were cancelled in November 2012 due to employee termination. No expense was recognized previously in any reporting period related to these options as the performance conditions were not considered probable of achievement at any date.

In 2013, the Company granted 4,153,892 options to purchase shares of common stock, and 829,461 of those options granted to certain employees contained a performance based vesting condition. 414,730 of the options vested contingently upon the successful recruitment of a specific number of patient subjects in the Company's COR 1.1 clinical study. The grant date fair value of the performance options was \$120,000. No expense has been recognized in any reporting period related to these options as the performance conditions are not considered probable of achievement at the reporting dates. The remaining 414,731 options vest over a 48 month period.

The following table summarizes the activity under the Company's Plan (in thousands, except share and per share amounts):

	Shares Available for Grant	Number of Shares	Options Issued and Outstanding		Aggregate Intrinsic Value
			Weighted Average Exercise Price	Remaining Contractual Life (in years)	
<b>Balance at December 31, 2011</b>	157,120	3,912,592	\$ 0.26		
Increase in shares reserved for issuance	2,257,159				
Options cancelled	322,500	(322,500)	\$ 0.27		
<b>Balance at December 31, 2012</b>	<u>2,736,779</u>	<u>3,590,092</u>	\$ 0.26	5.38	
Increase in shares reserved for issuance	692,870				
Options granted	(4,153,892)	4,153,892	\$ 0.14		
Options exercised		(85,000)	\$ 0.20		
Options cancelled	1,058,467	(1,058,467)	\$ 0.22		
<b>Balance at December 31, 2013</b>	<u>334,224</u>	<u>6,600,517</u>	\$ 0.19	6.91	
Increase in shares reserved for issuance (unaudited)	1,000,000				
Options granted (unaudited)					
Options exercised (unaudited)		(882,098)	\$ 0.23		
Options cancelled (unaudited)	1,765,177	(1,765,177)	\$ 0.22		
<b>Balance at June 30, 2014 (unaudited)</b>	<u>3,099,401</u>	<u>3,953,242</u>	\$ 0.17	7.68	
Vested and expected to vest at December 31, 2013		<u>6,398,707</u>			<u>\$2,762,000</u>
Vested at December 31, 2013		<u>3,237,014</u>			<u>\$1,184,000</u>

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The following table summarizes information concerning outstanding and exercisable options under the Plan as of:

Exercise Price	Options Outstanding and Exercisable at December 31, 2012		Options Vested and Exercisable at December 31, 2012	
	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)
\$ 0.20	1,037,232	3.12	1,002,083	3.12
\$ 0.24	358,560	6.95	217,859	6.95
\$ 0.25	106,000	4.61	106,000	4.61
\$ 0.28	722,300	7.98	257,008	7.99
\$ 0.30	1,366,000	5.38	1,366,000	5.38
	<u>3,590,092</u>	<u>5.38</u>	<u>2,948,950</u>	<u>4.94</u>

Exercise Price	Options Outstanding and Exercisable at December 31, 2013		Options Vested and Exercisable at December 31, 2013	
	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)
\$ 0.14	3,709,655	9.24	381,301	8.42
\$ 0.20	933,502	2.11	898,353	2.11
\$ 0.24	358,560	5.95	358,560	5.95
\$ 0.25	106,000	3.61	106,000	3.61
\$ 0.28	126,800	7.00	126,800	7.00
\$ 0.30	1,366,000	4.38	1,366,000	4.38
	<u>6,600,517</u>	<u>6.91</u>	<u>3,237,014</u>	<u>4.48</u>

Exercise Price	Options Outstanding and Exercisable at June 30, 2014		Options Vested and Exercisable at June 30, 2014	
	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)
\$ 0.14	3,063,152	8.75	1,002,678	8.48
\$ 0.20	132,730	1.72	132,730	1.72
\$ 0.24	233,560	5.45	233,560	5.45
\$ 0.25	106,000	3.11	106,000	3.11
\$ 0.28	26,800	6.62	26,800	6.62
\$ 0.30	391,000	3.89	391,000	3.89
	<u>3,953,242</u>	<u>7.68</u>	<u>1,892,768</u>	<u>6.36</u>

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The intrinsic value of options exercised was \$0 and \$34,850 for the years ended December 31, 2012 and 2013, respectively and \$0 and \$1,029,982 for the six months ended June 30, 2013 and 2014 (unaudited). The intrinsic value was calculated as the difference between the exercise price of the options and the estimated fair value of the Company's common stock at those reporting dates.

The total estimated grant date fair value of options vested during the years ended December 31, 2012 and 2013 and June 30, 2014 (unaudited) was \$34,000, \$103,000, and \$192,000, respectively.

**Stock-Based Compensation**

Total stock-based compensation recognized was as follows (in thousands):

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013	2014
Research and Development	\$ 13	\$ 45	\$ 27	\$ 18
General and administrative	34	193	81	91
Total	<u>\$ 47</u>	<u>\$ 238</u>	<u>\$ 108</u>	<u>\$ 109</u>

At December 31, 2013, there was \$765,075 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to unvested share options with a weighted-average remaining recognition period of 3.8 years. As of June 30, 2014 (unaudited), unrecognized stock-based compensation expense for stock options outstanding was \$515,000, which is expected to be recognized over a weighted average period of 3.5 years. The non-employee stock-based compensation expense was not material for all periods presented.

In determining the fair value of the stock-based awards, the Company uses the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

*Expected Term* — The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding. The Company used the average of the expected term as disclosed for comparable publicly traded biopharmaceutical companies since the Company does not have sufficient experience to estimate the expected term based on historical exercises. The expected term of stock options granted to non-employees is equal to the contractual term of the option award.

*Expected Volatility* — Since the Company is privately held and does not have any trading history for its common stock, the expected volatility was estimated based on the average volatility for comparable publicly traded biopharmaceutical companies over a period equal to the expected term of the stock option grants. When selecting comparable publicly traded biopharmaceutical companies on which it has based its expected stock price volatility, the Company selected companies with comparable characteristics to it, including enterprise value, risk profiles, position within the industry, and with historical share price information sufficient to meet the expected life of the stock-based awards. The historical volatility data was computed using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards. The Company will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

*Risk-Free Interest Rate* — The risk-free interest rate is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of option.



**Carbylan Therapeutics, Inc.**

**Notes to Financial Statements**

*Expected Dividend* — The Company has never paid dividends on its common stock and has no plans to pay dividends on its common stock. Therefore, the Company used an expected dividend yield of zero.

The fair value of stock option awards to employees was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		Six Months Ended June 30,	
	2012	2013	2013 (unaudited)	2014
Expected term (in years)	N/A	5.39	5.39	N/A
Expected Volatility	N/A	80.7%	80.7%	N/A
Risk-free interest rate	N/A	0.87 to 1.47%	0.87 to 1.1%	N/A
Dividend yield	N/A	0%	0%	N/A

The weighted-average, estimated grant-date fair value of employee stock options granted during the years ended December 31, 2012 and 2013 was zero and \$0.29 per share, respectively.

**12. Income Taxes**

Since inception, the Company has generated losses from domestic operations. The Company did not record an income tax provision (benefits) for those losses during the six months ended June 30, 2013 and 2014 (unaudited) and the years ended December 31, 2012 and 2013, respectively, due to its uncertainty of realizing a benefit from those losses.

The components of the income tax expense are as follows (in thousands):

	Years ended December 31,	
	2013	2012
Current income tax expense:		
State	\$ —	\$ —
Deferred income tax benefit:		
State	—	—
Total income tax expense	\$ —	\$ —

Income tax expense in 2012 and 2013 differed from the amount expected by applying the statutory federal tax rate to the income or loss before taxes as summarized below:

	December 31,	
	2012	2013
Federal tax benefit at statutory rate	34%	34%
Change in valuation allowance	(34)	(35)%
Research and development credits	—	3%
Non-deductible expenses and other	—	(2)%
Total	0%	0%

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

Significant components of the Company's net deferred tax assets as of December 31, 2012 and 2013 consist of the following (in thousands):

	December 31,	
	2012	2013
<b>Deferred tax assets</b>		
Net operating loss carryforwards	\$ 11,120	\$ 13,211
Accruals and reserves	50	96
Stock based compensation	61	80
Research and development credit carryforwards	685	873
Property and equipment	4	5
	<u>11,920</u>	<u>14,265</u>
Less: Valuation allowance	(11,920)	(14,265)
Net deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of these assets.

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, the deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$846,000 and \$2,345,000 for the years ended December 31, 2012 and 2013, respectively.

At December 31, 2013, the Company had net operating loss ("NOL") carryforwards for federal income tax purposes of approximately \$33,200,000 that expire beginning in 2024 if not utilized, and federal research and development tax credit carryforwards of approximately \$513,000 that expire beginning in 2024 if not utilized. In addition, the Company had NOL carryforwards for state income tax purposes of approximately \$32,900,000 that expire beginning in 2026 if not utilized, and state research and development tax credit carryforwards of approximately \$546,000, which do not expire.

Utilization of the NOL and tax credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the NOL and tax credit carryforwards before their utilization. In general, if the Company experiences a greater than 50 percentage point aggregate change (by value) in the equity ownership of certain stockholders over a rolling three-year period (a Section 382 ownership change), utilization of its pre-change NOL carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code (California has similar laws). Such limitations may result in expiration of a portion of the NOL carryforwards before utilization. The Company has determined that an ownership change occurred in December 2005, which resulted in a permanent loss of \$287,000 of the federal net operating loss carryforwards. The ability of the Company to use its remaining NOL carryforwards may be further limited if the Company experiences a Section 382 ownership change in connection with this offering or as a result of future changes in its stock ownership.

On January 1, 2009, the Company adopted the provisions of the FASB's guidance for accounting for uncertain tax positions. The guidance prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in consolidated financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. The cumulative effect of adopting this guidance did not result in an adjustment to accumulated deficit as of January 1, 2009. It is the Company's policy to include penalties and interest expense related to income

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

taxes as a component of other expense and interest expense as necessary. There was no interest or penalties accrued at December 31, 2012, and December 31, 2013.

At December 31, 2012 and 2013, the Company's reserve for unrecognized tax benefits is approximately \$363,000 and \$454,000, respectively. Due to the full valuation allowance at December 31, 2013, current adjustments to the unrecognized tax benefit will have no impact on the Company's effective income tax rate; any adjustments made after the valuation allowance is released will have an impact on the tax rate. The Company does not anticipate any significant change in its uncertain tax positions within 12 months of this reporting date. The Company includes penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Balance at beginning of year	\$339	\$363
Gross increases related to current year tax positions	24	69
Gross increases related to prior year tax positions	—	22
Balance at end of year	<u>\$363</u>	<u>\$454</u>

The Company files U.S. federal and California state income tax returns with varying statutes of limitations, and currently does not have any tax audits or other proceedings pending. All tax returns will remain open for examination by the federal and state authorities for three and four years from the date of utilization of any net operating loss or credits.

**13. Net Loss per Common Share and Unaudited Pro Forma Net Loss per Common Share**

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding as of January 1, 2013 or the issuance date, if later, less shares subject to repurchase, and excludes any dilutive effects of share-based awards and warrants. Diluted net loss per common share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options, and unvested restricted common stock and stock units. As the Company had net losses for the years ended December 31, 2012 and 2013, all potential common shares were determined to be anti-dilutive.

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

The following table sets forth the computation of net loss per common share (in thousands, except per share amounts):

	<u>Year Ended December 31,</u>		<u>Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>
			(unaudited)	
Net loss	\$ (2,053)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Deemed dividend on the Series B preferred stock	(111)	—	—	—
Net income (loss) attributable to common stockholders, basic	(2,164)	(5,678)	(2,683)	(4,650)
Adjustments to net income (loss) for dilutive securities	—	—	—	—
Net income (loss) attributable to common stockholders, diluted	\$ (2,164)	\$ (5,678)	\$ (2,683)	\$ (4,650)
Net income (loss) per share attributable to common stockholders				
Basic and diluted	\$ (1.28)	\$ (3.36)	\$ (1.59)	\$ (2.16)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:				
Basic and diluted	<u>1,684,649</u>	<u>1,692,279</u>	<u>1,684,649</u>	<u>2,157,261</u>

Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	<u>As of December 31,</u>		<u>As of June 30,</u>	
	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>
			(unaudited)	
Stock options	3,590,092	6,600,517	6,662,081	3,953,242
Convertible preferred stock	28,064,186	33,074,166	33,074,166	33,074,166
Convertible preferred stock warrants	249,459	382,506	382,506	424,082
Common stock warrant	4,812	4,812	4,812	0

**Carbylan Therapeutics, Inc.****Notes to Financial Statements**

The Company has presented unaudited pro forma basic and diluted net loss per common share, which has been computed to give effect to the automatic conversion of all shares of convertible preferred stock into shares of common stock as if such conversion had occurred as of the earliest beginning of the period presented, and the conversion of preferred stock warrants into common stock warrants as of January 1, 2013. The following table sets forth the computation of the Company's pro forma basic and diluted net loss per common share (in thousands, except per share amounts):

	Year Ended December 31, 2013	(unaudited)	Six Months Ended June 30, 2014
Net income (loss) attributable to common stockholders, basic	\$ (5,678)		\$ (4,650)
Change in fair value of convertible preferred stock warrant liability	63		191
Net loss used in computing pro forma net loss per share attributable to common stockholders, basic and diluted	<u>\$ (5,615)</u>		<u>\$ (4,459)</u>
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic	1,692,279		2,157,261
Pro forma adjustments to reflect assumed conversion of convertible preferred stock	<u>30,966,973</u>		<u>33,074,166</u>
Weighted-average shares used in computing pro forma net loss per share attributable to common stockholders, basic and diluted	<u>32,659,252</u>		<u>35,231,427</u>
Pro forma net loss per share attributable to common stockholders, basic and diluted:	<u>\$ (0.17)</u>		<u>\$ (0.13)</u>

**14. Related Party Transactions**

In November 2012, we entered into a technology license agreement with Shanghai Jingfeng Pharmaceutical Co., Ltd. pursuant to which we granted to Jingfeng an exclusive license to develop, manufacture and commercialize Hydros-TA in China, Taiwan, Hong Kong and Macau. Vivo Ventures, which is an investor in the Company with board representation, is also an investor in Jingfeng with board representation.

In December 2012 and June 2013, the Company issued 4,989,189 and 5,009,980 shares of Series B convertible preferred stock, respectively, for net cash proceeds of \$6.0 million and \$6.0 million, respectively. As part of this offering, 4,989,189 and 4,989,192 shares, respectively, were sold to entities owning more than 10% of our outstanding capital stock as of December 2012 and 2013.

**15. Subsequent Events**

For its financial statements as of December 31, 2013 and for the year then ended, the Company evaluated subsequent events through September 18, 2014, the date on which those financial statements were issued.

**16. Subsequent Events (unaudited)**

For its interim financial statements as of June 30, 2014 (unaudited) and for the six months then ended, the Company evaluated subsequent events through September 18, 2014, the date on which those financial statements were issued.

## Shares

### Carbylan Therapeutics, Inc.



Common Stock

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PROSPECTUS

, 2014

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**Leerink Partners**

**RBC Capital Markets**

**Wedbush PacGrow Life Sciences**

Through and including \_\_\_\_\_, 2014 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****Item 13. Other Expenses of Issuance and Distribution.**

The following table sets forth all costs and expenses, other than underwriting discounts and commissions, payable by Carbylan Therapeutics, Inc., or Registrant, in connection with the sale of the common stock being registered. All amounts shown are estimates except for the Securities and Exchange Commission registration fee, the Financial Industry Regulatory Authority filing fee and The NASDAQ Global Market filing fee.

	Amount to be paid
SEC registration fee	\$ *
FINRA filing fee	*
The NASDAQ Global Market listing fee	*
Blue sky qualification fees and expenses	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees and expenses	*
Miscellaneous expenses	*
Total	\$ *

\* To be provided by amendment.

**Item 14. Indemnification of Directors and Officers.**

Section 145 of the General Corporation Law of the State of Delaware provides as follows:

A corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

A corporation shall have the power to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such

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action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

As permitted by the Delaware General Corporation Law, we have included in our amended and restated certificate of incorporation a provision to eliminate the personal liability of our directors for monetary damages for breach of their fiduciary duties as directors, subject to certain exceptions provided by the Delaware General Corporation Law. In addition, our amended and restated certificate of incorporation and amended and restated bylaws provide that, subject to certain exceptions, we are required to indemnify any person, or an indemnitee, made or threatened to be made a party or is otherwise involved in any action, suit or proceeding, by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was our director or officer or, while a director or an officer, is or was serving at the request of us as a director, officer, employee, member, trustee or agent of another corporation or of a partnership, joint venture, trust, nonprofit entity or other enterprise. Upon receipt of an unsecured undertaking by an indemnitee to repay all amounts advanced if it should be ultimately determined that the indemnitee is not entitled to be indemnified, we are required to advance, on an as-incurred basis, all expenses (including, but not limited to attorneys' fees and expenses) incurred by such indemnitee in defending any proceeding in advance of its final disposition.

We intend to enter into indemnification agreements with our directors and officers. These agreements will provide broader indemnity rights than those provided under the Delaware General Corporation Law and our amended and restated certificate of incorporation. The indemnification agreements are not intended to deny or otherwise limit third-party or derivative suits against us or our directors or officers, but to the extent a director or officer were entitled to indemnity or contribution under the indemnification agreement, the financial burden of a third-party suit would be borne by us, and we would not benefit from derivative recoveries against the director or officer. Such recoveries would accrue to our benefit but would be offset by our obligations to the director or officer under the indemnification agreement.

The underwriting agreement provides that the underwriters are obligated, under certain circumstances, to indemnify our directors, officers and controlling persons against certain liabilities, including liabilities under the Securities Act. Reference is made to the form of underwriting agreement to be filed as Exhibit 1.1 hereto.

We maintain directors' and officers' liability insurance for the benefit of our directors and officers.

### **Item 15. Recent sales of unregistered securities.**

In the three years preceding the filing of this registration statement, we have issued the following securities that were not registered under the Securities Act.

All securities described in this Item 15 are deemed restricted securities for purposes of the Securities Act. The instruments representing such issued securities included appropriate legends setting forth that the securities had not been registered and the applicable restrictions on transfer.

#### ***Sales of Preferred Stock***

On December 21, 2012, February 7, 2013 and June 3, 2013, in connection with the Series B preferred stock financing, we issued an aggregate of 12,137,048 shares of Series B preferred stock to eight accredited investors, of which 9,999,169 shares were sold at a price of \$1.2026 per share, and 2,137,879 shares were issued for no payment to holders of our previously-issued Series B preferred stock. These issuances were exempt from registration pursuant to Rule 506 and Section 4(a)(2) of the Securities Act.



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### ***Sales of Warrants***

On October 26, 2011 and February 15, 2013, in connection with our loan and security agreement with Silicon Valley Bank on October 26, 2011, as amended, we issued warrants to purchase an aggregate of 340,929 shares of our Series B preferred stock to Silicon Valley Bank, at an exercise price of \$1.2026 per share. These issuances were exempt from registration pursuant to Rule 506 and Section 4(a)(2) of the Securities Act.

### ***Grants and Exercises of Stock Options***

On February 10, 2011, we granted options to purchase an aggregate of 26,800 shares of our common stock to a director, at an exercise price of \$0.28 per share under the 2004 Stock Option Plan. These issuances were exempt from registration pursuant to Rule 701 and Section 4(a)(2) of the Securities Act.

On March 5, June 6 and October 17, 2013, we granted options to purchase an aggregate of 4,153,892 shares of our common stock to certain employees and officers, at an exercise price of 0.14 per share under the 2004 Stock Option Plan. These issuances were exempt from registration pursuant to Rule 701 and Section 4(a)(2) of the Securities Act.

On September 17 and December 9, 2013, upon exercise of options, we issued an aggregate of 85,000 shares of common stock to certain employees and officers, at a price of \$0.20 per share. These issuances were exempt from registration pursuant to Rule 701 and Section 4(a)(2) of the Securities Act.

On March 22, May 30 and August 7, 2014, upon exercise of options, we issued an aggregate of 984,201 shares of common stock to certain employees and officers, at a weighted-average price of \$0.23 per share. These issuances were exempt from registration pursuant to Rule 701 and Section 4(a)(2) of the Securities Act.

### **Item 16. Exhibits and financial statement schedules.**

#### *(a) Exhibits.*

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

#### *(b) Financial statement schedules.*

No financial statement schedules are provided because the information called for is not required or is shown either in the financial statements or the notes thereto.

### **Item 17. Undertakings.**

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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The Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**Signatures**

Pursuant to the requirements of the Securities Act, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Palo Alto, State of California, on the      day of      , 2014.

**CARBYLAN THERAPEUTICS, INC.**

By: \_\_\_\_\_  
President and Chief Executive Officer

**Power Of Attorney**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David Renzi and T. Michael White, and each of them, as his or her true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him or her and in his or her name, place or stead, in any and all capacities, to sign any and all amendments to this registration statement (including post-effective amendments), and to sign any registration statement for the same offering covered by this registration statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act, and all post-effective amendments thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ David Renzi	President, Chief Executive Officer and Director (Principal Executive Officer)	, 2014
_____ T. Michael White	Chief Financial Officer (Principal Financial and Accounting Officer)	, 2014
_____ Steven Basta	Director	, 2014
_____ Albert Cha, M.D., PhD.	Director	, 2014
_____ Guy Nohra	Director	, 2014
_____ Reza Zadno, Ph.D.	Director	, 2014

**EXHIBIT INDEX**

<b>Exhibit number</b>	<b>Description of document</b>
1.1 *	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation, dated December 19, 2012, as amended March 7, 2014, and as currently in effect.
3.2 *	Form of Amended and Restated Certificate of Incorporation to become effective upon the closing of this offering.
3.3	Bylaws, as currently in effect.
3.4 *	Form of Amended and Restated Bylaws to become effective upon the closing of this offering.
4.1	Reference is made to exhibits 3.1 through 3.4.
4.2 *	Form of Registrant's Common Stock Certificate.
4.3	Amended and Restated Registration Rights Agreement, dated December 21, 2012, by and among the Registrant and certain of its stockholders.
4.4	Warrant to purchase shares of Series A Preferred Stock issued to Silicon Valley Bank, dated December 13, 2006.
4.5.1	Warrant to purchase shares of Series B Preferred Stock issued to Silicon Valley Bank, dated October 26, 2011.
4.5.2	First Amendment to October 26, 2011 Warrant to purchase shares of Series B Preferred Stock issued to Silicon Valley Bank, dated July 27, 2012.
4.5.3	Second Amendment to October 26, 2011 Warrant to purchase shares of Series B Preferred Stock issued to Silicon Valley Bank, dated February 12, 2013.
4.6	Warrant to purchase shares of Series B Preferred Stock issued to Silicon Valley Bank, dated February 15, 2013.
5.1 *	Opinion of Ropes & Gray LLP.
10.1 +	Amended and Restated 2004 Stock Option Plan and forms of agreements.
10.2 +	2014 Stock Option Plan and forms of agreements.
10.3 +*	2014 Equity Incentive Plan and forms of agreements.
10.4 †*	Technology License Agreement, dated November 15, 2012, by and between the Registrant and Shanghai Jingfeng Pharmaceutical Co., Ltd.
10.5.1	Loan and Security Agreement, dated October 26, 2011, by and between the Registrant and Silicon Valley Bank.
10.5.2	First Amendment to Loan and Security Agreement, dated July 27, 2012, by and between the Registrant and Silicon Valley Bank, as amended and currently in effect.
10.5.3	Second Amendment to Loan and Security Agreement, dated February 15, 2013, by and between the Registrant and Silicon Valley Bank.
10.5.4	Third Amendment to Loan and Security Agreement, dated December 10, 2013, by and between the Registrant and Silicon Valley Bank.
10.6	Commercial Lease, dated January 26, 2012, by and between the Registrant and the Board of Trustees of the Leland Stanford University.

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<u>Exhibit number</u>	<u>Description of document</u>
10.7 +	Executive Employment Agreement, dated May 30, 2013, by and between the Registrant and David Renzi.
10.8 +	Employment Offer Letter, dated June 26, 2014, by and between the Registrant and T. Michael White.
10.9 +	Amended and Restated Employment Agreement Letter, dated July 21, 2014, by and between the Registrant and David Gravett.
10.10 +	Amended and Restated Employment Agreement Letter, dated July 21, 2014, by and between the Registrant and Marcee M. Maroney.
10.11 +	Employment Agreement, dated December 16, 2005, by and between the Registrant and George Daniloff.
10.12 +	Employment Offer Letter, dated April 18, 2014, by and between the Registrant and Hayley Lewis.
10.13 +	Employment Offer Letter, dated April 18, 2014, by and between the Registrant and Timothy I. Trapp.
10.14 +*	Executive Chairman Offer Letter, dated February 23, 2013, by and between the Registrant and Samuel Lynch.
10.15 *	Form of Indemnification Agreement to be entered into by and between the Registrant and each of its directors and executive officers.
23.1 *	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
23.2 *	Consent of Ropes & Gray LLP. Reference is made to Exhibit 5.1.
24.1 *	Power of Attorney. Reference is made to the signature page hereto.

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\* To be filed by amendment.

+ Indicates management contract or compensatory plan.

† Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

## AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

## CARBYLAN BIOSURGERY, INC.

Carbylan Biosurgery, Inc., a corporation organized and existing under the laws of the state of Delaware, hereby certifies as follows:

1. This Corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on March 26, 2004 under the name Sentrx Surgical, Inc.

2. This Amended and Restated Certificate of Incorporation has been duly adopted by this Corporation's Board of Directors and stockholders in accordance with the applicable provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

3. The Amended and Restated Certificate of Incorporation of this Corporation is hereby integrated, amended and restated to read in full as follows:

FIRST: The name of the corporation is Carbylan Biosurgery, Inc. (the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 3500 South Dupont Highway, Dover, County of Kent, 19901, and the name of its registered agent at such address is Incorporating Services, Ltd.

THIRD: The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL") and to possess and employ all powers and privileges now or hereafter granted or available under the laws of the State of Delaware to such corporations.

FOURTH:

(A) The total number of shares that the Corporation shall have authority to issue is 79,371,305, of which (i) 45,000,000 shares shall be Common Stock, each with a par value of \$0.001 (the "Common Stock"), and (ii) 34,371,305 shares shall be preferred stock, each with a par value of \$0.001 (the "Preferred Stock"), of which 6,574,364 shares of Preferred Stock shall be designated Series A Convertible Preferred Stock (the "Series A Preferred Stock") and 27,796,941 shares of Preferred Stock shall be designated Series B Convertible Preferred Stock (the "Series B Preferred Stock").

(B) Each holder of Common Stock shall be entitled to one (1) vote for each share of Common Stock held on all matters as to which holders of stock shall be entitled to vote, and, subject to the preferential rights of the Preferred Stock, shall be entitled to the right to receive dividends, if, as and when declared by the Corporation's Board of Directors out of assets lawfully available therefor. Subject to any other vote or approval required by this Amended and Restated Certificate, the number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of at least a majority of the shares of capital stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law. Except for and subject to those performances, rights and privileges expressly granted to the holders of Preferred Stock, and except as may be provided by the laws of the State of Delaware, the holders of Common Stock shall have exclusively all other rights of stockholders of the Corporation, including, but not by way of limitation, in the event of any distribution of assets upon the dissolution or liquidation of the Corporation, the right to receive ratably and equally all of the assets of the Corporation remaining after the payment to the holders of Preferred Stock of the specific amounts, if any, which they are entitled to receive as may be provided herein or pursuant hereto.

(C) Cumulative voting shall not be permitted in the election of directors or otherwise.

(D) The following is a statement of the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of the Series A Preferred Stock and the Series B Preferred Stock.

1. Dividends.

(a) The holders of issued and outstanding shares of Series A Preferred Stock and Series B Preferred Stock, in preference and prior to the holders of any other shares of capital stock of the Corporation, shall be entitled to receive on a *pari passu* basis dividends, if, as and when declared by the Corporation's Board of Directors, out of any asset at the time legally available therefore, in an amount per share equal to (i) \$0.096208 per annum (representing 8% of the initial Series A Conversion Price (as defined below) per annum) (subject to equitable adjustments as a result of any stock dividend, stock split, combination, reverse split, reclassification or similar event with respect to the Series A Preferred Stock after the date hereof) (the "Series A Dividend") on each outstanding share of Series A Preferred Stock and (ii) \$0.096208 per annum (representing 8% of the initial Series B Conversion Price (as defined below) per annum) (subject to equitable adjustments as a result of any stock dividend, stock split, combination, reverse split, reclassification or similar event with respect to the Series B Preferred Stock after the date hereof) (the "Series B Dividend") on each outstanding share of Series B Preferred Stock before any dividend or other distribution is declared or paid on shares of Common Stock or any other class of capital stock of the Corporation

ranking junior to the Series A Preferred Stock or the Series B Preferred Stock. Neither the Series A Dividend nor the Series B Dividend shall be cumulative.

(b) Any dividend or distribution to be paid on any shares of capital stock of the Corporation after payment of the Series A Dividend and the Series B Dividend in full shall be paid only if an equivalent dividend or distribution is paid simultaneously to all holders of capital stock (on an as converted to Common Stock basis) on a pro rata basis.

## 2. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a "Liquidation Event"), the holders of shares of Series A Preferred Stock and Series B Preferred Stock shall be entitled to receive *pari passu*, prior to and in preference to any distribution of any of the assets or surplus funds of the Corporation available for distribution to the holders of Common Stock by reason of their ownership thereof, an amount equal to (i) \$1.2026 per share of Series A Preferred Stock (as adjusted for any stock splits, stock dividend, recapitalizations or the like with respect to such shares occurring after the date hereof) (the "Series A Original Issuance Price"), plus all declared but unpaid dividends in respect of each of such shares then held by them (the "Series A Liquidation Preference") and (ii) \$1.2026 per share of Series B Preferred Stock (as adjusted for any stock splits, stock dividend, recapitalizations or the like with respect to such shares occurring after the date hereof) (the "Series B Original Issuance Price"), plus all declared but unpaid dividends in respect of each of such shares then held by them (the "Series B Liquidation Preference"). If the assets of the Corporation shall be insufficient to permit the payment in full to the holders of shares of Series A Preferred Stock and Series B Preferred Stock of all amounts distributable to them under the foregoing sentence, then the entire assets of the Corporation available for such distribution shall be distributed ratably among the holders of shares of Series A Preferred Stock and Series B Preferred Stock on a *pari passu* basis in proportion to the full preferential amount each such holder would otherwise receive upon such distribution if all amounts payable on or with respect to such shares were paid in full.

(b) Upon completion of the distribution required by subsection 2(a) hereof, all of the remaining assets of the Corporation available for distribution to stockholders shall be distributed among the holders of shares of Series A Preferred Stock, Series B Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock held by each such stockholder (on an as converted to Common Stock basis) until such time as (i) the holders of shares of Series A Preferred Stock shall have received total distributions, including pursuant to Article Fourth, Section 2(a) above, equaling 300% of the Series A Liquidation Preference in respect of the shares of Series A Preferred Stock then held by them and (ii) the holders of shares of Series B Preferred Stock shall have received total distributions, including pursuant to Article Fourth, Section



2(a) above, equaling 300% of the Series B Liquidation Preference in respect of the shares of Series B Preferred Stock then held by them, after which all remaining proceeds shall be distributed to the holders of shares of Common Stock pro rata based on the number of shares of Common Stock held by each such stockholder.

(c) For purposes of this Section 2, a Liquidation Event shall be deemed to be occasioned by, or to include, unless waived in writing by the holders of at least a majority of the then issued and outstanding shares of Preferred Stock, (A) the acquisition of the Corporation by another entity by means of any transaction or series of related transactions (including, without limitation, a merger, reorganization or consolidation of the Corporation with or into another entity but excluding any merger effected exclusively for the purpose of changing the domicile of the Corporation) which results in the holders of the voting securities of the Corporation outstanding immediately prior thereto directly owning immediately thereafter less than a majority of the voting securities of the surviving entity outstanding immediately after such merger or consolidation; (B) a sale of all or substantially all of the assets of this Corporation; or (C) the sale (whether through one sale or multiple sales as part of the same transaction any time after the date of this Amended and Restated Certificate of Incorporation) by holders of the Corporation's capital stock of an aggregate of fifty percent (50%) or more of the outstanding voting power of the Corporation. In any of such events, if the consideration received by this Corporation is other than cash, its value will be deemed its fair market value, as determined in good faith by this Corporation's Board of Directors. Any securities shall be valued as follows:

(i) Securities not subject to investment letter or other similar restrictions on free marketability covered by (ii) below:

(A) If traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the thirty (30)-day period ending three (3) days prior to the closing;

(B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale price (whichever is applicable) over the thirty (30)-day period ending three (3) days prior to the closing; and

(C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by this Corporation and the holders of at least a majority of the then issued and outstanding shares of Preferred Stock.

(ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a stockholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in (i)(A), (B) or (C) to

reflect the approximate fair market value thereof, as may be determined in good faith by this Corporation's Board of Directors.

(d) Written notice of any impending Liquidation Event, including any transaction deemed to be such an action under subsection 2(c) hereof, describing the material terms and conditions of the impending transaction, the preferential amounts payable under subsection 2(a) hereof, and the place where said preferential amounts shall be payable, shall be delivered in person, mailed by certified or registered mail, return receipt requested, or sent by telecopier or telex, not less than ten (10) days prior to the stockholders' meeting called to approve such transaction, or ten (10) days prior to the closing of such transaction, whichever is earlier, to the holders of record of Preferred Stock, such notice to be addressed to each such holder at its address as shown by the records of the Corporation. Notwithstanding the other provisions of this Amended and Restated Certificate of Incorporation, all notice periods in this Amended and Restated Certificate of Incorporation may be shortened or waived, either before or after the action for which notice is required, upon the written consent of the holders of a majority of the outstanding shares of Preferred Stock entitled to such notice rights.

(e) In the event of a Liquidation Event, if any portion of the consideration payable to the stockholders of the Company is placed into escrow and/or is payable to the stockholders of the Company subject to contingencies, the Agreement shall provide that (x) the portion of such consideration that is not placed in escrow and not subject to any contingencies (the "Initial Consideration") shall be allocated among the holders of capital stock of the Company in accordance with subsections 2(a) and 2(b) as if the Initial Consideration were the only consideration payable in connection with such Liquidation Event and (y) any additional consideration that becomes payable to the stockholders of the Company upon release from escrow or satisfaction of contingencies shall be allocated among the holders of capital stock of the Company in accordance with subsections 2(a) and 2(b) after taking into account the previous payment of the Initial Consideration as part of the same transaction.

3. Conversion. The holders of shares of Series A Preferred Stock and Series B Preferred Stock shall have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert. Each share of Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share, at the office of this Corporation or any transfer agent for such stock, into such number of fully paid and nonassessable shares of Common Stock as is determined by (i) dividing the Series A Original Issuance Price by the Series A Conversion Price, determined as provided herein, in effect on the date the certificate is surrendered for conversion for each such share of Series A Preferred Stock, and (ii) dividing the Series B Original Issuance Price by the Series B Conversion Price, determined as provided herein, in effect on the date the certificate is surrendered for conversion for each such share of Series B Preferred Stock. The initial Conversion Price per share for each share of Series

A Preferred Stock shall be \$1.2026, the “Series A Conversion Price”) and the initial Conversion Price per share for each share of Series B Preferred Stock shall be \$1.2026, the “Series B Conversion Price”); provided, however, that the applicable Conversion Price shall be subject to adjustment as set forth in subsection 3(d).

(b) Automatic Conversion. Each share of Preferred Stock shall automatically be converted into shares of Common Stock at the Series A Conversion Price or Series B Conversion Price, as applicable, at the time in effect immediately upon the earlier of (i) this Corporation’s initial sale of its Common Stock in a firm commitment underwritten public offering, which initial public offering shall result in not less than \$30,000,000 of gross proceeds to the Corporation, and the public offering price of which is not less than \$6.00 per share (as adjusted for any stock splits, stock dividends, recapitalizations or the like) (a “Qualified Public Offering”), or (ii) the date specified by written consent or agreement of the holders of at least two-thirds of the Preferred Stock then issued and outstanding, voting together as a single class.

(c) Mechanics of Conversion. Before any holder of shares of Preferred Stock shall be entitled to convert the same into shares of Common Stock, he, she or it shall surrender the certificate or certificates therefore, duly endorsed, at the office of this Corporation or of any transfer agent for the shares of Preferred Stock, and shall give written notice to this Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. This Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of shares of Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. If the conversion is in connection with a Qualified Public Offering, (i) the conversion may, at the option of any holder tendering shares of Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the persons entitled to receive the Common Stock upon conversion of the shares of Preferred Stock shall not be deemed to have converted such shares of Preferred Stock until immediately prior to the closing of such sale of securities, and (ii) at the election of the holders of a majority of the then issued and outstanding shares of Preferred Stock, all declared and unpaid dividends on the shares of Preferred Stock, if any, shall be paid in cash or additional shares of Common Stock having a fair market value (as determined in good faith by this Corporation’s Board of Directors) equal to the amount of such declared and unpaid dividends.

(d) Conversion Price Adjustments of Preferred Stock for Certain Dilutive Issuances, Splits and Combinations. The Series A Conversion Price and Series B Conversion Price shall be subject to adjustment from time to time as follows:

(i) Adjustment of Conversion Price upon Issuance of Additional Stock. If at any time after the date hereof, this Corporation shall issue any Additional Stock (as defined in subsection 3(d)(iv) below) without consideration or for a consideration per share less than the applicable Conversion Price for the Series A Preferred Stock or Series B Preferred Stock in effect immediately prior to such issuance, the Conversion Price applicable for such series in effect immediately prior to such issuance shall automatically be adjusted, concurrently with such issuance, to a price determined by dividing (i) an amount equal to the sum of (a) the product of (1) the number of shares of Common Stock outstanding immediately prior to such issuance (including shares of Common Stock deemed to be issued pursuant to subsection 3(d)(iii)(D)(1) or (2)), and (2) the then applicable Conversion Price for a series, and (b) the aggregate consideration, if any, received by this Corporation upon such issuance, by (ii) the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issuance (including shares of Common Stock deemed to be issued pursuant to subsection 3(d)(iii)(D)(1) or (2)), and (b) the number of shares of such Additional Stock.

(ii) No de Minimis Adjustments. No adjustment of the Conversion Price for any series of Preferred Stock shall be made in an amount less than one cent per share, provided that any adjustments that are not required to be made by reason of this sentence shall be carried forward and shall be either taken into account in any subsequent adjustment that, together with the carried forward amount, results in an adjustment of \$0.01 or more in the aggregate. Except to the limited extent provided for in subsections 3(d)(iii)(D)(3) and (4), no adjustment of the Conversion Price applicable to a series of Preferred Stock pursuant to this subsection 3(d)(ii) shall have the effect of increasing such Conversion Price above the applicable Conversion Price in effect immediately prior to such adjustment.

(iii) Deemed Issuance of Additional Shares of Common Stock.

(A) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefore before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by this Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(B) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined in good faith by the Corporation's Board of Directors irrespective of any accounting treatment.

(C) In the case of the issuance of the Common Stock issued together with other securities or other assets of the Corporation for consideration covering both, the consideration other than cash (determined in accordance with subsection 3(d)(iii)(B) above) shall be the proportion of the total consideration as determined in good faith by the Corporation's Board of Directors.

(D) In the case of the issuance (whether before, at or after the date hereof) of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock or options to purchase or rights to subscribe for such convertible or exchangeable securities, the following provisions shall apply for all purposes of subsections 3(d)(i)-(iii).

(1) The aggregate maximum number of shares of Common Stock deliverable upon exercise (assuming the satisfaction of any conditions to exercisability, including without limitation, the passage of time, but without taking into account potential antidilution adjustments) of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 3(d)(iii)(A) and 3(d)(iii)(B)), if any, received by this Corporation upon the issuance of such options or rights plus the minimum exercise price provided in such options or rights (without taking into account potential antidilution adjustments) for the Common Stock covered thereby. To the extent such effective issuance causes a reduction in the Conversion Price for a series of Preferred Stock, as provided in this Section 3(d), except as otherwise provided in subsections 3(d)(v) and (vi), no further adjustment of such Conversion Price shall be made upon the actual issuance of such Common Stock upon exercise of such options or rights.

(2) The aggregate maximum number of shares of Common Stock deliverable upon conversion of, or in exchange (assuming the satisfaction of any conditions to convertibility or exchangeability, including, without limitation, the passage of time, but without taking into account potential antidilution adjustments) for, any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to (i) the consideration, if any, received by this Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus (ii)(A) the minimum additional consideration, if any, to be received by this Corporation (without taking into account potential antidilution adjustments) upon the conversion or exchange of such securities or the exercise of any related options or rights or (B) in the case of options to purchase or rights to subscribe for such convertible or exchangeable securities, the minimum additional

consideration, if any, to be received by this Corporation upon the exercise of such options or rights and the conversion or exchange of such securities (the consideration in each case to be determined in the manner provided in subsections 3(d)(iii)(A) and 3(d)(iii)(B)). To the extent such effective issuance causes a reduction in the Conversion Price of a series of Preferred Stock, as provided in this Section 3(d), except as otherwise provided in subsections 3(d)(v) and (vi), no further adjustment of such Conversion Price shall be made upon, as the case may be, (a) the actual issuance of such Common Stock upon conversion of such convertible or exchangeable securities, or (b) the purchase of such convertible or exchangeable securities upon exercise of such options or rights to purchase such securities or upon the actual issuance of such Common Stock upon conversion or exchange of such purchased convertible or exchangeable securities.

(3) In the event of any change in the number of shares of Common Stock deliverable or in the consideration payable to this Corporation upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Conversion Price for a series of Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities, shall be recomputed to reflect such change, but no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise of any such options or rights or the conversion or exchange of such securities.

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Conversion Price for a series of Preferred Stock, to the extent in any way affected by or computed using such options, rights or securities or options or rights related to such securities, shall be recomputed to reflect (i) the issuance of only the number of shares of Common Stock (and convertible or exchangeable securities that remain in effect) actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities; and (ii) the actual consideration per share received by this Corporation (including the consideration received for such options or rights, whether or not exercised, plus the consideration received on exercise thereof).

(5) The number of shares of Common Stock deemed issued and the consideration deemed paid therefore pursuant to subsections 3(d)(iii)(D)(1) and (2) shall be appropriately adjusted to reflect any change, termination or expiration of the type described in either subsection 3(d)(iii)(D)(3) or (4).

(iv) “Additional Stock” shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 3(d)(iii)) by this Corporation after the date hereof other than shares of Common Stock:

(A) issued upon conversion of the shares of Preferred Stock;

(B) issued to employees, consultants or directors of the Corporation (or options, warrants or other rights exercisable for shares of Common Stock) in accordance with plans, agreements or similar arrangements (“Company Plans”) approved by this Corporation’s Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(C) issued upon exercise or conversion of options, warrants or convertible securities existing on the date hereof;

(D) issued pursuant to a transaction described in subsection 3(d)(v) hereof;

(E) issued in connection with a registered public offering of this Corporation’s shares of capital stock;

(F) issued pursuant to a bona fide acquisition of a corporation or other corporate entity or a joint venture agreement approved by this Corporation’s Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(G) issued to banks, lenders, equipment lessors or other financial institutions pursuant to debt financing or commercial transactions approved by this Corporation’s Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(H) issued in connection with any settlement of claims approved by this Corporation’s Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(I) issued in connection with sponsored research, collaboration, technology license, development, OEM, marketing or other similar arrangements or strategic partnerships approved by this Corporation’s Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(J) issued to suppliers of goods or services in connection with the provisions of goods or services to the Corporation pursuant to transactions

approved by this Corporation's Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock;

(K) issued pursuant to that certain License Agreement between the Corporation and the University of Utah Research Foundation, dated August 16, 2004, as amended, and as may be further amended from time to time; or

(L) which the holders of at least a majority of the shares of issued and outstanding Preferred Stock, voting as a single class, shall agree in writing shall not constitute Additional Stock.

(v) In the event this Corporation should at any time or from time to time after the date hereof effect a split or subdivision of the outstanding shares of Common Stock or provide for a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of the date of such dividend distribution, split or subdivision, the Conversion Price of each series of Preferred Stock shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be increased in proportion to such increase of the aggregate of shares of Common Stock outstanding and those issuable with respect to such Common Stock Equivalents.

(vi) If the number of shares of Common Stock outstanding at any time after the date hereof is decreased by a combination of the outstanding shares of Common Stock, then, following the record date of such combination, the Conversion Price of each series of Preferred Stock shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each share of such series shall be decreased in proportion to such decrease in outstanding shares.

(e) Other Distributions. In the event this Corporation shall declare a distribution payable in securities of other persons, evidence of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends) or options or rights not referred to in subsection 3(d)(iii), then, in each such case for the purpose of this subsection 3(e), the holders of shares of Series A Preferred Stock and Series B Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of this Corporation into which their shares of Preferred Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of this Corporation entitled to receive such distribution.



(f) Recapitalizations. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Section 3 or Section 2), provision shall be made so that the holders of shares of Series A Preferred Stock and Series B Preferred Stock shall thereafter be entitled to receive upon conversion of shares of Preferred Stock the number of shares of stock or other securities or property of the Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section 3 with respect to the rights of the holders of such shares of Preferred Stock after the recapitalization to the end that the provisions of this Section 3 (including adjustments of the Conversion Price of each series of Preferred Stock then in effect and the number of shares issuable upon conversion of the Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(g) No Impairment. This Corporation will not, by amendment of its Amended and Restated Certificate of Incorporation or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by this Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section 3 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of shares of Preferred Stock against impairment.

(h) No Fractional Shares and Certificates as to Adjustments.

(i) No fractional shares shall be issued upon the conversion of any share or shares of Series A Preferred Stock or Series B Preferred Stock and the number of shares of Common Stock to be issued shall be rounded down to the nearest whole share. Whether or not fractional shares are issuable upon such conversion shall be determined on the basis of the total number of shares of Series A Preferred Stock and Series B Preferred Stock the holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment or readjustment of the Series A Conversion Price or the Series B Conversion Price pursuant to this Section 3, this Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of shares of Series A Preferred Stock or Series B Preferred Stock, as the case may be, a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. This Corporation shall, upon the written request at any time of any holder of shares of Series A Preferred Stock or Series B Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting

forth (A) such adjustment and readjustment, (B) the Conversion Price for such series of Preferred Stock at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property that at the time would be received upon the conversion of a share of Series A Preferred Stock or Series B Preferred Stock, as applicable.

(i) Notices of Record Date. In the event of any taking by this Corporation of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, this Corporation shall mail to each holder of shares of Preferred Stock, at least ten (10) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(j) Reservation of Stock Issuable Upon Conversion. This Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Preferred Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Preferred Stock, in addition to such other remedies as shall be available to the holder of such shares of Preferred Stock, this Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to this Amended and Restated Certificate of Incorporation.

(k) Notices. Any notice required by the provisions of this Section 3 to be given to the holders of shares of Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at his, her or its address appearing on the books of this Corporation.

(l) Special Mandatory Conversion.

(i) In the event that any holder of shares of Series B Preferred Stock that is a First Tranche Investor (as defined below) does not, along with its Affiliates (as defined below), purchase at the Second Tranche Closing (as defined below) in the aggregate the amount set forth for such holder and its Affiliates on Schedule A of that certain Series B Preferred Stock Purchase Agreement dated on or about December 21, 2012 (the "Purchase Agreement") within the time period specified by the Company, then each share of Series A Preferred Stock and Series B Preferred Stock held by such

holder on the date of the Second Tranche Closing shall automatically, and without any further action on the part of such holder or any other person or entity, be converted into shares of Common Stock at the conversion rate in effect for such series of Preferred Stock immediately prior to the consummation of such Second Tranche Closing, effective upon the Second Tranche Closing and whether or not the certificates representing such shares are surrendered to the Company or its transfer agent. Such conversion is referred to as a “Special Mandatory Conversion.”

(ii) Upon any Special Mandatory Conversion specified in subsection 3(1)(i) above, the Company shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless the certificate or certificates evidencing the shares of Preferred Stock automatically converted in such Special Mandatory Conversion are either delivered by the holder to the Company or its transfer agent, or the holder notifies the Company or its transfer agent that such certificate or certificates have been lost, stolen or destroyed and executes an agreement satisfactory to the Company to indemnify the Company from any loss incurred by it in connection with such certificate or certificates. Thereupon, the Company shall issue and deliver to such holder promptly and in its name as shown on such surrendered certificate or certificates, a certificate or certificates for the number of shares of Common Stock into which such holder’s shares of Preferred Stock were converted in such Special Mandatory Conversion.

(iii) For purposes of this Section 4(1), the following definitions shall apply:

(A) “Affiliate” shall mean, with respect to any holder of shares of Preferred Stock, any entity or firm that, directly or indirectly, controls, is controlled by or is under common control with such holder. For the purposes of this definition, “control,” when used with respect to any holder, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such holder, whether through the ownership of voting securities, by contract or otherwise.

(B) “First Tranche Investor” shall have the meaning ascribed to such term in the Purchase Agreement.

(C) “Second Tranche Closing” shall have the meaning ascribed to such term in the Purchase Agreement.

#### 4. Voting Rights.

(a) Except as otherwise required by law or set forth in this Amended and Restated Certificate of Incorporation, the holders of shares of Preferred Stock shall be entitled to notice of any meeting of stockholders and shall vote with the holders of

Common Stock as a single class upon any matter submitted to the stockholders for a vote, including, but not limited to, actions amending the Amended and Restated Certificate of Incorporation of the Corporation to increase or decrease (but not below the number of outstanding shares) the number of authorized shares of Common Stock, and no separate class vote by holders of Common Stock will be required. With respect in all other questions as to which, under law, stockholders are required to vote by classes or series, holders of shares of Preferred Stock shall vote separately as a single class and series apart from each other series and from the Common Stock. Each holder of shares of Preferred Stock shall be entitled to that number of votes equal to the whole number of shares of Common Stock issued or issuable upon the conversion of such holder's shares of Preferred Stock immediately after the close of business on the record date fixed for a stockholder meeting or the effective date of any written consent.

(b) Election of Corporation's Board of Directors.

(i) the holders of shares of Series A Preferred Stock, voting as a separate class, shall be entitled to elect three (3) members of this Corporation's Board of Directors at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office any of such directors and to fill any vacancy caused by the resignation, death or removal of any of such directors;

(ii) the holders of shares of Common Stock, voting as a separate class, shall be entitled to elect one (1) member of this Corporation's Board of Directors, who shall be the Corporation's then current chief executive officer, at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office any of such directors and to fill any vacancy caused by the resignation, death or removal of any of such directors; and

(iii) the holders of shares of Common Stock and Preferred Stock, voting together as a single class on an as converted to Common Stock basis, shall be entitled to elect all remaining members of this Corporation's Board of Directors at each meeting or pursuant to each consent of the Corporation's stockholders for the election of directors, and to remove from office any of such directors and to fill any vacancy caused by the resignation, death or removal of any such directors.

(c) The approval of this Corporation's Board of Directors, including a majority of the directors designated by the holders of shares of Preferred Stock, shall be required for the Corporation to enter into any borrowing in excess of \$500,000 in the aggregate or to increase the number of shares of capital stock of the Corporation reserved for issuance in accordance with Company Plans.

5. Protective Provisions.

(a) For as long as at least 3,000,000 shares of Series B Preferred Stock (as adjusted for any stock splits, stock dividend, recapitalizations or the like with respect to such shares occurring after the date hereof) remain outstanding, the consent (by vote or written consent, as provided by law) of the holders of at least two-thirds of the then outstanding shares of Series B Preferred Stock shall be required in connection with any action (by merger or otherwise) that (i) alters or changes the rights, preferences or privileges of the shares of Series B Preferred Stock or (ii) creates (by reclassification or otherwise) any new class or series of shares of capital stock (including any securities convertible into or exercisable for such new class or series of shares) having rights, preferences or privileges senior to or on a parity with the shares of Series B Preferred Stock.

(b) For so long as at least 750,000 shares of Preferred Stock (as adjusted for any stock splits, stock dividend, recapitalizations or the like with respect to such shares occurring after the date hereof) remain outstanding, the consent (by vote or written consent, as provided by law) of the holders of at least a majority of the then outstanding shares of Preferred Stock shall be required in connection with any action (by merger or otherwise) that (i) alters or changes the rights, preferences or privileges of the shares of Series A Preferred Stock or Series B Preferred Stock; (ii) increases or decreases the authorized number of shares of Common Stock or Preferred Stock; (iii) creates (by reclassification or otherwise) any new class or series of shares of capital stock having rights, preferences or privileges senior to or on a parity with the shares of Series A Preferred Stock or Series B Preferred Stock; (iv) results in the redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with service providers giving the Corporation the right to repurchase shares upon the termination of services); (v) results in any merger, other corporate reorganization, sale of control, Liquidation Event, or any transaction or series of related transactions in which all or substantially all of the assets of the Corporation are sold; (vi) amends or waives any provision of this Corporation's Amended and Restated Certificate of Incorporation or Bylaws relative to the shares of Series A Preferred Stock or Series B Preferred Stock; (vii) increases or decreases the authorized number of members of this Corporation's Board of Directors; (viii) results in the payment or declaration of any dividend on any shares of Common or Preferred Stock; or (ix) changes this Corporation's principal line of business.

6. Status of Converted Stock. In the event any shares of Preferred Stock shall be converted to Common Stock pursuant to Section 3 hereof, the shares so converted shall be cancelled and shall not be issuable by this Corporation.

FIFTH: Except as otherwise provided in this Amended and Restated Certificate of Incorporation, in furtherance and not in limitation of the powers conferred

by statute, the Corporation's Board of Directors is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of this Corporation.

SIXTH: Elections of directors need not be by written ballot unless the Bylaws of this Corporation shall so provide.

SEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of this Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Corporation's Board of Directors or in the Bylaws of this Corporation.

EIGHTH: A director of this Corporation shall, to the fullest extent permitted by the DGCL as it now exists or as it may hereafter be amended, not be personally liable to this Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. Any amendment, repeal or modification of this Article Eighth, or the adoption of any provision of this Amended and Restated Certificate of Incorporation inconsistent with this Article Eighth, by the stockholders of this Corporation shall not apply to or adversely affect any right or protection of a director of this Corporation existing at the time of such amendment, repeal, modification or adoption.

NINTH: This Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

TENTH: The Corporation shall, to the fullest extent authorized under the laws of the State of Delaware, as those laws may be amended and supplemented from time to time, indemnify any current or former director, officer, employee and/or agent made, or threatened to be made, a party to an action or proceeding, whether criminal, civil, administrative or investigative, by reason of serving or having served as a director, officer and/or employee of the Corporation or a predecessor corporation or, at the Corporation's request, a director or officer of another corporation, provided, however, the Corporation shall not be obligated under this Amended and Restated Certificate of Incorporation to make any indemnity:

A. in connection with any claim made against an indemnitee for which payment has actually been made to or on behalf of an indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount paid under any insurance policy or other indemnity provision;

B. for an accounting of profits made from the purchase and sale (or sale and purchase) by an indemnitee of securities of the Corporation within the meaning of

C. for which payment is prohibited by applicable law; or

D. to indemnify or advance Expenses (as defined below) to an indemnitee with respect to claims initiated or brought voluntarily by such indemnitee and not by way of defense, except (i) with respect to actions or proceedings brought to establish or enforce a right to receive Expenses or indemnification under any agreement or insurance policy or under this Amended and Restated Certificate of Incorporation or Bylaws now or hereafter in effect relating to indemnification; (ii) in specific cases if the Corporation's Board of Directors has approved the initiation or bringing of such claim, or (iii) as otherwise required under Delaware law.

The indemnification provided for in this Article TENTH shall: (i) not be deemed exclusive of any other rights to which those indemnified may be entitled under any bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office, (ii) continue as to a person who has ceased to be a director, officer, employee and/or agent, as the case may be, and (iii) inure to the benefit of the heirs, executors and administrators of such a person. The Corporation's obligation to provide indemnification under this Article TENTH shall be offset to the extent of any other source of indemnification or any otherwise applicable insurance coverage under a policy maintained by the Corporation or any other person.

The Corporation shall advance, to the extent not prohibited by law, the Expenses incurred by an indemnitee in connection with the Proceeding (as defined below), and such advancement shall be made within thirty (30) days after the receipt by the Corporation of a statement or statements requesting such advances (which shall include invoices received by the indemnitee in connection with such Expenses but, in the case of invoices in connection with legal services, any references to legal work performed or to expenditures made that would cause the indemnitee to waive any privilege accorded by applicable law shall not be included with the invoice) from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Subject to the terms set forth in this paragraph, advances shall be made without regard to an indemnitee's ability to repay the expenses and without regard to the indemnitee's ultimate entitlement to indemnification under the other provisions of this Amended and Restated Certificate of Incorporation. Advances shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Corporation to support the advances claimed. An indemnitee shall qualify for advances upon the execution and delivery to the Corporation of an agreement that constitutes an undertaking providing that the indemnitee undertakes to the fullest extent permitted by law to repay the advance if and to the extent that it is ultimately determined by a court of competent

jurisdiction in a final judgment, not subject to appeal, that the indemnitee is not entitled to be indemnified by the Corporation as authorized by relevant actions of the DGCL. This paragraph shall not apply to any claim made by an indemnitee for which indemnity is excluded pursuant to the foregoing provisions of this Article TENTH. The right to advances under this paragraph shall in all events continue until final disposition of any Proceeding, including any appeal therein. Notwithstanding anything to the contrary herein, the Corporation shall not be required to advance such expenses to an indemnitee who is a party to an action, suit or proceeding brought by the Corporation and approved by a majority of the Corporation's Board of Directors which alleges willful misappropriation of corporate assets by such director, disclosure of confidential information in violation of such directors' fiduciary or contractual obligations to the Corporation or any other willful and deliberate breach in bad faith of such director's duty to the Corporation or its stockholders.

For the purposes of this Article TENTH, "*Expenses*" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedes bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by an indemnitee or the amount of judgments or fines against an indemnitee.

For the purposes of this Article TENTH, the term "*Proceeding*" shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature, in which an indemnitee was, is or will be involved as a party or otherwise by reason of the fact that such indemnitee is or was a director of the Corporation, by reason of any action taken by him or of any action on his part while acting as director of the Corporation, or by reason of the fact that he is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses can be provided under this Amended and Restated Certificate of Incorporation; provided, however, that the term "*Proceeding*" shall not include any action, suit or arbitration initiated by an indemnitee to enforce such indemnitee's rights under this Article TENTH.



The foregoing provisions of this Article TENTH shall be deemed to be a contract between the Corporation and each director, officer, employee and/or agent who serves in such capacity, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

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**BYLAWS OF**  
**SENTRX SURGICAL, INC.\***  
(initially adopted on March 11, 2004)

\* Changed name to “Carbylan Therapeutics, Inc.” on 3/7/14.

\* Changed name to “Carbylan Biosurgery, Inc.” on 12/14/05.

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**ARTICLE I - CORPORATE OFFICES**

1.1 REGISTERED OFFICE.

The registered office of Sentrx Surgical, Inc. shall be fixed in the corporation's certificate of incorporation, as the same may be amended from time to time.

1.2 OTHER OFFICES.

The corporation's Board of Directors (the "**Board**") may at any time establish other offices at any place or places where the corporation is qualified to do business.

**ARTICLE II - MEETINGS OF STOCKHOLDERS**

2.1 PLACE OF MEETINGS.

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board. The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law (the "**DGCL**"). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's principal executive office.

2.2 ANNUAL MEETING.

The annual meeting of stockholders shall be held each year. The Board shall designate the date and time of the annual meeting. In the absence of such designation the annual meeting of stockholders shall be held on the second Tuesday of May of each year at 10:00 a.m. However, if such day falls on a legal holiday, then the meeting shall be held at the same time and place on the next succeeding business day. At the annual meeting, directors shall be elected and any other proper business may be transacted. The corporation shall not be required to hold an annual meeting of stockholders provided that (i) the stockholders are permitted to act by written consent under the corporation's certificate of incorporation and these bylaws, (ii) the stockholders take action by written consent to elect directors and (iii) the stockholders unanimously consent to such action or, if such consent is less than unanimous, all of the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action.

2.3 SPECIAL MEETING.

A special meeting of the stockholders may be called at any time by the Board, chairperson of the Board, chief executive officer or president (in the absence of a chief executive officer) or by one or more stockholders holding shares in the aggregate entitled to cast not less than 10% of the votes at that meeting.

If any person(s) other than the Board calls a special meeting, the request shall:

- (i) be in writing;
- (ii) specify the time of such meeting and the general nature of the business proposed to be transacted; and
- (iii) be delivered personally or sent by registered mail or by facsimile transmission to the chairperson of the Board, the chief executive officer, the president (in the absence of a chief executive officer) or the secretary of the corporation.

The officer(s) receiving the request shall cause notice to be promptly given to the stockholders entitled to vote at such meeting, in accordance with the provisions of Sections 2.4 and 2.5 of these bylaws, that a meeting will be held at the time requested by the person or persons calling the meeting. No business may be transacted at such special meeting other than the business specified in such notice to stockholders. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board may be held.

#### 2.4 NOTICE OF STOCKHOLDERS' MEETINGS.

All notices of meetings of stockholders shall be sent or otherwise given in accordance with either Section 2.5 or Section 8.1 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

#### 2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

Notice of any meeting of stockholders shall be given:

- (i) if mailed, when deposited in the United States mail, postage prepaid, directed to the stockholder at his or her address as it appears on the corporation's records; or
- (ii) if electronically transmitted as provided in Section 8.1 of these bylaws.

An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or any other agent of the corporation that the notice has been given by mail or by a form of electronic transmission, as applicable, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

#### 2.6 QUORUM.

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from



time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

#### 2.7 ADJOURNED MEETING; NOTICE.

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place limy thereof, and the means of remote communications if any by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the continuation of the adjourned meeting, the corporation may transact any business that might have been transacted at the original meeting. lithe adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

#### 2.8 CONDUCT OF BUSINESS.

Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, if any, or in his or her absence by the President, or in his or her absence by a Vice President, or in the absence of the foregoing persons by a chairperson designated by the Board of Directors, or in the absence of such designation by a chairperson chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairperson of the meeting may appoint any person to act as secretary of the meeting. The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

#### 2.9 VOTING.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.1 I of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the certificate of incorporation or these bylaws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock entitled to vote thereon which are present in person or represented by proxy at the meeting.

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

#### 2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Unless otherwise provided in the certificate of incorporation, any action required by the DGCL to be taken at any annual or special meeting of stockholders of a corporation, or any action which may

be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the corporation as provided in Section 228 of the DGCL. In the event that the action which is consented to is such as would have required the filing of a certificate under any provision of the DGCL, if such action had been voted on by stockholders at a meeting thereof, the certificate filed under such provision shall state, in lieu of any statement required by such provision concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

#### 2.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other such action.

If the Board does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is expressed.

(iii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

## 2.12 PROXIES.

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

## 2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE.

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the corporation's principal executive office. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

# ARTICLE III - DIRECTORS

## 3.1 POWERS.

Subject to the provisions of the DGCL and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

## 3.2 NUMBER OF DIRECTORS.

The authorized number of directors shall be determined from time to time by resolution of the Board, provided the Board shall consist of at least one member. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

### 3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS.

Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders to hold office until the next annual meeting. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors. Each director, including a director elected to fill a vacancy, shall hold office until such director's successor is elected and qualified or until such director's earlier death, resignation or removal.

All elections of directors shall be by written ballot, unless otherwise provided in the certificate of incorporation; if authorized by the Board, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such electronic transmission must be either set forth or be submitted with information from which it can be determined that the electronic transmission authorized by the stockholder or proxy holder.

### 3.4 RESIGNATION AND VACANCIES.

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws:

(i) Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

(ii) Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole Board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the total number of the shares at the time outstanding having the right to vote

for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the DGCL as far as applicable.

### 3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE.

The Board may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

### 3.6 REGULAR MEETINGS.

Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

### 3.7 SPECIAL MEETINGS; NOTICE.

Special meetings of the Board for any purpose or purposes may be called at any time by the chairperson of the Board, the chief executive officer, the president, the secretary or any two directors.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail,

directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

### 3.8 QUORUM.

At all meetings of the Board, a majority of the authorized number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting

at which a quorum is present shall be the act of the Board, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws. If a quorum is not present at any meeting of the Board, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

### 3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

### 3.10 FEES AND COMPENSATION OF DIRECTORS.

Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board shall have the authority to fix the compensation of directors.

### 3.11 APPROVAL OF LOANS TO OFFICERS.

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the Board, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board shall approve, including, without limitation, a pledge of shares of stock of the corporation.

### 3.12 REMOVAL OF DIRECTORS.

Unless otherwise restricted by statute, the certificate of incorporation or these bylaws, any director or the entire Board may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

## ARTICLE IV – COMMITTEES

### 4.1 COMMITTEES OF DIRECTORS.

The Board may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members

of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board or in these bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

#### 4.2 COMMITTEE MINUTES.

Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

#### 4.3 MEETINGS AND ACTION OF COMMITTEES.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);
- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings and notice);
- (iv) Section 3.8 (quorum);
- (v) Section 7.13 (waiver of notice); and
- (vi) Section 3.9 (action without a meeting)

with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members. However:

- (i) the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee;
- (ii) special meetings of committees may also be called by resolution of the Board; and

(iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

## ARTICLE V - OFFICERS

### 5.1 OFFICERS.

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the Board, a chairperson of the Board, a vice chairperson of the Board, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

### 5.2 APPOINTMENT OF OFFICERS.

The Board shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 and 5.5 of these bylaws, subject to the rights, if any, of an officer under any contract of employment.

### 5.3 SUBORDINATE OFFICERS.

The Board may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

### 5.4 REMOVAL AND RESIGNATION OF OFFICERS.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

### 5.5 VACANCIES IN OFFICES.

Any vacancy occurring in any office of the corporation shall be filled by the Board or as provided in Section 5.2.

### 5.6 CHAIRPERSON OF THE BOARD.

The chairperson of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed by these bylaws. If there is no chief executive



officer or president, then the chairperson of the Board shall also be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 5.7 of these bylaws.

#### 5.7 CHIEF EXECUTIVE OFFICER.

Subject to such supervisory powers, if any, as the Board may give to the chairperson of the Board, the chief executive officer, if any, shall, subject to the control of the Board, have general supervision, direction, and control of the business and affairs of the corporation and shall report directly to the Board. All other officers, officials, employees and agents shall report directly or indirectly to the chief executive officer. The chief executive officer shall see that all orders and resolutions of the Board are carried into effect. The chief executive officer shall serve as chairperson of and preside at all meetings of the stockholders. In the absence of a chairperson of the Board, the chief executive officer shall preside at all meetings of the Board.

#### 5.8 PRESIDENT.

In the absence or disability of the chief executive officer, the president shall perform all the duties of the chief executive officer. When acting as the chief executive officer, the president shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The president shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board, these bylaws, the chief executive officer or the chairperson of the Board.

#### 5.9 VICE PRESIDENTS.

In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the Board or, if not ranked, a vice president designated by the Board, shall perform all the duties of the president. When acting as the president, the appropriate vice president shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board, these bylaws, the chairperson of the Board, the chief executive officer or, in the absence of a chief executive officer, the president.

#### 5.10 SECRETARY.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show

- (i) the time and place of each meeting;
- (ii) whether regular or special (and, if special, how authorized and the notice given);
- (iii) the names of those present at directors' meetings or committee meetings;
- (iv) the number of shares present or represented at stockholders' meetings;
- (v) and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register showing;

- (i) the names of all stockholders and their addresses;
- (ii) the number and classes of shares held by each;
- (iii) the number and date of certificates evidencing such shares; and
- (iv) the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board required to be given by law or by these bylaws. The secretary shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board or by these bylaws.

#### 5.11 CHIEF FINANCIAL OFFICER.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as the Board may designate. The chief financial officer shall disburse the funds of the corporation as may be ordered by the Board, shall render to the chief executive officer or, in the absence of a chief executive officer, the president and directors, whenever they request it, an account of all his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the Board or these bylaws.

The chief financial officer shall be the treasurer of the corporation.

#### 5.12 ASSISTANT SECRETARY.

The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or Board (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of the secretary's inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as may be prescribed by the Board or these bylaws.

#### 5.13 ASSISTANT TREASURER.

The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or Board (or if there be no such determination, then in the order of

their election), shall, in the absence of the chief financial officer or in the event of the chief financial officer's inability or refusal to act, perform the duties and exercise the powers of the chief financial officer and shall perform such other duties and have such other powers as may be prescribed by the Board or these bylaws.

#### 5.14 REPRESENTATION OF SHARES OF OTHER CORPORATIONS.

The chairperson of the Board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the Board or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

#### 5.15 AUTHORITY AND DUTIES OF OFFICERS.

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the Board or the stockholders.

### ARTICLE VI - RECORDS AND REPORTS

#### 6.1 MAINTENANCE AND INSPECTION OF RECORDS.

The corporation shall, either at its principal executive office or at such place or places as designated by the Board, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent so to act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal executive office.

#### 6.2 INSPECTION BY DIRECTORS.

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or

conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

### 6.3 ANNUAL REPORT.

The corporation shall cause an annual report to be sent to the stockholders of the corporation to the extent required by applicable law. If and so long as there are fewer than 100 holders of record of the corporation's shares, the requirement of sending of an annual report to the stockholders of the corporation is expressly waived (to the extent permitted under applicable law).

## ARTICLE VII - GENERAL MATTERS

### 7.1 CHECKS.

From time to time, the Board shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the corporation, and only the persons so authorized shall sign or endorse those instruments.

### 7.2 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS.

The Board, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or with in the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

### 7.3 STOCK CERTIFICATES; PARTLY PAID SHARES.

The shares of the corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson or vice-chairperson of the Board, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be

paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

#### 7.4 SPECIAL DESIGNATION ON CERTIFICATES.

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

#### 7.5 LOST CERTIFICATES.

Except as provided in this Section 7.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

#### 7.6 CONSTRUCTION; DEFINITIONS.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

#### 7.7 DIVIDENDS.

The Board, subject to any restrictions contained in either (i) the DGCL, or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The Board may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

7.8 FISCAL YEAR.

The fiscal year of the corporation shall be fixed by resolution of the Board and may be changed by the Board.

7.9 SEAL.

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the Board. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

7.10 TRANSFER OF STOCK.

Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

7.11 STOCK TRANSFER AGREEMENTS.

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

7.12 REGISTERED STOCKHOLDERS.

The corporation:

- (i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;
- (ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and
- (iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7.13 WAIVER OF NOTICE.

Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor

the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

## ARTICLE VIII - NOTICE BY ELECTRONIC TRANSMISSION

### 8.1 NOTICE BY ELECTRONIC TRANSMISSION.

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

- (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and
- (ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

- (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;
- (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;
- (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and
- (iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

### 8.2 DEFINITION OF ELECTRONIC TRANSMISSION.

An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a

recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

### 8.3 INAPPLICABILITY.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

## ARTICLE IX - AMENDMENTS

These bylaws may be adopted, amended or repealed by the stockholders entitled to vote. However, the corporation may, in its certificate of incorporation, confer the power to adopt, amend or repeal bylaws upon the directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend or repeal bylaws.

## ARTICLE X – INDEMNIFICATION

### 10.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The corporation shall indemnify and hold harmless, to the fullest extent permitted by the DGCL as it presently exists or may hereafter be amended, any director or officer of the corporation who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**Proceeding**”) by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such Proceeding. The corporation shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board.

### 10.2 INDEMNIFICATION OF OTHERS.

The corporation shall have the power to indemnify and hold harmless, to the extent permitted by applicable law as it presently exists or may hereafter be amended, any employee or agent of the corporation who was or is made or is threatened to be made a party or is otherwise involved in any Proceeding by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was an employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or non-profit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such Proceeding.

### 10.3 PREPAYMENT OF EXPENSES.

The corporation shall pay the expenses incurred by any officer or director of the corporation, and may pay the expenses incurred by any employee or agent of the corporation, in defending any Proceeding in advance of its final disposition; provided, however, that the payment of expenses



incurred by a person in advance of the final disposition of the Proceeding shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should be ultimately determined that the person is not entitled to be indemnified under this Article X or otherwise.

#### 10.4 DETERMINATION; CLAIM.

If a claim for indemnification or payment of expenses under this Article X is not paid in full within sixty days after a written claim therefor has been received by the corporation the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

#### 10.5 NON-EXCLUSIVITY OF RIGHTS.

The rights conferred on any person by this Article X shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the certificate of incorporation, these bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

#### 10.6 INSURANCE.

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the DGCL.

#### 10.7 OTHER INDEMNIFICATION.

The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

#### 10.8 AMENDMENT OR REPEAL.

Any repeal or modification of the foregoing provisions of this Article X shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

**SENTRX SURGICAL, INC.**

**CERTIFICATE OF ADOPTION OF BYLAWS**

The undersigned hereby certifies that he or she is the duly elected, qualified and acting Secretary of Sentrx Surgical, Inc., a Delaware corporation (the "**Company**"), and that the foregoing bylaws, comprising 19 pages, were adopted as the Company's bylaws on March 11, 2004 by the Company's board of directors.

The undersigned has executed this Certificate as of March 11, 2004

/s/ Glenn D. Frestwich

Glenn D. Frestwich, Secretary

## AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT

THIS AMENDED AND RESTATED REGISTRATION RIGHTS AGREEMENT (the "Agreement") dated as of December 21, 2012, is made by and among Carbylan Biosurgery, Inc., a Delaware corporation (the "Company"), the holders of the Company's Series A Preferred Stock (as herein defined) listed on Exhibit A attached hereto, and the holders of the Company's Series B Preferred Stock (as herein defined) listed on Exhibit A attached hereto.

**WHEREAS**, the Company and the Investors (as defined herein) have previously entered into that certain Registration Rights Agreement dated as of November 9, 2007 (the "Prior Rights Agreement"), pursuant to which the Company granted the Investors certain rights.

**WHEREAS**, the Company has or will enter into a Series B Purchase Agreement (as herein defined), pursuant to which the Series B Investors will acquire additional shares of the Company's Series B Preferred Stock.

**WHEREAS**, the Company, the Series A Investors and the Series B Investors deem it to be in their respective best interests to set forth herein their rights in connection with registration, public offerings and sales of the Common Stock (as herein defined) and are entering into this Agreement as a condition to, and in connection with, the Series B Investors entering into the Series B Purchase Agreement (as herein defined).

**WHEREAS**, pursuant to Section 18 of the Prior Rights Agreement, the Prior Rights Agreement may be amended with the written consent of the Company and Investors holding a majority of the Registrable Shares then outstanding, which written consent is evidenced by the signatures of the Company and the Investors holding a majority of the Registrable Shares now outstanding and on the signature pages of this Agreement.

**NOW, THEREFORE**, in consideration of the premises and mutual covenants and obligations hereinafter set forth, the Company, the Series A Investors and the Series B Investors hereby agree as follows:

Section 1. Certain Definitions.

As used in this Agreement, the following terms shall have the following meanings:

"Board" means the Board of Directors of the Company.

"Commission" means the Securities and Exchange Commission or any other Federal agency at the time administering the Securities Act.

“Common Stock” means the common stock, \$0.001 par value per share, of the Company.

“Exchange Act” means the Securities Exchange Act of 1934 or any successor Federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

“Initial Offering” shall mean the initial public offering of the Company’s Common Stock, registered under the Securities Act.

“Investor” shall mean any Series A Investor or Series B Investor.

“Person” shall be construed broadly to include any individual, partnership, limited liability company, corporation, affiliated group, trust or other legal entity.

“Primary Shares” means at any time the authorized but unissued shares of Common Stock.

“Registrable Shares” means Restricted Shares (i) issued or issuable upon conversion of shares of Series A Preferred Stock and Series B Preferred Stock, (ii) issued or issuable to an Investor after the date hereof pursuant to the right of first refusal set forth in Section 3.3 or the preemptive rights set forth in Section 3.4 of the Amended and Restated Stockholders’ Agreement of even date herewith, and (iii) issued as a dividend or other distribution with respect to or in exchange for or in replacement of the shares referenced in (i) and (ii) above.

“Registration Date” means the date upon which the registration statement pursuant to which the Company shall consummate the Initial Offering shall have been declared effective.

“Restricted Shares” means shares of Common Stock held by any Investor and any other securities which by their terms are exercisable or exchangeable for or convertible into Common Stock or other securities which are so exercisable, exchangeable or convertible and any securities received in respect thereof, which are held by such Investor. As to any particular Restricted Shares, once issued, such Restricted Shares shall cease to be Restricted Shares when (i) they have been registered under the Securities Act, the registration statement in connection therewith has been declared effective and they have been disposed of pursuant to such effective registration statement, (ii) they are eligible to be sold or distributed pursuant to Rule 144 (including, without limitation, Rule 144(k)) within any consecutive three (3) month period without volume or manner of sale limitations, or (iii) they shall have ceased to be outstanding.

“Rule 144” means Rule 144 promulgated under the Securities Act or any successor rule thereto or any complementary rule thereto (such as Rule 144A).

“Securities Act” means the Securities Act of 1933 or any successor Federal statute, and the rules and regulations of the Commission thereunder, all as the same shall be in effect from time to time.

“Series A Investors” means the holders of the Company’s Series A Preferred Stock (including shares of Common Stock issuable upon the conversion thereof) listed on Exhibit A attached hereto, and includes any successor to, or assignee or transferee of, any such person who or which agrees in writing to be treated as a Series A Investor hereunder and to be bound by the terms and comply with all applicable provisions hereof

“Series A Preferred Stock” means the Series A Convertible Preferred Stock, \$0.001 par value per share, of the Company.

“Series B Investors” means the holders of the Company’s Series B Preferred Stock (including shares of Common Stock issuable upon the conversion thereof) listed on Exhibit A attached hereto, and includes any successor to, or assignee or transferee of, any such person who or which agrees in writing to be treated as a Series B Investor hereunder and to be bound by the terms and comply with all applicable provisions hereof

“Series B Preferred Stock” means the Series B Convertible Preferred Stock, \$0.001 par value per share, of the Company.

“Series B Purchase Agreement” means the Series B Preferred Stock Purchase Agreement with respect to the purchase and sale of shares of the Company’s Series B Preferred Stock, dated as of the date hereof, by and among the Company and the Series B Investors, as it may be amended from time to time.

Section 2. Required Registration.

a. At any time following the earlier of five (5) years from the date of the Closing (as such term is defined in the Series B Purchase Agreement) and six (6) months after the Company’s Initial Offering, if the holders of at least twenty percent (20%) of the Registrable Shares then outstanding shall in writing state that such holders desire to sell Registrable Shares in the public securities markets and request the Company to effect the registration under the Securities Act of such Registrable Shares (such registration having an aggregate offering price to the public of not less than \$10,000,000), the Company shall promptly use its best efforts to effect the registration under the Securities Act of the Registrable Shares which the Company has been so requested to register by such Investors.

b. Notwithstanding anything contained in this Section 2 to the contrary, the Company shall not be obligated to effect any registration under the Securities Act except in accordance with the following provisions:

i. The Company shall not be obligated to use its best efforts to file and cause to become effective more than three (3) registration statements for the holders of the Registrable Shares initiated pursuant to Section 2(a) above.

ii. The Company may delay the filing or effectiveness of any registration statement for a period of up to ninety (90) days after the date of a request for registration pursuant to this Section 2 if at the time of such request (A) the Company is engaged, or has fixed plans to engage within ninety (90) days of the time of such request, in a firm commitment underwritten public offering of Primary Shares in which the holders of Registrable Shares may include Registrable Shares pursuant to Section 3, and the Company has delivered notice to the holders of Registrable Shares thereof within thirty (30) days of the registration request made pursuant to Section 2(a) hereof, or (B) the Company reasonably determines that such registration and offering would be materially detrimental to the Company and its stockholders, as approved by the Board; provided, however, that the Company may only delay the filing or effectiveness of a registration statement pursuant to this Section 2(b) for a total of ninety (90) days after the date of a request for registration pursuant to Section 2(a); and provided further that the Company may not utilize this right more than once in any twelve (12) month period.

iii. With respect to any registration pursuant to Section 2(a), the Company shall give notice of such requested registration to the Investors who do not request registration hereunder, and the Company may include in such registration any Primary Shares; provided however that if the managing underwriter advises the Company that the inclusion of all Registrable Shares and/or Primary Shares proposed to be included in such registration would interfere with the successful marketing (including pricing) of the Registrable Shares proposed to be included in such registration, then the number of Registrable Shares and/or Primary Shares proposed to be included in such registration shall be included in the following order:

(A) first, the Registrable Shares requested to be included in such registration (or, if necessary, such Registrable Shares pro rata among the holders thereof based on the number of Registrable Shares requested to be registered by each such holder); and

(B) second, the Primary Shares.

iv. If the Investors which are holders of the Registrable Shares requesting to be included in a registration pursuant to Section 2(a) so elect, the offering of such Registrable Shares pursuant to such registration shall be in the form of an underwritten offering. The Investors holding a majority of the Registrable Shares requested to be included in such registration shall select one or

more nationally recognized firms of investment bankers reasonably acceptable to the Company to act as the lead managing underwriter or underwriters in connection with such offering.

v. At any time before the registration statement covering Registrable Shares pursuant to Section 2(a) becomes effective, the holders of a majority of the Registrable Shares held by the Investors initiating such registration may request the Company to withdraw or not to file the registration statement. In that event, unless such request of withdrawal was caused by, or made (A) as a result of a delay pursuant to Section 2(b)(ii) above, (B) in response to the material adverse effect of an event on the business, properties, condition, financial or otherwise, or operations of the Company not actually known (without imputing the knowledge of any other Person to such holders) by the holders initiating such request at the time their request was made, or (C) in response to material information with respect to the Company not actually known (without imputing the knowledge of any other person to such holders) by the holders initiating such request at the time their request was made, which material information would make it inadvisable or difficult to effect such registration, then the holders shall be deemed to have used one of their demand registration rights under Section 2(b)(i) and the Company shall no longer be obligated to register Registrable Shares pursuant to the exercise of such one registration right pursuant to Section 2(a) unless the holders of Registrable Shares shall pay to the Company the expenses incurred by the Company through the date of such request to withdraw or not file the registration statement.

vi. The Company shall not be obligated to file or cause to become effective a registration statement for the holders of the Registrable Shares initiated pursuant to Section 2(a) above during the 180-day period beginning on the Registration Date.

Section 3. Piggyback Registration.

a. If the Company proposes for any reason to register Primary Shares under the Securities Act (other than on Form S-4 or Form S-8 promulgated under the Securities Act or any successor forms thereto), it shall give written notice to the Investors of its intention to so register such Primary Shares at least thirty (30) days before the initial filing of such registration statement and, upon the written request of the Investors to include in such registration Registrable Shares (which request shall be delivered to the Company within twenty (20) days after delivery of any such notice by the Company, and shall specify the number of Registrable Shares proposed to be included in such registration and shall state that such Investors desire to sell such Registrable Shares in the public securities markets), the Company shall use its best efforts to cause all such Registrable Shares to be included in such registration on the same terms and conditions as the securities otherwise being sold in such registration; provided, however, that if the

managing underwriter advises the Company that the inclusion of all Registrable Shares requested to be included in such registration would be materially detrimental to the successful marketing (including pricing) of the Primary Shares proposed to be registered by the Company, then the number of Primary Shares and Registrable Shares proposed to be included in such registration shall be included in the following order:

i. first, the Primary Shares; and

ii. second, any Registrable Shares requested to be included in such registration pursuant to Section 3(a) pro-rata among such Investors holding Registrable Shares based upon the number of Registrable Shares requested to be registered by each such Investor.

b. For the purposes of cutbacks pursuant to this Section 3, in no event shall the aggregate amount of Registrable Shares held by the Investors included in the registration be reduced below 20% of the total amount of securities included in such registration, except with respect to registration of securities in connection with the Initial Offering wherein the aggregate amount of Registrable Shares held by the Investors included in the registration may be reduced to zero.

#### Section 4. Registrations on Form S-3.

Anything contained in Section 2 to the contrary notwithstanding, at such time as the Company shall be qualified for the use of Form S-3 promulgated under the Securities Act or any successor form thereto, the holders of the Registrable Shares then outstanding shall have the right to request in writing unlimited demand registrations on Form S-3, or such successor form, which request or requests shall (a) specify the number of Registrable Shares intended to be sold or disposed of and the holders thereof, (b) state the intended method of disposition of such Registrable Shares and (c) relate to Registrable Shares having an aggregate offering price of at least one million dollars (\$1,000,000); provided, however, that the Company shall not be required to file more than two (2) such registrations on Form S-3 in any twelve (12) month period. A requested registration on Form S-3 or any such successor form in compliance with this Section 4 shall not count as a registration statement initiated pursuant to Section 2 but shall otherwise be treated as a registration initiated pursuant to, and shall, except as otherwise expressly provided in this Section 4, be subject to Section 2, including, without limitation, Section 2(b)(iii).

#### Section 5. Lock-Up Agreement.

a. In connection with the Initial Offering, each Investor agrees that he, she or it, shall not sell publicly, make any short sale of, grant any option for the purchase of, or otherwise dispose publicly of, any shares of Common Stock (other than those shares of Common Stock included in such registration) without the prior written consent of the Company or the underwriters, as the case may be, for a period (the "Lockup Period")



designated by the Company or the underwriters, as the case may be, in writing to the Investors, which period shall not exceed one hundred eighty (180) days after the effective date of such registration statement (provided, that such 180-day period may be extended to the extent necessary to permit any managing underwriter to comply with the National Association of Securities Dealers, Inc. ("NASD") Rule 2711 or NYSE Member Rule 472 or any successor or similar rule or regulation; provided, however, that all executive officers, directors and holders of 1% or more of the Company's outstanding capital stock must agree to a Lockup Period of at least the same duration. The Company shall obtain the agreement of any person permitted to sell shares of stock in a registration to be bound by and to comply with this Section 5 as if such person was an Investor hereunder. Notwithstanding the foregoing, in the event any of the agreements or restrictions set forth above are waived or terminated with respect to any holder of securities of the Company, then the foregoing provisions shall be waived or terminated with respect to each Investor to the same extent.

b. Each Investor agrees that he, she or it shall adhere to any trading restrictions put forward by the lead underwriter for one hundred eighty (180) days following the effective date of a registration statement as part of any secondary public offering or sales of Common Stock; provided, however, that all holders of more than 5% or more of the Company's outstanding capital stock must agree to adhere to such trading restrictions.

Section 6. Preparation and Filing.

If and whenever the Company is under an obligation pursuant to the provisions of this Agreement to use its best efforts to effect the registration of any Registrable Shares, the Company shall, as expeditiously as practicable:

a. use its best efforts to cause a registration statement that registers such Registrable Shares to become and remain effective until all of such Registrable Shares have been disposed of;

b. furnish, at least five (5) business days before filing a registration statement that registers such Registrable Shares, a prospectus relating thereto or any amendments or supplements relating to such a registration statement or prospectus, to one counsel selected by the holders of Registrable Shares requesting such registration (the "Investors' Counsel"), copies of all such documents proposed to be filed (it being understood that such five (5) business-day period need not apply to successive drafts of the same document proposed to be filed so long as such successive drafts are supplied to the Investors' Counsel in advance of the proposed filing by a period of time that is customary and reasonable under the circumstances);

c. prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be

necessary to keep such registration statement effective until all of such Registrable Shares have been disposed of and to comply with the provisions of the Securities Act with respect to the sale or other disposition of such Registrable Shares;

d. notify in writing the Investors' Counsel (i) of the receipt by the Company of any notification with respect to any comments by the Commission with respect to such registration statement or prospectus or any amendment or supplement thereto or any request by the Commission for the amending or supplementing thereof or for additional information with respect thereto, (ii) of the receipt by the Company of any notification with respect to the issuance by the Commission of any stop order suspending the effectiveness of such registration statement or prospectus or any amendment or supplement thereto or the initiation or threatening of any proceeding for that purpose and (iii) of the receipt by the Company of any notification with respect to the suspension of the qualification of such Registrable Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purposes;

e. use its best efforts to register or qualify such Registrable Shares under such other securities or blue sky laws of such jurisdictions as the Investors reasonably request and do any and all other acts and things which may be reasonably necessary or advisable to enable the Investors to consummate the disposition in such jurisdictions of the Registrable Shares owned by the Investors; provided however, that the Company will not be required to qualify generally to do business, subject itself to general taxation or consent to general service of process in any jurisdiction where it would not otherwise be required to do so but for this paragraph (e) or to provide any material undertaking or make any changes in its Bylaws or Certificate of Incorporation which the Board determines to be contrary to the best interests of the Company or to modify any of its contractual relationships then existing;

f. furnish to the Investors such number of copies of a summary prospectus, if any, or other prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as such Investors may reasonably request in order to facilitate the public sale or other disposition of such Registrable Shares;

g. without limiting subsection (e) above, use its best efforts to cause such Registrable Shares to be registered with or approved by such other governmental agencies or authorities as may be necessary by virtue of the business and operations of the Company to enable the Investors holding such Registrable Shares to consummate the disposition of such Registrable Shares;

h. notify the Investors holding such Registrable Shares on a timely basis at any time when a prospectus relating to such Registrable Shares is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a

material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing and, at the request of the Investors, prepare and furnish to such Investors a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the offerees of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

i. subject to the execution of confidentiality agreements in form and substance satisfactory to the Company, make available upon reasonable notice and during normal business hours, for inspection by the Investors holding such Registrable Shares, any underwriter participating in any disposition pursuant to such registration statement and any attorney, accountant or other agent retained by the Investors or underwriter (collectively, the “Inspectors”), all pertinent financial and other records, pertinent corporate documents and properties of the Company (collectively, the “Records”), as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company’s officers, directors and employees to supply all information (together with the Records, the “Information”) reasonably requested by any such Inspector in connection with such registration statement. Any of the Information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, shall not be disclosed by the Inspectors unless (a) the disclosure of such Information is necessary to avoid or correct a material misstatement or omission in the registration statement, (b) the release of such Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction or (c) such Information has been made generally available to the public through no breach of the nondisclosure obligations of the Inspectors or their affiliates; the Investors agree that they will, upon learning that disclosure of such Information is sought in a court of competent jurisdiction, give notice to the Company and allow the Company, at the Company’s expense, to undertake appropriate action to prevent disclosure of the Information deemed confidential;

j. use its best efforts to obtain from its independent certified public accountants “cold comfort” letters in customary form and at customary times and covering matters of the type customarily covered by cold comfort letters;

k. use its best efforts to obtain from its counsel an opinion or opinions in customary form;

l. provide a transfer agent and registrar (which may be the same entity and which may be the Company) for such Registrable Shares;

m. issue to any underwriter to which the Investors holding such Registrable Shares may sell shares in such offering certificates evidencing such Registrable Shares;

n. list such Registrable Shares on any national securities exchange on which any shares of the Common Stock are listed or, if the Common Stock is not listed on a national securities exchange, use its best efforts to qualify such Registrable Shares for inclusion on a national securities exchange as the holders of a majority of such Registrable Shares shall reasonably request;

o. otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make available to its securityholders, as soon as reasonably practicable, earnings statements in accordance with Rule 158 of the Securities Act covering a period of twelve (12) months beginning within three (3) months after the effective date of the registration statement; and

p. subject to all the other provisions of this Agreement, use its best efforts to take all other steps necessary to effect the registration of such Registrable Shares contemplated hereby.

q. Each holder of the Registrable Shares, upon receipt of any notice from the Company of any event of the kind described in Section 6(h) hereof, shall forthwith discontinue disposition of the Registrable Shares pursuant to the registration statement covering such Registrable Shares until such holder's receipt of the copies of the supplemented or amended prospectus contemplated by Section 6(h) hereof, and, if so directed by the Company, such holder shall deliver to the Company all copies, other than permanent file copies then in such holder's possession, of the prospectus covering such Registrable Shares at the time of receipt of such notice.

#### Section 7. Expenses.

All expenses (other than underwriting discounts and commissions relating to the Registrable Shares, as provided in the last sentence of this Section 7) incurred by the Company in complying with Section 6, including, without limitation, all registration and filing fees (including all expenses incident to filing with NASD), fees and expenses of complying with securities and blue sky laws, printing expenses, fees and expenses of the Company's counsel and accountants and reasonable fees and expenses of one Investors' Counsel (such Investors' Counsel's fees and expenses not to exceed \$50,000) shall be paid by the Company. All underwriting discounts and selling commissions applicable to the Registrable Shares shall be borne by the holders selling such Registrable Shares, in proportion to the number of Registrable Shares sold by each such holder.

#### Section 8. Indemnification.

a. In connection with any registration of any Registrable Shares under the Securities Act pursuant to this Agreement, the Company shall indemnify and hold harmless the holders of Registrable Shares, each underwriter, broker or any other person acting on behalf of the holders of Registrable Shares (including such holders' directors,

officers and agents) and each other person, if any, who controls any of the foregoing persons within the meaning of the Securities Act against any losses, claims, damages or liabilities, joint or several (or actions in respect thereof), to which any of the foregoing persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or allegedly untrue statement of a material fact contained in the registration statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Shares, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made not misleading, or any violation by the Company of the Securities Act or state securities or blue sky laws applicable to the Company and relating to action or inaction required of the Company in connection with such registration or qualification under such state securities or blue sky laws; and shall reimburse the holders of Registrable Shares, such underwriter, such broker or such other person acting on behalf of the holders of Registrable Shares and each such controlling person for any legal or other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action (including any legal or other expenses incurred) arises out of or is based upon an untrue statement or allegedly untrue statement or omission or alleged omission made in said registration statement, preliminary prospectus, final prospectus, amendment, supplement or document incident to registration or qualification of any Registrable Shares in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by the holders of Registrable Shares or their counsel or underwriter specifically for inclusion therein; provided further, however that the foregoing indemnity agreement is subject to the condition that, insofar as it relates to any untrue statement, allegedly untrue statement, omission or alleged omission made in any preliminary prospectus but eliminated or remedied in the final prospectus (filed pursuant to Rule 424 of the Securities Act), such indemnity agreement shall not inure to the benefit of any holder of Registrable Shares, underwriter, broker or other person acting on behalf of holders of the Registrable Shares from whom the person asserting any loss, claim, damage, liability or expense purchased the Registrable Shares which are the subject thereof, if a copy of such final prospectus had been made available to such person and such holder of Registrable Shares, underwriter, broker or other person acting on behalf of holders of the Registrable Shares within a reasonable period of time prior to the sale, and such final prospectus was not delivered to such person with or prior to the written confirmation of the sale of such Registrable Shares to such person.

b. In connection with any registration of Registrable Shares under the Securities Act pursuant to this Agreement, each holder of Registrable Shares shall severally and not jointly indemnify and hold harmless (in the same manner and to the same extent as set forth in the preceding paragraph of this Section 8) the Company, each director of the Company, each officer of the Company who shall sign such registration statement, each underwriter, broker or other person acting on behalf of the holders of Registrable Shares and each person who controls any of the foregoing persons within the meaning of the Securities Act against any losses, claims, damages or liabilities (or actions in respect thereof), to which any of the foregoing persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or allegedly untrue statement of a material fact contained in the registration statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein or otherwise filed with the Commission, any amendment or supplement thereto or any document incident to registration or qualification of any Registrable Shares or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made not misleading, if such untrue statement, allegedly untrue statement, omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company or such underwriter through an instrument duly executed by the holders of Registrable Shares or their counsel or underwriter specifically for inclusion in such registration statement, preliminary prospectus, final prospectus, amendment, supplement or document; provided, however, that the maximum amount of liability in respect of such indemnification shall be limited, in the case of each seller of Registrable Shares, to an amount equal to the net proceeds actually received by such seller from the sale of Registrable Shares effected pursuant to such registration.

c. Promptly after receipt by an indemnified party of notice of the commencement of any action involving a claim referred to in the preceding paragraphs of this Section 8, such indemnified party will, if a claim in respect thereof may be made against an indemnifying party, give written notice to the latter of the commencement of such action. The failure of any indemnified party to notify an indemnifying party of any such action shall not (unless such failure shall have a material adverse effect on the indemnifying party) relieve the indemnifying party from any liability in respect of such action that it may have to such indemnified party on account of this Section 8. In case any such action is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified to the extent that it may wish, with counsel reasonably satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be responsible for any legal or other expenses subsequently

incurred by the indemnified party in connection with the defense thereof; provided, however, that if any indemnified party shall have reasonably concluded that there may be one or more legal or equitable defenses available to such indemnified party which are additional to or conflict with those available to the indemnifying party, or that such claim or litigation involves or could have an effect upon matters beyond the scope of the indemnity agreement provided in this Section 8, the indemnifying party shall not have the right to assume the defense of such action on behalf of such indemnified party (but shall have the right to participate therein with counsel of its choice) and such indemnifying party shall reimburse such indemnified party and any person controlling such indemnified party for that portion of the fees and expenses of any counsel retained by the indemnified party which is reasonably related to the matters covered by the indemnity agreement provided in this Section 8. If the indemnifying party is not entitled to, or elects not to, assume the defense of a claim, it will not be obligated to pay the fees and expenses of more than one counsel with respect to such claim.

d. If the indemnification provided for in this Section 8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage, liability or action referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amounts paid or payable by such indemnified party as a result of such loss, claim, damage, liability or action in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions which resulted in such loss, claim, damage, liability or action as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties agree that it would not be just and equitable if contribution pursuant hereto were determined by pro rata allocation or by any other method or allocation which does not take account of the equitable considerations referred to herein. No person guilty of fraudulent misrepresentation shall be entitled to contribution from any person.

Section 9. Underwriting Agreement.

Notwithstanding the provisions of Sections 5, 6, 7 and 8, to the extent that the Investors shall enter into an underwriting or similar agreement, which agreement contains provisions covering one or more issues addressed in such Sections, the provisions contained in such agreement addressing such issue or issues shall control.

Section 10. Information by Holder.

The Investors shall furnish to the Company such written information regarding the Investors and the distribution proposed by any Investors as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

Section 11. Exchange Act Compliance.

From the Registration Date or such earlier date as a registration statement filed by the Company pursuant to the Exchange Act relating to any class of the Company's securities shall have become effective, the Company shall comply with all of the reporting requirements of the Exchange Act applicable to it (whether or not it shall be required to do so, but specifically excluding Section 14 of the Exchange Act if not then applicable to the Company) and shall comply with all other public information reporting requirements of the Commission which are conditions to the availability of Rule 144 for the sale of the Common Stock. The Company shall cooperate with the Investors in supplying such information as may be necessary for the Investors to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of Rule 144.

Section 12. Future Rights.

The Company shall not, after the date hereof, grant any registration rights to any Person, except registration rights which are subordinate to the rights of the Series A Preferred Stock and Series B Preferred Stock, without the consent of the holders of two-thirds of the Registrable Shares then outstanding.

Section 13. Termination.

This Agreement shall terminate and be of no further force or effect on the first to occur of (i) seven (7) years after the date of the Initial Offering; (ii) when all of the Registrable Shares held by the Investors are eligible to be sold or distributed pursuant to Rule 144 within any consecutive three (3) month period without volume or manner of sale limitations; or (iii) when there shall no longer be any Registrable Shares outstanding.

Section 14. Benefits of Agreement; Third Party Beneficiary.

This Agreement shall bind and inure to the benefit of the Company, the Investors and subject to Section 15, the respective successors and assigns of the Company and the Investors. The managing underwriter(s) of the Initial Offering are intended third party beneficiaries of the agreements of the Company and the Investors contained in Section 5.



Section 15. Assignment.

Each Investor may assign its rights hereunder to (i) any partner or retired partner of any holder which is a partnership, (ii) any family member or trust for the benefit of any individual holder, or (iii) any transferee who acquires at least 50,000 Registrable Shares; provided, however, that such transferring Investor shall provide prior written notice to the Company and such purchaser or transferee shall, as a condition to the effectiveness of such assignment, be required to execute a counterpart to this Agreement agreeing to be treated as an Investor whereupon such purchaser or transferee shall have the benefits of, and shall be subject to the restrictions contained in, this Agreement as if such purchaser or transferee was originally included in the definition of an Investor herein and had originally been a party hereto.

Section 16. Entire Agreement.

This Agreement, and the other writings referred to herein or delivered pursuant hereto, contain the entire agreement among the Investors and the Company with respect to the subject matter hereof and supersede all prior and contemporaneous arrangements or understandings with respect thereto.

Section 17. Notices.

Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (Pacific Daylight or Pacific Standard Time, whichever is then in effect) on a business day, (ii) the business day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in the Purchase Agreement later than 5:30 p.m. (Pacific Daylight or Pacific Standard Time, whichever is then in effect) on any date and earlier than 11:59 p.m. (Pacific Daylight or Pacific Standard Time, whichever is then in effect) on such date, (iii) the business day following the date of mailing, if sent by nationally recognized overnight courier service, (iv) upon three days after mailing if sent by certified or registered mail or (v) actual receipt by the party to whom such notice is required to be given if delivered by hand. The address for such notices and communications shall be as follows:

- i. if to the Company, to:

Carbylan Biosurgery, Inc.  
3181 Porter Drive  
Palo Alto, CA 94304  
Telephone No.: (650) 855-6777  
Facsimile No.: (650) 855-9119

Attention: George Y. Daniloff

With a copy to:

Cooley LLP  
3175 Hanover Street  
Palo Alto, CA 94304  
Telephone: (650) 843-5011  
Facsimile: (650) 618-2034  
Attention: Mark B. Weeks

- ii. if to the Investors, to their respective addresses set forth on Exhibit A hereto.

Section 18. Modifications; Amendments; Waivers.

The terms and provisions of this Agreement may not be modified or amended, nor may any provision be waived, except pursuant to a writing signed by the Company and Investors holding at least a majority of the Registrable Shares held by all Investors then outstanding; provided, however, that any modification, amendment or waiver that treats any Investor differently than the other Investors generally must be approved by such Investor in writing.

Section 19. Counterparts; Facsimile Signatures.

This Agreement may be executed in any number of original or facsimile counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

Section 20. Headings.

The headings of the various sections of this Agreement have been inserted for convenience of reference only and shall not be deemed to be a part of this Agreement.

Section 21. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware without regard to the principles of conflicts of law thereof.

Section 22. Additional Signatories.

Notwithstanding anything to the contrary contained herein, if the Company shall issue additional shares of its Series B Preferred Stock pursuant to the Series B Purchase Agreement, any purchaser of such shares of Series B Preferred Stock may become a party

to this Agreement by executing and delivering an additional counterpart signature page to this Agreement and shall be deemed a “Series B Investor” and an “Investor” and a party hereunder.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Registration Rights Agreement on the date first written above.

**CARBYLAN BIOSURGERY, INC.**

By: /s/ George Y. Daniloff  
Name: George Y. Daniloff  
Title: Chief Executive Officer

COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED  
REGISTRATION RIGHTS AGREEMENT  
BY AND AMONG CARBYLAN BIOSURGERY, INC. AND THE INVESTORS

**INVESTOR**

VIVO VENTURES FUND VI, L.P.  
By: Vivo Ventures VI, LLC, its General Partner

By: /s/ Albert Cha  
Name: Albert Cha  
Title: Managing Member

VIVO VENTURES VI AFFILIATES FUND, L.P.  
By: Vivo Ventures VI, LLC, its General Partner

By: /s/ Albert Cha  
Name: Albert Cha  
Title: Managing Member

COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED  
REGISTRATION RIGHTS AGREEMENT  
BY AND AMONG CARBYLAN BIOSURGERY, INC. AND THE INVESTORS

**INVESTOR**

INTERWEST PARTNERS IX, LP

By: InterWest Management Partners IX LLC,  
its General Partner

By: /s/ Christopher Ehrlich  
Name: Christopher Ehrlich  
Title: Venture Member

COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED  
REGISTRATION RIGHTS AGREEMENT  
BY AND AMONG CARBYLAN BIOSURGERY, INC. AND THE INVESTORS

**INVESTOR**

ACP IV, L.P.

By: ACMP IV, LLC, its General Partner

By: /s/ Hilary Strain

Name: Hilary Strain

Title: Chief Financial Officer

COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED  
REGISTRATION RIGHTS AGREEMENT  
BY AND AMONG CARBYLAN BIOSURGERY, INC. AND THE INVESTORS

**INVESTOR**

By: /s/ George Y. Daniloff  
Name: George Y. Daniloff  
Title: Chief Executive Officer



COUNTERPART SIGNATURE PAGE TO AMENDED AND RESTATED  
REGISTRATION RIGHTS AGREEMENT  
BY AND AMONG CARBYLAN BIOSURGERY, INC. AND THE INVESTORS

**INVESTOR**

ELIOT M. FRIED AND CYNTHIA N. FRIED,  
AS CO-TRUSTEES OF THE FRIED LIVING TRUST,  
DATED 1/3/08

By: /s/ Eliot M. Fried  
Name: Eliot M. Fried  
Title: Co-Trustee

By: /s/ Cynthia N. Fried  
Name: Cynthia N. Fried  
Title: Co-Trustee

**Exhibit A**

**Name, Address, Number of Shares of Preferred Stock Held by Investors**

<u>Name of Investors</u>	<u>Address</u>	<u>No. of Shares of Series A Preferred Stock</u>	<u>No. of Shares of Series B Preferred Stock</u>
Vivo Ventures Fund VI, L.P.	Address intentionally omitted	0	9,905,811
Vivo Ventures VI Affiliates Fund, L.P.	Address intentionally omitted	0	72,570
InterWest Partners IX, L.P.	Address intentionally omitted	3,326,126	8,581,407
ACP IV, L.P.	Address intentionally omitted	2,910,360	7,924,497
Dr. Michael Ehrlich	Address intentionally omitted	0	20,788
Eliot M. Fried and Cynthia N. Fried, as Co-Trustees of the Fried Living Trust, dated 1/3/08	Address intentionally omitted	41,576	83,153
Mark Weeks	Address intentionally omitted	0	12,473
HEWM/VLG Investments LLC	Address intentionally omitted	13,858	
VLG Investments 2007 LLC	Address intentionally omitted		29,103

<u>Name of Investors</u>	<u>Address</u>	<u>No. of Shares of Series A Preferred Stock</u>	<u>No. of Shares of Series B Preferred Stock</u>
St. Roy Trust, Dated January 27, 2006 Gary Stroy Trustee	Address intentionally omitted	41,576	
Dianne Reed	Address intentionally omitted	13,858	
George Daniloff	Address intentionally omitted	41,576	
Gordon Saul	Address intentionally omitted	41,576	
WS Investment Company, LLC (2005A)	Address intentionally omitted	13,858	
Silicon Valley Bank	Address intentionally omitted	83,153 (which shares are issuable upon the exercise of a Warrant to Purchase Stock issued December 13, 2006)	166,307 (which shares are issuable upon the exercise of Warrants to Purchase Stock issued October 26, 2011, as amended)

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 BELOW, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

### WARRANT TO PURCHASE STOCK

Company:	Carbylan Biosurgery, Inc., a Delaware corporation
Number of Shares:	51,971 or such greater amount as set forth in Section 1.7 below
Class of Stock:	Series A Preferred
Warrant Price:	\$1.2026 per share
Issue Date:	December 13, 2006
Expiration Date:	The 10th anniversary after the Issue Date
Credit Facility:	This Warrant is issued in connection with the Committed Term Loan Line referenced in the Loan and Security Agreement between Company and Silicon Valley Bank dated December 13, 2006 (the "Loan Agreement").

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (Silicon Valley Bank, together with any registered holder from time to time of this Warrant or any holder of the shares issuable or issued upon exercise of this Warrant, "Holder") is entitled to purchase the number of fully paid and nonassessable shares of the class of securities (the "Shares") of the Company at the Warrant Price, all as set forth above and as adjusted pursuant to Article 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

#### ARTICLE 1. EXERCISE.

1.1 Method of Exercise. Holder may exercise this Warrant by delivering a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Article 1.2, Holder shall also deliver to the Company a check, wire transfer (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Conversion Right. In lieu of exercising this Warrant as specified in Article 1.1, Holder may from time to time convert this Warrant, in whole or in part, into a number of Shares determined by dividing (a) the aggregate fair market value of the Shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Warrant Price of such Shares by (b) the fair market value of one Share. The fair market value of the Shares shall be determined pursuant to Article 1.3.

1.3 Fair Market Value. If the Company's common stock is traded in a public market and the Shares are common stock, the fair market value of each Share shall be the closing price of a Share reported for the business day immediately before Holder delivers its Notice of Exercise to the Company (or in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company's initial public offering, the "price to public" per share price specified in the final prospectus relating to such offering). If the Company's common stock is traded in a public market and the Shares are preferred stock, the fair market value of a Share shall be the closing price of a share of the Company's common stock reported for the business day immediately before Holder delivers its Notice of Exercise to the Company (or, in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company's initial public offering, the initial "price to public" per share price specified in the final prospectus relating to such offering), in both cases, multiplied by the number of shares of the Company's common stock into which a Share is convertible. If the Company's common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant and, if applicable, the Company receives payment of the aggregate Warrant Price, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new Warrant representing the Shares not so acquired.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Treatment of Warrant Upon Acquisition of Company.

1.6.1 "Acquisition". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction.

1.6.2 Treatment of Warrant at Acquisition.

A) Upon the written request of the Company, Holder agrees that, in the event of an Acquisition that is not an asset sale and in which the sole consideration is cash, either (a) Holder shall exercise its conversion or purchase right under this Warrant and such exercise will be deemed effective immediately prior to the consummation of such Acquisition or (b) if Holder elects not to exercise the Warrant, this Warrant will expire upon the consummation of such Acquisition. The Company shall provide Holder with written notice of its request relating to the foregoing (together with such reasonable information as Holder may request in connection with

such contemplated Acquisition giving rise to such notice), which is to be delivered to Holder not less than ten (10) days prior to the closing of the proposed Acquisition.

B) Upon the written request of the Company, Holder agrees that, in the event of an Acquisition that is an “arms length” sale of all or substantially all of the Company’s assets (and only its assets) to a third party that is not an Affiliate (as defined below) of the Company (a “True Asset Sale”), either (a) Holder shall exercise its conversion or purchase right under this Warrant and such exercise will be deemed effective immediately prior to the consummation of such Acquisition or (b) if Holder elects not to exercise the Warrant, this Warrant will continue until the Expiration Date if the Company continues as a going concern following the closing of any such True Asset Sale. The Company shall provide Holder with written notice of its request relating to the foregoing (together with such reasonable information as Holder may request in connection with such contemplated Acquisition giving rise to such notice), which is to be delivered to Holder not less than ten (10) days prior to the closing of the proposed Acquisition.

C) Upon the closing of any Acquisition other than those particularly described in subsections (A) and (B) above, the successor entity shall assume the obligations of this Warrant, and this Warrant shall be exercisable for the same securities, cash, and property as would be payable for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on the record date for the Acquisition and subsequent closing. The Warrant Price and/or number of Shares shall be adjusted accordingly.

As used herein “Affiliate” shall mean any person or entity that owns or controls directly or indirectly ten (10) percent or more of the stock of Company, any person or entity that controls or is controlled by or is under common control with such persons or entities, and each of such person’s or entity’s officers, directors, joint venturers or partners, as applicable.

1.7 Number of Shares. The initial aggregate number of shares of Series A Preferred Stock issuable under this Warrant shall be 51,971; provided, however, at such time as Holder makes any Term Loan Advances to Silicon Valley Bank pursuant to the Loan Agreement, the additional number of shares of Series A Preferred Stock issuable hereunder shall equal to two and one half percent (2.50%) of each Term Loan Advance divided by the \$1.2026.

## ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 Stock Dividends. Splits. Etc. If the Company declares or pays a dividend on the Shares payable in common stock, or other securities, then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend occurred. If the Company subdivides the Shares by reclassification or otherwise into a greater number of shares or takes any other action which increase the amount of stock into which the Shares are convertible, the number of shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. Such an event shall include any automatic conversion of the outstanding or issuable securities of the Company of the same class or series as the Shares to common stock pursuant to the terms of the Company's Articles or Certificate (as applicable) of Incorporation upon the closing of a registered public offering of the Company's common stock. The Company or its successor shall promptly issue to Holder an amendment to this Warrant setting forth the number and kind of such new securities or other property issuable upon exercise or conversion of this Warrant as a result of such reclassification, exchange, substitution or other event that results in a change of the number and/or class of securities issuable upon exercise or conversion of this Warrant. The amendment to this Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 2 including, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon exercise of the new Warrant. The provisions of this Article 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The Warrant Price and the number of Shares issuable upon exercise of this Warrant or, if the Shares are preferred stock, the number of shares of common stock issuable upon conversion of the Shares, shall be subject to adjustment, from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment. The provisions set forth for the Shares in the Company's Articles or Certificate (as applicable) of Incorporation relating to the above in effect as of the Issue Date may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to Holder.

2.4 No Impairment. The Company shall not, by amendment of its Articles or Certificate (as applicable) of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Article against Impairment.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, the Company shall promptly notify Holder in writing, and, at the Company's expense, promptly

compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price in effect upon the date thereof and the series of adjustments leading to such Warrant Price.

### ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than (i) the price per share at which the Shares were last issued in an arms-length transaction in which at least \$500,000 of the Shares were sold and (ii) the fair market value of the Shares as of the date of this Warrant.

(b) All Shares which may be issued upon the exercise of the purchase right represented by this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon any of its stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for sale any shares of the Company's capital stock (or other securities convertible into such capital stock), other than (i) pursuant to the Company's stock option or other compensatory plans, (ii) in connection with commercial credit arrangements or equipment financings, or (iii) in connection with strategic transactions for purposes other than capital raising; (c) to effect any reclassification or recapitalization of any of its stock; (d) to merge or consolidate with or into any other corporation, or sell, lease, license, or convey all or substantially all of its assets, or to liquidate, dissolve or wind up; or (e) offer holders of registration rights the opportunity to participate in an underwritten public offering of the Company's securities for cash, then, in connection with each such event, the Company shall give Holder: (1) at least 10 days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of common stock will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above; (2) in the case of the matters referred to in (c) and (d) above at least 10 days prior written notice of the date when the same will take place (and specifying the date on which the holders of common stock will be entitled to exchange their common stock for securities or other property deliverable upon the occurrence of such event); and (3) in the case of the matter referred to in (e) above, the same notice as is given to the holders of such registration rights. Company will also provide information requested by Holder reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.



3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain “piggyback,” registration rights pursuant to and as set forth in the Company’s Investor Rights Agreement or similar agreement. The provisions set forth in the Company’s Investors’ Right Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to Holder.

3.4 No Shareholder Rights. Except as provided in this Warrant, Holder will not have any rights as a shareholder of the Company until the exercise of this Warrant.

ARTICLE 4. REPRESENTATIONS. WARRANTIES OF HOLDER. Holder represents and warrants to the company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder will be acquired for investment for Holder’s account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that Holder has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder’s investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise or conversion hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide

nature of Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise or conversion hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available.

ARTICLE 5. MISCELLANEOUS.

5.1 Term. This Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date.

5.2 Legends. This Warrant and the Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 BELOW, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Silicon Valley Bank ("Bank") to provide an opinion of counsel if the transfer is to Bank's parent company, SVB Financial Group (formerly Silicon Valley Bancshares), or any other affiliate of Bank. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of current information as referenced in Rule 144(c), Holder represents that it has complied with Rule 144(d) and (e) in reasonable detail, the selling broker represents that it has complied with Rule 144(f), and the Company is provided with a copy of Holder's notice of proposed sale.

5.4 Transfer Procedure. After receipt by Bank of the executed Warrant, Bank will transfer all of this Warrant to SVB Financial Group by execution of an Assignment substantially in the form of Appendix 2. Subject to the provisions of Article 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the Shares issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will

surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The Company may refuse to transfer this Warrant or the Shares to any person who directly competes with the Company, unless, in either case, the stock of the Company is publicly traded.

5.5 Notices. All notices and other communications from the Company to Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid, at such address as may have been furnished to the Company or Holder, as the case may (or on the first business day after transmission by facsimile) be, in writing by the Company or such Holder from time to time. Effective upon receipt of the fully executed Warrant and the initial transfer described in Article 5.4 above, all notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group  
Attn: Treasury Department  
3003 Tasman Drive, HA 200  
Santa Clara, CA 95054  
Telephone: 408-654-7400  
Facsimile: 408-496-2405

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Carbylan Biosurgery, Inc.  
Attn: CFO  
3181 Porter Drive  
Palo Alto, CA 94306  
Telephone: 650 855 6777  
Facsimile: 650 855 9119

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted and the Company shall promptly deliver a

certificate representing the Shares or such other securities) issued upon such conversion to Holder.

5.9 Counterparts. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement.

5.10 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles regarding conflicts of law.

[Signature page follows.]

“COMPANY”

Date: December 13, 2006

CARBYLAN BIOSURGERY, INC.

By: /s/ George Daniloff

By: /s/ Gordon M. Saul

Name: George Daniloff  
(Print)

Name: Gordon M. Saul, CFO  
(Print)

Title: Chairman of the Board, President or  
Vice President

Title: Chief Financial Officer, Secretary,  
Assistant Treasurer or Assistant  
Secretary

“HOLDER”

SILICON VALLEY BANK

By: /s/ Liam Fairbairn

Name: Liam Fairbairn  
(Print)

Title: Relationship Manager

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**SCHEDULE 1**

**CAPITALIZATION TABLE**

Capitalization table intentionally omitted

APPENDIX 1

NOTICE OF EXERCISE

1. Holder elects to purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [strike one] Stock of \_\_\_\_\_ pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

[or]

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for \_\_\_\_\_ of the Shares covered by the Warrant.

[Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the shares in the name specified below:

\_\_\_\_\_  
Holders Name

\_\_\_\_\_  
\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Article 4 of the Warrant as the date hereof.

HOLDER:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

(Date): \_\_\_\_\_

**ASSIGNMENT**

For value received, Silicon Valley Bank hereby sells, assigns, and transfers unto

Name: SVB Financial Group  
Address: 3003 Tasman Drive (HA-200)  
Santa Clara, CA 95054  
  
Tax ID: 91-1962278

that certain Warrant to Purchase Stock issued by Carbylan Biosurgery, Inc. (the "Company"), on December 13, 2006 (the "Warrant") together with all rights, title and interest therein.

SILICON VALLEY BANK

By: /s/ Liam Fairbairn

Name: Liam Fairbairn

Title: Relationship Manager

Date: December 13, 2006

By its execution below, and for the benefit of the Company, SVB Financial Group makes each of the representations and warranties set forth in Article 4 of the Warrant and agrees to all other provisions of the Warrant as of the date hereof.

SVB FINANCIAL GROUP

By: /s/ Paulette M. Mehas

Name: Paulette M. Mehas

Title: Treasurer



THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**ACT**”), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

### WARRANT TO PURCHASE STOCK

**Company:** CARBYLAN BIOSURGERY, INC.

**Number of Shares:** the cumulative, aggregate number of shares of the Company’s Series B Preferred Stock equal to (x) 4.0% of the original principal amount of each Term Loan (as defined in the Loan Agreement) made to the Company by Silicon Valley Bank pursuant to the Loan Agreement (as defined below) divided by (y) the Warrant Price

**Type/Series of Stock:** Series B Preferred Stock

**Warrant Price:** \$1.38 per share

**Issue Date:** October 26, 2011

**Expiration Date:** October 26, 2021 See also Section 5.1(b).

**Credit Facility:** This Warrant to Purchase Stock (“**Warrant**”) is issued in connection with that certain Loan and Security Agreement of even date herewith between Silicon Valley Bank and the Company (the “**Loan Agreement**”).

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, “**Holder**”) is entitled to purchase the number of fully paid and non-assessable shares (the “**Shares**”) of the above-stated Type/Series of Stock (the “**Class**”) of the above-named company (the “**Company**”) at the above-stated Warrant Price, all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant. Reference is made to Section 5.4 of this Warrant whereby Silicon Valley Bank shall transfer this Warrant to its parent company, SVB Financial Group.

#### SECTION 1. EXERCISE.

1.1 **Method of Exercise.** Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 **Cashless Exercise.** On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

- X = the number of Shares to be issued to the Holder;
- Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);
- A = the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and
- B = the Warrant Price.

1.3 Fair Market Value. If the Company's common stock is then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-counter market (a "**Trading Market**") and the Class is common stock, the fair market value of a Share shall be the closing price or last sale price of a share of common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If the Company's common stock is then traded in a Trading Market and the Class is a series of the Company's convertible preferred stock, the fair market value of a Share shall be the closing price or last sale price of a share of the Company's common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company multiplied by the number of shares of the Company's common stock into which a Share is then convertible. If the Company's common stock is not traded in a Trading Market, the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4 Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

1.6 Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, "**Acquisition**" means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company's domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company's (or the surviving or successor entity's)

outstanding voting power immediately after such merger, consolidation or reorganization; or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company's then-total outstanding combined voting power.

(b) Treatment of Warrant at Acquisition. In the event of an Acquisition in which the consideration to be received by the Company's stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a "**Cash/Public Acquisition**"), either (i) Holder shall exercise this Warrant pursuant to Section 1.1 and/or 1.2 and such exercise will be deemed effective immediately prior to and contingent upon the consummation of such Acquisition or (ii) if Holder elects not to exercise the Warrant, this Warrant will expire immediately prior to the consummation of such Acquisition.

(c) The Company shall provide Holder with written notice of its request relating to the Cash/Public Acquisition (together with such reasonable information as Holder may reasonably require regarding the treatment of this Warrant in connection with such contemplated Cash/Public Acquisition giving rise to such notice), which is to be delivered to Holder not less than seven (7) Business Days prior to the closing of the proposed Cash/Public Acquisition. In the event the Company does not provide such notice, then if, immediately prior to the Cash/Public Acquisition, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon such exercise to the Holder and Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as the date thereof.

(d) Upon the closing of any Acquisition other than a Cash/Public Acquisition defined above, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(e) As used in this Warrant, "**Marketable Securities**" means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and is then current in its filing of all required reports under the Exchange Act and in compliance with all other public information reporting requirements of the Securities and Exchange Commission or any other federal agency at the time administering the Exchange Act which reporting requirements are conditions to the availability of Rule 144 for the sale of the issuer's Common Stock; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) Holder would be able to publicly re-sell, no later than six (6) months following the closing of such Acquisition, all of the issuer's shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition.

SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in common stock or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

2.3 Conversion of Preferred Stock. If the Class is a class and series of the Company's convertible preferred stock, in the event that all outstanding shares of the Class are converted, automatically or by action of the holders thereof, into common stock pursuant to the provisions of the Company's Certificate of Incorporation, including, without limitation, in connection with the Company's initial, underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Act (the "IPO"), then from and after the date on which all outstanding shares of the Class have been so converted, this Warrant shall be exercisable for such number of shares of common stock into which the Shares would have been converted had the Shares been outstanding on the date of such conversion, and the Warrant Price shall equal the Warrant Price in effect as of immediately prior to such conversion divided by the number of shares of common stock into which one Share would have been converted, all subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

2.4 Adjustments for Diluting Issuances. Without duplication of any adjustment otherwise provided for in this Section 2, the number of shares of common stock issuable upon conversion of the Shares shall be subject to anti-dilution adjustment from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment.

2.5 No Fractional Share. No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value (as determined in accordance with Section 1.3 above) of a full Share, less (ii) the then-effective Warrant Price.

2.6 Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

### SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which shares of the Class were last sold and issued prior to the Issue Date hereof in an arms-length transaction in which at least \$500,000 of such shares were sold.

(b) All Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances (other than created by Holder) except for restrictions on transfer provided for herein or under applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class, common stock and other securities as will be sufficient to permit the exercise in full of this Warrant and the conversion of the Shares into common stock or such other securities.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete, in all material respects, as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class or common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class;

(d) effect an Acquisition or to liquidate, dissolve or wind up; or

(e) effect an IPO;

then, in connection with each such event, the Company shall give Holder:

(1) at least seven (7) Business Days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying

the date on which the holders of outstanding shares of the Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above;

(2) in the case of the matters referred to in (c) and (d) above at least seven (7) Business Days prior written notice of the date when the same will take place (and specifying the date on which the holders of outstanding shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event); and

(3) with respect to the IPO, at the same time that notice of the IPO is provided to stockholders of the Company with registration rights.

Reference is made to Section 1.6(c) whereby this Warrant will be deemed to be exercised pursuant to Section 1.2 hereof if the Company does not give written notice to Holder of a Cash/Public Acquisition as required by the terms hereof. Company will also provide information requested by Holder that is reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.

3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain "piggyback" and "S-3" registration rights pursuant to and as set forth in the Company's Amended and Restated Registration Rights Agreement dated as of November 9, 2007, as amended from time to time (the "Rights Agreement") upon Holder's execution of an amendment to the Rights Agreement, in a form satisfactory to the Company and Holder. The provisions set forth in the Company's Investors' Right Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to Holder.

#### SECTION 4. REPRESENTATIONS. WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6 Market Stand-off Agreement. The Holder agrees that the Shares shall be subject to the Market Standoff provisions in Section 5 of the Rights Agreement.

4.7 No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the exercise of this Warrant.

#### SECTION 5. MISCELLANEOUS.

##### 5.1 Term and Automatic Conversion Upon Expiration.

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares (or such other securities) issued upon such exercise to Holder.

5.2 Legends. The Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**ACT**”). OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO SILICON VALLEY BANK DATED OCTOBER 26, 2011, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to SVB Financial Group (Silicon Valley Bank’s parent company) or any other affiliate of Holder, provided that any such transferee is an “accredited investor” as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4 Transfer Procedure. After receipt by Silicon Valley Bank of the executed Warrant, Silicon Valley Bank will transfer all of this Warrant to its parent company, SVB Financial Group. By its acceptance of this Warrant, SVB Financial Group hereby makes to the Company each of the representations and warranties set forth in Section 4 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee other than SVB Financial Group shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company’s prior written consent, transfer this Warrant or any portion hereof, or any Shares issued upon any exercise hereof, or any shares or other securities issued upon any conversion of any Shares issued upon any exercise hereof, to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

5.5 Notices. All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3<sup>rd</sup>) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or



Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section 5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group  
Attn: Treasury Department  
3003 Tasman Drive, HA 200  
Santa Clara, CA 95054  
Telephone: 408-654-7400  
Facsimile: 408-496-2405  
Email address: [warradmi@svb.com](mailto:warradmi@svb.com)

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Carbylan Biosurgery, Inc.  
Attn: Chief Business Officer  
3181 Porter Drive  
Palo Alto, CA 94304  
Telephone: 650 855 6777  
Facsimile: 650 855 9119  
Email: [gsaul@carbylan.com](mailto:gsaul@carbylan.com)

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorney's Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Counterparts; Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10 Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11 Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which Silicon Valley Bank is closed.

[Remainder of page left blank intentionally]

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their duly authorized representatives effective as of the Issue Date written above.

“COMPANY”

CARBYLAN BIOSURGERY, INC.

By:  /s/ George Daniloff

Name:  George Daniloff  
(Print)

Title: President and CEO

“HOLDER”

SILICON VALLEY BANK

By:  /s/ Kevin Longo

Name:  Kevin Longo  
(Print)

Title: Relationship Manager

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [circle one] Stock of \_\_\_\_\_ (the "**Company**") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- check in the amount of \$\_\_\_\_\_ payable to order of the Company enclosed herewith
- Wire transfer of immediately available funds to the Company's account
- Cashless Exercise pursuant to Section 1.2 of the Warrant
- Other [Describe] \_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

\_\_\_\_\_  
Holder's Name

\_\_\_\_\_  
\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
(Date): \_\_\_\_\_

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SCHEDULE 1

Company Capitalization Table

Capitalization table intentionally omitted

## FIRST AMENDMENT TO WARRANT TO PURCHASE STOCK

[October 26, 2011 Warrant]

THIS FIRST AMENDMENT TO WARRANT TO PURCHASE STOCK (this "**Amendment**") is deemed effective as of July 27, 2012, by and between SVB FINANCIAL GROUP ("**SVB Financial Group**" or "**Holder**") and CARBYLAN BIOSURGERY, INC., a Delaware corporation (the "**Company**").

## RECITALS

**A.** The Company issued the Warrant to Purchase Stock to Silicon Valley Bank on October 26, 2011, which Silicon Valley Bank subsequently assigned to SVB Financial Group, (as the same may from time to time be further amended, modified, supplemented or restated, the "**Warrant**").

**B.** Silicon Valley has extended credit to the Company for the purposes permitted in the Loan and Security Agreement dated as of October 26, 2011 between the Company and Silicon Valley Bank, as amended (as amended, the "**Loan Agreement**"). In connection therewith, SVB Financial Group and the Company agree to amend the Warrant as set forth herein.

## AGREEMENT

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. **Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Warrant.
2. **Amendments to Warrant.**

- 2.1 **Definitions.**

- (a) The following definitions on page 1 of the Warrant are amended and restated in their entirety to read as follows:

**Number of Shares:** (i) 144,928 shares, *plus* (ii) if the Availability Extension Request (as defined in the Loan Agreement) is made, an additional 28,986 shares.

**Expiration Date:** July 27, 2022

**Credit Facility:** This Warrant to Purchase Stock ("**Warrant**") is issued in connection with that certain Loan and Security Agreement dated as of October 26, 2011, as amended by that certain First Amendment to Loan and Security Agreement dated as of July 27, 2012 between Silicon Valley Bank and the Company (as amended, the "**Loan Agreement**").

3. **General.** Except as amended by the amendments set forth in **Section 2** above, the Warrant remains in full force and effect. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment shall be deemed effective upon the due execution and delivery to SVB Financial Group of this Amendment by each party hereto.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this First Amendment to Warrant to Purchase Stock to be duly executed and delivered as of the date first written above.

**GOLD HILL**

SVB Financial Group

By: /s/ Kevin Longo

Name: Kevin Longo

Title: Relationship Manager

**BORROWER**

Carbylan Biosurgery, Inc.

By: /s/ George Y. Daniloff

Name: George Y. Daniloff

Title: President & CEO

[First Amendment to October 26, 2011 Warrant]

**SECOND AMENDMENT TO WARRANT TO PURCHASE STOCK**

[October 26, 2011 Warrant]

**THIS SECOND AMENDMENT TO WARRANT TO PURCHASE STOCK** (this "**Amendment**") is deemed effective as of February 12th, 2013, by and between SVB FINANCIAL GROUP ("**SVB Financial Group**" or "**Holder**") and CARBYLAN BIOSURGERY, INC., a Delaware corporation (the "**Company**").

**RECITALS**

**A.** The Company issued the Warrant to Purchase Stock to Silicon Valley Bank on October 26, 2011, which Silicon Valley Bank subsequently assigned to SVB Financial Group, (as the same may from time to time be further amended, modified, supplemented or restated, the "**Warrant**").

**B.** Silicon Valley has extended credit to the Company for the purposes permitted in the Loan and Security Agreement dated as of October 26, 2011 between the Company and Silicon Valley Bank, as amended (as amended, the "**Loan Agreement**"). In connection therewith, SVB Financial Group and the Company agree to amend the Warrant as set forth herein.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows;

**1. Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Warrant.

**2. Amendments to Warrant.**

**2.1 Definitions.**

**(a)** The following definitions on page 1 of the Warrant are amended and restated in their entirety to read as follows:

**Number of Shares:** 199,569 shares

**Warrant Price:** \$1.2026

**3. General.** Except as amended by the amendments set forth in **Section 2** above, the Warrant remains in full force and effect. This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment shall be deemed effective upon the due execution and delivery to SVB Financial Group of this Amendment by each party hereto.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Second Amendment to Warrant to Purchase Stock to be duly executed and delivered as of the date first written above.

**SVB FINANCIAL GROUP**

SVB Financial Group

**BORROWER**

Carbylan Biosurgery, Inc.

By: /s/ Michael D. Kruse  
Name: Michael D. Kruse  
Title: Treasurer

By: /s/ George Daniloff  
Name: George Daniloff  
Title: President and CEO

[Second Amendment to October 26, 2011 Warrant]



THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**ACT**”). OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN SECTIONS 5.3 AND 5.4 BELOW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS OR IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

### WARRANT TO PURCHASE STOCK

**Company:** CARBYLAN BIOSURGERY, INC.

**Number of Shares:** as set forth below

**Type/Series of Stock:** as set forth below

**Warrant Price:** as set forth below

**Issue Date:** February 15, 2013

**Expiration Date:** February 15, 2023      **See also Section 5.1(b).**

**Credit Facility:** This Warrant to Purchase Stock (“**Warrant**”) is issued in connection with that certain Second Amendment to Loan and Security Agreement of even date hereof, which amends that certain Loan and Security Agreement as of October 26, 2011 between Silicon Valley Bank and the Company (as amended, the “**Loan Agreement**”).

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, SILICON VALLEY BANK (together with any successor or permitted assignee or transferee of this Warrant or of any shares issued upon exercise hereof, “**Holder**”) is entitled to purchase the number of fully paid and non-assessable shares (the “**Shares**”) of the above-stated Type/Series of Stock (the “**Class**”) of the above-named company (the “**Company**”) at the above-stated Warrant Price, all as set forth above and as adjusted pursuant to Section 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant. Reference is made to Section 5.4 of this Warrant whereby Silicon Valley Bank shall transfer this Warrant to its parent company, SVB Financial Group. This Warrant is in addition to that certain Warrant to purchase Stock issued by the Company on October 26, 2011, as amended from time to time.

As used herein:

“**Class of Stock**” means at Bank’s option: (i) the Company’s Series B Preferred Stock, or (ii) Next Round Stock; provided that until the Next Round occurs, the Class of Stock shall be the Company’s Series B Preferred Stock.

“**Next Round**” means the Company’s next sale of its convertible preferred stock (other than Series B Preferred Stock) to purchasers which include venture capital investors.

“**Next Round Price**” means the lowest effective price per share (on a common stock equivalent basis and taking into account any securities issued together with the preferred stock) at which shares of the Company’s convertible preferred stock are sold in the Next Round.

“Next Round Stock” means the Company’s convertible preferred stock issued and sold in the Next Round.

“Number of Shares” means the cumulative, aggregate number of shares of the Company’s Series B Preferred Stock equal to (x) 4.0% of the original principal amount of each Growth Capital Advance (as defined in the Loan Agreement) made to the Company by Silicon Valley Bank pursuant to the Loan Agreement (as defined above) divided by (y) the Warrant Price.

“Series B Price” means \$1.2026 per share.

“Warrant Price” means: (i) if the Class of Stock is Series B Stock, the Series B Price, or (ii) if the Class of Stock is Next Round Stock, the Next Round Price.

#### SECTION 1. EXERCISE.

1.1. Method of Exercise. Holder may at any time and from time to time exercise this Warrant, in whole or in part, by delivering to the Company the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached hereto as Appendix 1 and, unless Holder is exercising this Warrant pursuant to a cashless exercise set forth in Section 1.2, a check, wire transfer of same-day funds (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2. Cashless Exercise. On any exercise of this Warrant, in lieu of payment of the aggregate Warrant Price in the manner as specified in Section 1.1 above, but otherwise in accordance with the requirements of Section 1.1, Holder may elect to receive Shares equal to the value of this Warrant, or portion hereof as to which this Warrant is being exercised. Thereupon, the Company shall issue to the Holder such number of fully paid and non-assessable Shares as are computed using the following formula:

$$X = Y(A-B)/A$$

where:

X = the number of Shares to be issued to the Holder;

Y = the number of Shares with respect to which this Warrant is being exercised (inclusive of the Shares surrendered to the Company in payment of the aggregate Warrant Price);

A= the Fair Market Value (as determined pursuant to Section 1.3 below) of one Share; and

B = the Warrant Price.

1.3. Fair Market Value. If the Company’s common stock is then traded or quoted on a nationally recognized securities exchange, inter-dealer quotation system or over-the-

counter market (a “**Trading Market**”) and the Class is common stock, the fair market value of a Share shall be the closing price or last sale price of a share of common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company. If the Company’s common stock is then traded in a Trading Market and the Class is a series of the Company’s convertible preferred stock, the fair market value of a Share shall be the closing price or last sale price of a share of the Company’s common stock reported for the Business Day immediately before the date on which Holder delivers this Warrant together with its Notice of Exercise to the Company multiplied by the number of shares of the Company’s common stock into which a Share is then convertible. If the Company’s common stock is not traded in a Trading Market, the Board of Directors of the Company shall determine the fair market value of a Share in its reasonable good faith judgment.

1.4. Delivery of Certificate and New Warrant. Within a reasonable time after Holder exercises this Warrant in the manner set forth in Section 1.1 or 1.2 above, the Company shall deliver to Holder a certificate representing the Shares issued to Holder upon such exercise and, if this Warrant has not been fully exercised and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form, substance and amount to the Company or, in the case of mutilation, on surrender of this Warrant to the Company for cancellation, the Company shall, within a reasonable time, execute and deliver to Holder, in lieu of this Warrant, a new warrant of like tenor and amount.

1.6. Treatment of Warrant Upon Acquisition of Company.

(a) Acquisition. For the purpose of this Warrant, “**Acquisition**” means any transaction or series of related transactions involving: (i) the sale, lease, exclusive license, or other disposition of all or substantially all of the assets of the Company (ii) any merger or consolidation of the Company into or with another person or entity (other than a merger or consolidation effected exclusively to change the Company’s domicile), or any other corporate reorganization, in which the stockholders of the Company in their capacity as such immediately prior to such merger, consolidation or reorganization, own less than a majority of the Company’s (or the surviving or successor entity’s) outstanding voting power immediately after such merger, consolidation or reorganization; or (iii) any sale or other transfer by the stockholders of the Company of shares representing at least a majority of the Company’s then-total outstanding combined voting power.

(b) Treatment of Warrant at Acquisition. In the event of an Acquisition in which the consideration to be received by the Company’s stockholders consists solely of cash, solely of Marketable Securities or a combination of cash and Marketable Securities (a “**Cash/Public Acquisition**”), either (i) Holder shall exercise this Warrant pursuant to Section 1.1 and/or 1.2 and such exercise will be deemed effective immediately prior to and contingent upon the consummation of such Acquisition or (ii) if Holder elects not to exercise the Warrant, this Warrant will expire immediately prior to the consummation of such Acquisition.

(c) The Company shall provide Holder with written notice of its request relating to the Cash/Public Acquisition (together with such reasonable information as Holder may reasonably require regarding the treatment of this Warrant in connection with such contemplated Cash/Public Acquisition giving rise to such notice), which is to be delivered to Holder not less than seven (7) Business Days prior to the closing of the proposed Cash/Public Acquisition. In the event the Company does not provide such notice, then if, immediately prior to the Cash/Public Acquisition, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above would be greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall promptly notify the Holder of the number of Shares (or such other securities) issued upon such exercise to the Holder and Holder shall be deemed to have restated each of the representations and warranties in Section 4 of the Warrant as the date thereof.

(d) Upon the closing of any Acquisition other than a Cash/Public Acquisition defined above, the acquiring, surviving or successor entity shall assume the obligations of this Warrant, and this Warrant shall thereafter be exercisable for the same securities and/or other property as would have been paid for the Shares issuable upon exercise of the unexercised portion of this Warrant as if such Shares were outstanding on and as of the closing of such Acquisition, subject to further adjustment from time to time in accordance with the provisions of this Warrant.

(e) As used in this Warrant, “**Marketable Securities**” means securities meeting all of the following requirements: (i) the issuer thereof is then subject to the reporting requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and is then current in its filing of all required reports under the Exchange Act and in compliance with all other public information reporting requirements of the Securities and Exchange Commission or any other federal agency at the time administering the Exchange Act which reporting requirements are conditions to the availability of Rule 144 for the sale of the issuer’s Common Stock; (ii) the class and series of shares or other security of the issuer that would be received by Holder in connection with the Acquisition were Holder to exercise this Warrant on or prior to the closing thereof is then traded in a Trading Market, and (iii) Holder would be able to publicly re-sell, no later than six (6) months following the closing of such Acquisition, all of the issuer’s shares and/or other securities that would be received by Holder in such Acquisition were Holder to exercise this Warrant in full on or prior to the closing of such Acquisition.

## SECTION 2. ADJUSTMENTS TO THE SHARES AND WARRANT PRICE.

2.1. Stock Dividends, Splits, Etc. If the Company declares or pays a dividend or distribution on the outstanding shares of the Class payable in common stock or other securities or property (other than cash), then upon exercise of this Warrant, for each Share acquired, Holder shall receive, without additional cost to Holder, the total number and kind of securities and property which Holder would have received had Holder owned the Shares of record as of the date the dividend or distribution occurred. If the Company subdivides the outstanding shares of the Class by reclassification or otherwise into a greater number of shares, the number of Shares

purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2. Reclassification, Exchange, Combinations or Substitution. Upon any event whereby all of the outstanding shares of the Class are reclassified, exchanged, combined, substituted, or replaced for, into, with or by Company securities of a different class and/or series, then from and after the consummation of such event, this Warrant will be exercisable for the number, class and series of Company securities that Holder would have received had the Shares been outstanding on and as of the consummation of such event, and subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant. The provisions of this Section 2.2 shall similarly apply to successive reclassifications, exchanges, combinations substitutions, replacements or other similar events.

2.3. Conversion of Preferred Stock. If the Class is a class and series of the Company's convertible preferred stock, in the event that all outstanding shares of the Class are converted, automatically or by action of the holders thereof, into common stock pursuant to the provisions of the Company's Certificate of Incorporation, including, without limitation, in connection with the Company's initial, underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Act (the "**IPO**"), then from and after the date on which all outstanding shares of the Class have been so converted, this Warrant shall be exercisable for such number of shares of common stock into which the Shares would have been converted had the Shares been outstanding on the date of such conversion, and the Warrant Price shall equal the Warrant Price in effect as of immediately prior to such conversion divided by the number of shares of common stock into which one Share would have been converted, all subject to further adjustment thereafter from time to time in accordance with the provisions of this Warrant.

2.4. Adjustments for Diluting Issuances. Without duplication of any adjustment otherwise provided for in this Section 2, the number of shares of common stock issuable upon conversion of the Shares shall be subject to anti-dilution adjustment from time to time in the manner set forth in the Company's Articles or Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment.

2.5. No Fractional Share. No fractional Share shall be issuable upon exercise of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional Share interest arises upon any exercise of the Warrant, the Company shall eliminate such fractional Share interest by paying Holder in cash the amount computed by multiplying the fractional interest by (i) the fair market value (as determined in accordance with Section 1.3 above) of a full Share, less (ii) the then-effective Warrant Price.

2.6. Notice/Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares, the Company, at the Company's expense, shall notify Holder in writing within a reasonable time setting forth the adjustments to the Warrant Price, Class and/or number of Shares and facts upon which such adjustment is based. The Company shall, upon written request from Holder, furnish Holder with a certificate of its Chief

Financial Officer, including computations of such adjustment and the Warrant Price, Class and number of Shares in effect upon the date of such adjustment.

### SECTION 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1. Representations and Warranties. The Company represents and warrants to, and agrees with, the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which shares of the Class were last sold and issued prior to the Issue Date hereof in an arms-length transaction in which at least \$500,000 of such shares were sold.

(b) All Shares which may be issued upon the exercise of this Warrant, and all securities, if any, issuable upon conversion of the Shares, shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances (other than created by Holder) except for restrictions on transfer provided for herein or under applicable federal and state securities laws. The Company covenants that it shall at all times cause to be reserved and kept available out of its authorized and unissued capital stock such number of shares of the Class, common stock and other securities as will be sufficient to permit the exercise in full of this Warrant and the conversion of the Shares into common stock or such other securities.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete, in all material respects, as of the Issue Date.

3.2. Notice of Certain Events. If the Company proposes at any time to:

(a) declare any dividend or distribution upon the outstanding shares of the Class or common stock, whether in cash, property, stock, or other securities and whether or not a regular cash dividend;

(b) offer for subscription or sale pro rata to the holders of the outstanding shares of the Class any additional shares of any class or series of the Company's stock (other than pursuant to contractual pre-emptive rights);

(c) effect any reclassification, exchange, combination, substitution, reorganization or recapitalization of the outstanding shares of the Class;

(d) effect an Acquisition or to liquidate, dissolve or wind up; or

(e) effect an IPO;

then, in connection with each such event, the Company shall give Holder:

(1) at least seven (7) Business Days prior written notice of the date on which a record will be taken for such dividend, distribution, or subscription rights (and specifying the date on which the holders of outstanding shares of the

Class will be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (a) and (b) above;

(2) in the case of the matters referred to in (c) and (d) above at least seven (7) Business Days prior written notice of the date when the same will take place (and specifying the date on which the holders of outstanding shares of the Class will be entitled to exchange their shares for the securities or other property deliverable upon the occurrence of such event); and

(3) with respect to the IPO, at the same time that notice of the IPO is provided to stockholders of the Company with registration rights.

Reference is made to Section 1.6(c) whereby this Warrant will be deemed to be exercised pursuant to Section 1.2 hereof if the Company does not give written notice to Holder of a Cash/Public Acquisition as required by the terms hereof. Company will also provide information requested by Holder that is reasonably necessary to enable Holder to comply with Holder's accounting or reporting requirements.

#### SECTION 4. REPRESENTATIONS. WARRANTIES OF THE HOLDER.

The Holder represents and warrants to the Company as follows:

4.1. Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2. Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3. Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4. Accredited Investor Status. Holder is an “accredited investor” within the meaning of Regulation D promulgated under the Act.

4.5. The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder’s investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

4.6. Market Stand-off Agreement. The Holder agrees that the Shares shall be subject to the Market Standoff provisions in Section 5 of the Company’s Amended and Restated Registration Rights Agreement dated as of December 21, 2012, as amended from time to time.

4.7. No Voting Rights. Holder, as a Holder of this Warrant, will not have any voting rights until the exercise of this Warrant.

#### SECTION 5. MISCELLANEOUS.

##### 5.1. Term and Automatic Conversion Upon Expiration.

(a) Term. Subject to the provisions of Section 1.6 above, this Warrant is exercisable in whole or in part at any time and from time to time on or before 6:00 PM, Pacific time, on the Expiration Date and shall be void thereafter.

(b) Automatic Cashless Exercise upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Section 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be exercised pursuant to Section 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised, and the Company shall, within a reasonable time, deliver a certificate representing the Shares (or such other securities) issued upon such exercise to Holder.

5.2. Legends. The Shares (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) shall be imprinted with a legend in substantially the following form:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “**ACT**”). OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AS SET FORTH IN THAT CERTAIN WARRANT TO PURCHASE STOCK ISSUED BY THE ISSUER TO SILICON VALLEY BANK DATED OCTOBER 26, 2011, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND LAWS



OR IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER, SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

5.3. Compliance with Securities Laws on Transfer. This Warrant and the Shares issuable upon exercise of this Warrant (and the securities issuable, directly or indirectly, upon conversion of the Shares, if any) may not be transferred or assigned in whole or in part except in compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to SVB Financial Group (Silicon Valley Bank's parent company) or any other affiliate of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of Rule 144 promulgated under the Act.

5.4. Transfer Procedure. After receipt by Silicon Valley Bank of the executed Warrant, Silicon Valley Bank will transfer all of this Warrant to its parent company, SVB Financial Group. By its acceptance of this Warrant, SVB Financial Group hereby makes to the Company each of the representations and warranties set forth in Section 4 hereof and agrees to be bound by all of the terms and conditions of this Warrant as if the original Holder hereof. Subject to the provisions of Section 5.3 and upon providing the Company with written notice, SVB Financial Group and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the securities issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, SVB Financial Group or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable); and provided further, that any subsequent transferee other than SVB Financial Group shall agree in writing with the Company to be bound by all of the terms and conditions of this Warrant. Notwithstanding any contrary provision herein, at all times prior to the IPO, Holder may not, without the Company's prior written consent, transfer this Warrant or any portion hereof, or any Shares issued upon any exercise hereof, or any shares or other securities issued upon any conversion of any Shares issued upon any exercise hereof, to any person or entity who directly competes with the Company, except in connection with an Acquisition of the Company by such a direct competitor.

5.5. Notices. All notices and other communications hereunder from the Company to the Holder, or vice versa, shall be deemed delivered and effective (i) when given personally, (ii) on the third (3<sup>rd</sup>) Business Day after being mailed by first-class registered or certified mail, postage prepaid, (iii) upon actual receipt if given by facsimile or electronic mail and such receipt is confirmed in writing by the recipient, or (iv) on the first Business Day following delivery to a reliable overnight courier service, courier fee prepaid, in any case at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such Holder from time to time in accordance with the provisions of this Section

5.5. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

SVB Financial Group  
Attn: Treasury Department  
3003 Tasman Drive, HC 215  
Santa Clara, CA 95054  
Telephone: (408) 654-7400  
Facsimile: (408) 988-8317  
Email address: derivatives@svb.com

Notice to the Company shall be addressed as follows until Holder receives notice of a change in address:

Carbylan Biosurgery, Inc.  
Attn: Chief Business Officer  
3181 Porter Drive  
Palo Alto, CA 94304  
Telephone: 650 855 6777  
Facsimile: 650 855 9119  
Email: gsaul@carbylan.com

5.6. Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated (either generally or in a particular instance and either retroactively or prospectively) only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7. Attorney's Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8. Counterparts; Facsimile/Electronic Signatures. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement. Any signature page delivered electronically or by facsimile shall be binding to the same extent as an original signature page with regards to any agreement subject to the terms hereof or any amendment thereto.

5.9. Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of California, without giving effect to its principles regarding conflicts of law.

5.10. Headings. The headings in this Warrant are for purposes of reference only and shall not limit or otherwise affect the meaning of any provision of this Warrant.

5.11. Business Days. "**Business Day**" is any day that is not a Saturday, Sunday or a day on which Silicon Valley Bank is closed.

[Remainder of page left blank intentionally]

[Signature page follows]

IN WITNESS WHEREOF, the parties have caused this Warrant to Purchase Stock to be executed by their fully authorized representatives effective as of the Issue Date written above.

“COMPANY”

CARBYLAN BIOSURGERY, INC.

By: /s/ George Daniloff

Name: George Daniloff  
(Print)

Title: President and CEO

“HOLDER”

SILICON VALLEY BANK

By: /s/ Kevin Longo

Name: Kevin Longo  
(Print)

Title: Relationship Manager

APPENDIX 1

NOTICE OF EXERCISE

1. The undersigned Holder hereby exercises its right purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [circle one] Stock of \_\_\_\_\_ (the "**Company**") in accordance with the attached Warrant To Purchase Stock, and tenders payment of the aggregate Warrant Price for such shares as follows:

- check in the amount of \$\_\_\_\_\_ payable to order of the Company enclosed herewith
- Wire transfer of immediately available funds to the Company's account
- Cashless Exercise pursuant to Section 1.2 of the Warrant
- Other [Describe] \_\_\_\_\_

2. Please issue a certificate or certificates representing the Shares in the name specified below:

\_\_\_\_\_  
Holder's Name  
\_\_\_\_\_  
\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Section 4 of the Warrant to Purchase Stock as of the date hereof.

HOLDER:  
\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
(Date): \_\_\_\_\_

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SCHEDULE 1

Company Capitalization Table

Intentionally Omitted

Schedule 1

## CARBYLAN BIOSURGERY, INC.

## AMENDED AND RESTATED 2004 STOCK OPTION PLAN

(as amended through December 19, 2012)

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant. Stock Purchase Rights may also be granted under the Plan.

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

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

(b) "Applicable Laws" means the requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Options or Stock Purchase Rights are granted under the Plan.

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

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

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities, except that any change in the beneficial ownership of the securities of the Company as a result of a private financing of the Company that is approved by the Board, shall not be deemed to be a Change in Control; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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

(f) “Committee” means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(g) “Common Stock” means the Common Stock of the Company.

(h) “Company” means Carbylan Biosurgery, Inc., a Delaware corporation.

(i) “Consultant” means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(j) “Director” means a member of the Board.

(k) “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code.

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

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

(n) “Exchange Program” means a program under which (a) outstanding Options are surrendered or cancelled in exchange for Options of the same type (which may have lower exercise prices and different terms), Options of a different type, and/or cash, and/or (b) the exercise price of an outstanding Option is reduced. The terms and conditions of any Exchange Program will be determined by the Administrator in its sole discretion.

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

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

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; or

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

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

(q) “Nonstatutory Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

(r) “Option” means a stock option granted pursuant to the Plan.

(s) “Option Agreement” means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(t) “Optioned Stock” means the Common Stock subject to an Option or a Stock Purchase Right.

(u) “Optionee” means the holder of an outstanding Option or Stock Purchase Right granted under the Plan.

(v) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(w) “Plan” means this Amended and Restated 2004 Stock Option Plan.

(x) “Restricted Stock” means Shares issued pursuant to a Stock Purchase Right or Shares of restricted stock issued pursuant to an Option.

(y) “Restricted Stock Purchase Agreement” means a written or electronic agreement between the Company and the Optionee evidencing the terms and restrictions applying to Shares purchased under a Stock Purchase Right. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the notice of grant.

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

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

(bb) “Stock Purchase Right” means a right to purchase Common Stock pursuant to Section 11 below.

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

3. Stock Subject to the Plan. Subject to the provisions of Section 13 of the Plan, the maximum aggregate number of Shares that may be subject to Options or Stock Purchase Rights and sold under the Plan is 6,502,459 Shares. The Shares may be authorized but unissued, or reacquired Common Stock.



If an Option or Stock Purchase Right expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Exchange Program, the unpurchased Shares that were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of either an Option or Stock Purchase Right, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if unvested Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted to comply with Applicable Laws.

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

- (i) to determine the Fair Market Value;
- (ii) to select the Service Providers to whom Options and Stock Purchase Rights may from time to time be granted hereunder;
- (iii) to determine the number of Shares to be covered by each such award granted hereunder;
- (iv) to approve forms of agreement for use under the Plan;
- (v) to determine the terms and conditions of any Option or Stock Purchase Right granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or Stock Purchase Rights may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Stock Purchase Right or the Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;
- (vi) to institute an Exchange Program;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;
- (viii) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to

have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable; and

(ix) to construe and interpret the terms of the Plan and Options granted pursuant to the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility. Nonstatutory Stock Options and Stock Purchase Rights may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) Incentive Stock Option Limit. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) At-Will Employment. Neither the Plan nor any Option or Stock Purchase Right shall confer upon any Optionee any right with respect to continuing the Optionee's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice.

7. Term of Plan. Subject to stockholder approval in accordance with Section 19, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 15, it shall continue in effect for a term of ten (10) years from the later of (i) the effective date of the Plan, or (ii) the earlier of the most recent Board or stockholder approval of an increase in the number of Shares reserved for issuance under the Plan.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

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

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator.

(iii) Notwithstanding the foregoing, Incentive Stock Options may be granted with a per Share exercise price other than as required above in accordance with, and pursuant to, a transaction described in Section 424 of the Code.

(b) Forms of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of, without limitation, (1) cash, (2) check, (3) promissory note, (4) other Shares, provided Shares acquired directly from the Company (x) have been owned by the Optionee, and not subject to a substantial risk of forfeiture, for more than six months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

10. Exercise of Option.

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

An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of

an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 13 of the Plan.

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

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

(c) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, the Option shall remain exercisable for twelve (12) months following the Optionee's termination. Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

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

Plan. If the Option is not so exercised within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(e) Leaves of Absence.

(i) Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be suspended during any unpaid leave of absence.

(ii) A Service Provider shall not cease to be an Employee in the case of (A) any leave of absence approved by the Company or (B) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor.

(iii) For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then three (3) months following the 91<sup>st</sup> day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

11. Stock Purchase Rights.

(a) Rights to Purchase. Stock Purchase Rights may be issued either alone, in addition to, or in tandem with other awards granted under the Plan and/or cash awards made outside of the Plan. After the Administrator determines that it will offer Stock Purchase Rights under the Plan, it shall advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person shall be entitled to purchase, the price to be paid, and the time within which such person must accept such offer. The offer shall be accepted by execution of a Restricted Stock Purchase Agreement in the form determined by the Administrator.

(b) Repurchase Option. Unless the Administrator determines otherwise, the Restricted Stock Purchase Agreement shall grant the Company a repurchase option exercisable within 90 days of the voluntary or involuntary termination of the purchaser's service with the Company for any reason (including death or disability). Unless the Administrator provides otherwise, the purchase price for Shares repurchased pursuant to the Restricted Stock Purchase Agreement shall be the original price paid by the purchaser and may be paid by cancellation of any indebtedness of the purchaser to the Company. The repurchase option shall lapse at such rate as the Administrator may determine.

(c) Other Provisions. The Restricted Stock Purchase Agreement shall contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Administrator in its sole discretion.

(d) Rights as a Stockholder. Once the Stock Purchase Right is exercised, the purchaser shall have rights equivalent to those of a stockholder and shall be a stockholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Stock Purchase Right is exercised, except as provided in Section 13 of the Plan.

12. Transferability of Options and Stock Purchase Rights. Unless determined otherwise by the Administrator, Options and Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee.

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

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

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

(c) Merger or Change in Control. In the event of a merger of the Company with or into another corporation, or a Change in Control, each outstanding Option and Stock Purchase Right shall be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation in a merger or Change in Control refuses to assume or substitute for the Option or Stock Purchase Right, then the Optionee shall fully vest in and have the right to exercise the Option or Stock Purchase Right as to all of the Optioned Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or Stock Purchase Right becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or Change in Control, the Administrator shall notify the Optionee in writing or electronically that the Option or Stock Purchase Right shall be fully exercisable for a period of time as determined by the Administrator, and the Option or Stock Purchase Right shall terminate upon expiration of such period. For the purposes of this paragraph, the Option or Stock Purchase Right shall be considered assumed if, following the merger or Change in Control, the option or right confers the right to purchase or receive, for each Share subject to the Option or Stock Purchase Right immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or Stock Purchase Right, for each Share subject to the Option or Stock Purchase Right, to be solely common stock of the successor

corporation or its Parent equal in fair market value to the per share consideration received by holders of common stock in the merger or Change in Control.

14. Time of Granting Options and Stock Purchase Rights. The date of grant of an Option or Stock Purchase Right shall, for all purposes, be the date on which the Administrator makes the determination granting such Option or Stock Purchase Right, or such later date as is determined by the Administrator. Notice of the determination shall be given to each Service Provider to whom an Option or Stock Purchase Right is so granted within a reasonable time after the date of such grant.

15. Amendment and Termination of the Plan.

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

(b) Stockholder Approval. The Board shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

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

16. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or Stock Purchase Right unless the exercise of such Option or Stock Purchase Right and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

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

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

18. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

19. Stockholder Approval. The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.



**APPENDIX A**

**TO**

**CARBYLAN BIOSURGERY, INC. AMENDED AND RESTATED 2004 STOCK OPTION PLAN**

**(for California residents only)**

This Appendix A to the Carbylan Biosurgery, Inc., Amended and Restated 2004 Stock Option Plan shall apply only to Optionees who are residents of the State of California and who are receiving an Option or Stock Purchase Right under the Plan. Capitalized terms contained herein shall have the same meanings given to them in the Plan, unless otherwise provided by this Appendix A. Notwithstanding any provisions contained in the Plan to the contrary and to the extent required by Applicable Laws, the following terms shall apply to all Options and Stock Purchase Rights granted to residents of the State of California, until such time as the Administrator amends this Appendix A.

(a) Nonstatutory Stock Options granted to a person who, at the time of grant of such Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, shall have an exercise price not less than one hundred and ten percent (110%) of the Fair Market Value per Share on the date of grant. Nonstatutory Stock Options granted to any other person shall have an exercise price that is not less than eighty-five percent (85%) of the Fair Market Value per Share on the date of grant. Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above pursuant to a merger or other corporate transaction.

(b) The term of each Option shall be stated in the Option Agreement, provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. The term of each Restricted Stock Purchase Agreement shall be no more than ten (10) years from the date the agreement is entered into.

(c) Unless determined otherwise by the Administrator, Options or Stock Purchase Rights may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or the laws of descent and distribution, and may be exercised during the lifetime of the Optionee, only by the Optionee. If the Administrator in its sole discretion makes an Option or Stock Purchase Right transferable, such Option or Stock Purchase Right may only be transferred (i) by will, (ii) by the laws of descent and distribution, or (iii) as permitted by Rule 701 of the Securities Act of 1933, as amended.

(d) Except in the case of Options granted to officers, Directors and Consultants, Options shall become exercisable at a rate of no less than twenty percent (20%) per year over five (5) years from the date the Options are granted.

(e) If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within thirty (30) days of termination, or such longer period of time as specified in the

Option Agreement, to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement).

(f) If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, Optionee may exercise his or her Option within six (6) months of termination, or such longer period of time as specified in the Option Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement).

(g) If an Optionee dies while a Service Provider, the Option may be exercised within six (6) months following the Optionee's death, or such longer period of time as specified in the Option Agreement, to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Option Agreement) by the Optionee's designated beneficiary, personal representative, or by the person(s) to whom the Option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution.

(h) The terms of any Stock Purchase Rights offered under this Appendix A shall comply in all respects with Section 260.140.42 of Title 10 of the California Code of Regulations including, without limitation, that except with respect to Shares purchased by officers, Directors and Consultants, the repurchase option shall in no case lapse at a rate of less than twenty percent (20%) per year over five (5) years from the date of purchase.

(i) No Option or Stock Purchase Right shall be granted to a resident of California more than ten (10) years after the earlier of the date of adoption of the Plan or the date the Plan is approved by the stockholders.

(j) The Company shall provide to each Optionee and to each individual who acquires Shares under the Plan, not less frequently than annually during the period such Optionee has one or more Options or Stock Purchase Rights outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key Employees whose duties in connection with the Company assure their access to equivalent information.

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

(l) This Appendix A shall be deemed to be part of the Plan and the Administrator shall have the authority to amend this Appendix A in accordance with Section 15 of the Plan.

**CARBYLAN BIOSURGERY, INC.**

**AMENDED AND RESTATED 2004 STOCK OPTION PLAN**

**STOCK OPTION AGREEMENT**

Unless otherwise defined herein, the terms defined in the Amended and Restated 2004 Stock Option Plan shall have the same defined meanings in this Stock Option Agreement.

**I. NOTICE OF STOCK OPTION GRANT**

**Name:**

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Date of Grant \_\_\_\_\_

Vesting Commencement Date \_\_\_\_\_

Exercise Price per Share \$ \_\_\_\_\_

Total Number of Shares Granted \_\_\_\_\_

Total Exercise Price \$ \_\_\_\_\_

Type of Option: \_\_\_\_\_ Incentive Stock Option

\_\_\_\_\_ Nonstatutory Stock Option

Term/Expiration Date: \_\_\_\_\_

**Vesting Schedule:**

This Option shall be exercisable according to the following vesting schedule:

Termination Period:

This Option shall be exercisable for three months after Optionee ceases to be a Service Provider. Upon Optionee's death or Disability, this Option shall be exercisable for one year after Optionee ceases to be Service Provider. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Administrator of the Company hereby grants to the Optionee named in the Notice of Grant in Part I of this Agreement (the "**Optionee**"), an option (the "**Option**") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "**Exercise Price**"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("**ISO**"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("**NSO**").

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 10 of the Plan as follows:

(a) Right to Exercise.

(i) Subject to subsections 2(a)(ii) and 2(a)(iii) below, this Option shall be exercisable according to the vesting schedule set forth in the Notice of Grant.

(ii) This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as **Exhibit A** (the "**Exercise Notice**"), which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable Laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver

to the Company his or her Investment Representation Statement in the form attached hereto as **Exhibit B**.

4. Lock-Up Period. Optionee hereby agrees that Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act.

Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Optionee agrees that any transferee of the Option or shares acquired pursuant to the Option shall be bound by this Section.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution or as set forth in the Plan and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Obligations.

(a) Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if such withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, and (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This Agreement is governed by the internal substantive laws but not the choice of law rules of Utah.

11. No Guarantee of Continued Service. OPTIONEE AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

**OPTIONEE**

**CARBYLAN BIOSURGERY, INC.**

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Title: \_\_\_\_\_



**EXHIBIT A**

**AMENDED AND RESTATED 2004 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Carbylan Biosurgery, Inc.

Attention: President

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("***Optionee***") hereby elects to exercise Optionee's option (the "***Option***") to purchase \_\_\_\_\_ shares of the Common Stock (the "***Shares***") of Carbylan Biosurgery, Inc. (the "***Company***") under and pursuant to the Amended and Restated 2004 Stock Option Plan (the "***Plan***") and the Stock Option Agreement dated March 5, 2013 (the "***Option Agreement***").

2. **Delivery of Payment.** Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. **Representations of Optionee.** Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 13 of the Plan.

5. **Company's Right of First Refusal.** Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "***Holder***") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "***Right of First Refusal***").

(a) **Notice of Proposed Transfer.** The Holder of the Shares shall deliver to the Company a written notice (the "***Notice***") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("***Proposed Transferee***"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "***Offered Price***"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("**Purchase Price**") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "**Immediate Family**" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with

the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws, but not the choice of law rules, of Utah.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Restricted Stock Purchase Agreement, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

Accepted by:

OPTIONEE

CARBYLAN BIOSURGERY, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Its

Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date Received

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE :  
COMPANY :  
SECURITY :  
AMOUNT :  
DATE :

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "**Securities Act**").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such

longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

\_\_\_\_\_

Date: \_\_\_\_\_

SENTRX SURGICAL, INC.

2004 STOCK OPTION PLAN

STOCK OPTION AGREEMENT — EARLY EXERCISE

Unless otherwise defined herein, the terms defined in the 2004 Stock Option Plan shall have the same defined meanings in this Stock Option Agreement.

I. NOTICE OF STOCK OPTION GRANT

**Name:**

**Address:**

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Grant Number \_\_\_\_\_

Date of Grant \_\_\_\_\_

Vesting Commencement Date \_\_\_\_\_

Exercise Price per Share \_\_\_\_\_

Total Number of Shares Granted \_\_\_\_\_

Total Exercise Price \_\_\_\_\_

Type of Option: \_\_\_\_\_ Incentive Stock Option

\_\_\_\_\_ Nonstatutory Stock Option

Term/Expiration Date: \_\_\_\_\_

Vesting Schedule:

This Option shall be exercisable in whole or in part, according to the following vesting schedule:

Termination Period:

This Option shall be exercisable for **[three months]** after Optionee ceases to be a Service Provider. Upon Optionee's death or Disability, this Option shall be exercisable for **[one year]** after Optionee ceases to be Service Provider. In no event may Optionee exercise this Option after the Term/Expiration Date as provided above.

II. AGREEMENT

1. Grant of Option. The Administrator of the Company hereby grants to the Optionee named in the Notice of Grant in Part I of this Agreement (the "**Optionee**"), an option (the "**Option**") to purchase the number of Shares set forth in the Notice of Grant, at the exercise price per Share set forth in the Notice of Grant (the "**Exercise Price**"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 15(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("**ISO**"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("**NSO**").

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 10 of the Plan as follows:

(a) Right to Exercise.

(i) Subject to subsections 2(a)(ii) and 2(a)(iii) below, this Option shall be exercisable cumulatively according to the vesting schedule set forth in the Notice of Grant. Alternatively, at the election of the Optionee, this Option may be exercised in whole or in part at any time as to Shares that have not yet vested. Vested Shares shall not be subject to the Company's repurchase right (as set forth in the Restricted Stock Purchase Agreement, attached hereto as **Exhibit C-1**).

(ii) As a condition to exercising this Option for unvested Shares, the Optionee shall execute the Restricted Stock Purchase Agreement.

(iii) This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as **Exhibit A** (the "**Exercise Notice**"), which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by the aggregate Exercise Price.



No Shares shall be issued pursuant to the exercise of an Option unless such issuance and such exercise comply with Applicable Laws. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his or her Investment Representation Statement in the form attached hereto as **Exhibit B.**

4. Lock-Up Period. Optionee hereby agrees that Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act.

Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. Optionee agrees that any transferee of the Option or shares acquired pursuant to the Option shall be bound by this Section.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

6. Restrictions on Exercise. This Option may not be exercised until such time as the Plan has been approved by the stockholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any Applicable Law.

7. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution or as set forth in the Plan and may be exercised during the lifetime of Optionee only by Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

8. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

9. Tax Obligations.

(a) Withholding Taxes. Optionee agrees to make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining Optionee) for the satisfaction of all Federal, state, local and foreign income and employment tax withholding requirements applicable to the Option exercise. Optionee acknowledges and agrees that the Company may refuse to honor the exercise and refuse to deliver the Shares if such withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, and (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

10. Entire Agreement; Governing Law. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee. This Agreement is governed by the internal substantive laws but not the choice of law rules of Utah.

11. No Guarantee of Continued Service. OPTIONEE AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT

THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE

SENTRX SURGICAL, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Residence Address

**EXHIBIT A**

**2004 Stock Option Plan**

**EXERCISE NOTICE**

Sentrx Surgical, Inc.  
P.O. Box 581378  
Salt Lake City, Utah 84158

Attention: President

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("***Optionee***") hereby elects to exercise Optionee's option (the "***Option***") to purchase \_\_\_\_\_ shares of the Common Stock (the "***Shares***") of Sentrx Surgical, Inc. (the "***Company***") under and pursuant to the 2004 Stock Option Plan (the "***Plan***") and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the "***Option Agreement***").

2. **Delivery of Payment.** Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. **Representations of Optionee.** Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance except as provided in Section 13 of the Plan.

5. **Company's Right of First Refusal.** Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "***Holder***") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "***Right of First Refusal***").

(a) **Notice of Proposed Transfer.** The Holder of the Shares shall deliver to the Company a written notice (the "***Notice***") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("***Proposed Transferee***"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "***Offered Price***"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("**Purchase Price**") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during the Optionee's lifetime or on the Optionee's death by will or intestacy to the Optionee's immediate family or a trust for the benefit of the Optionee's immediate family shall be exempt from the provisions of this Section. "**Immediate Family**" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with

the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law; Severability. This Exercise Notice is governed by the internal substantive laws, but not the choice of law rules, of Utah.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Restricted Stock Purchase Agreement, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

Accepted by:

OPTIONEE

SENTRX SURGICAL, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Its

\_\_\_\_\_  
Address:

\_\_\_\_\_  
Address:

\_\_\_\_\_  
Date Received

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE :  
COMPANY : SENTRX SURGICAL, INC.  
SECURITY : COMMON STOCK  
AMOUNT :  
DATE :

In connection with the purchase of the above-listed Securities, the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "**Securities Act**").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to the Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such



longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires the resale to occur not less than one year after the later of the date the Securities were sold by the Company or the date the Securities were sold by an affiliate of the Company, within the meaning of Rule 144; and, in the case of acquisition of the Securities by an affiliate, or by a non-affiliate who subsequently holds the Securities less than two years, the satisfaction of the conditions set forth in sections (1), (2), (3) and (4) of the paragraph immediately above.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

\_\_\_\_\_

Date: \_\_\_\_\_

**EXHIBIT C-1**

**Sentrx Surgical, Inc.**

**2004 Stock Option Plan**

**RESTRICTED STOCK PURCHASE AGREEMENT**

THIS AGREEMENT is made between \_\_\_\_\_ (the "**Purchaser**") and Sentrx Surgical, Inc. (the "**Company**") or its assignees of rights hereunder as of \_\_\_\_\_, \_\_\_\_\_.

Unless otherwise defined herein, the terms defined in the 2004 Stock Option Plan shall have the same defined meanings in this Agreement.

**RECITALS**

A. Pursuant to the exercise of the option (grant number \_\_\_\_\_) granted to Purchaser under the Plan and pursuant to the Option Agreement dated \_\_\_\_\_, \_\_\_\_ by and between the Company and Purchaser with respect to such grant (the "**Option**"), which Plan and Option Agreement are hereby incorporated by reference, Purchaser has elected to purchase \_\_\_\_\_ of those shares of Common Stock which have not become vested under the vesting schedule set forth in the Option Agreement ("**Unvested Shares**"). The Unvested Shares and the shares subject to the Option Agreement, which have become vested are sometimes collectively referred to herein as the "**Shares**."

B. As required by the Option Agreement, as a condition to Purchaser's election to exercise the option, Purchaser must execute this Agreement, which sets forth the rights and obligations of the parties with respect to Shares acquired upon exercise of the Option.

1. Repurchase Option.

(a) If Purchaser's status as a Service Provider is terminated for any reason, including for death and Disability, the Company shall have the right and option for ninety (90) days from such date to purchase from Purchaser, or Purchaser's personal representative, as the case may be, all of the Purchaser's Unvested Shares as of the date of such termination at the price paid by the Purchaser for such Shares (the "**Repurchase Option**").

(b) Upon the occurrence of such termination, the Company may exercise its Repurchase Option by delivering personally or by registered mail, to Purchaser (or his transferee or legal representative, as the case may be) with a copy to the escrow agent described in Section 2 below, a notice in writing indicating the Company's intention to exercise the Repurchase Option AND, at the Company's option, (i) by delivering to the Purchaser (or the Purchaser's transferee or legal representative) a check in the amount of the aggregate repurchase price, or (ii) by the Company canceling an amount of the Purchaser's indebtedness to the Company equal to the aggregate repurchase price, or (iii) by a combination of (i) and (ii) so that the combined payment and

cancellation of indebtedness equals such aggregate repurchase price. Upon delivery of such notice and payment of the aggregate repurchase price in any of the ways described above, the Company shall become the legal and beneficial owner of the Unvested Shares being repurchased and the rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unvested Shares being repurchased by the Company.

(c) Whenever the Company shall have the right to repurchase Unvested Shares hereunder, the Company may designate and assign one or more employees, officers, directors or stockholders of the Company or other persons or organizations to exercise all or a part of the Company's Repurchase Option under this Agreement and purchase all or a part of such Unvested Shares.

(d) If the Company does not elect to exercise the Repurchase Option conferred above by giving the requisite notice within ninety (90) days following the termination, the Repurchase Option shall terminate.

(e) The Repurchase Option shall terminate in accordance with the vesting schedule contained in Purchaser's Option Agreement.

2. Transferability of the Shares; Escrow.

(a) Purchaser hereby authorizes and directs the Secretary of the Company, or such other person designated by the Company, to transfer the Unvested Shares as to which the Repurchase Option has been exercised from Purchaser to the Company.

(b) To insure the availability for delivery of Purchaser's Unvested Shares upon repurchase by the Company pursuant to the Repurchase Option under Section 1, Purchaser hereby appoints the Secretary, or any other person designated by the Company as escrow agent (the "**Escrow Agent**"), as its attorney-in-fact to sell, assign and transfer unto the Company, such Unvested Shares, if any, repurchased by the Company pursuant to the Repurchase Option and shall, upon execution of this Agreement, deliver and deposit with the Escrow Agent, the share certificates representing the Unvested Shares, together with the stock assignment duly endorsed in blank, attached hereto as **Exhibit C-2**. The Unvested Shares and stock assignment shall be held by the Escrow Agent in escrow, pursuant to the Joint Escrow Instructions of the Company and Purchaser attached as **Exhibit C-3** hereto, until the Company exercises its Repurchase Option, until such Unvested Shares are vested, or until such time as this Agreement no longer is in effect. Upon vesting of the Unvested Shares, the Escrow Agent shall promptly deliver to the Purchaser the certificate or certificates representing such Shares in the Escrow Agent's possession belonging to the Purchaser, and the Escrow Agent shall be discharged of all further obligations hereunder; provided, however, that the Escrow Agent shall nevertheless retain such certificate or certificates as Escrow Agent if so required pursuant to other restrictions imposed pursuant to this Agreement.

(c) The Company nor the Escrow Agent shall be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

(d) Transfer or sale of the Shares is subject to restrictions on transfer imposed by any applicable state and federal securities laws. Any transferee shall hold such Shares subject to all

the provisions hereof and the Exercise Notice executed by the Purchaser with respect to any Unvested Shares purchased by Purchaser and shall acknowledge the same by signing a copy of this Agreement.

3. Ownership, Voting Rights, Duties. This Agreement shall not affect in any way the ownership, voting rights or other rights or duties of Purchaser, except as specifically provided herein.

4. Legends. The share certificate evidencing the Shares issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable federal and state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

5. Adjustment for Stock Split. All references to the number of Shares and the purchase price of the Shares in this Agreement shall be appropriately adjusted to reflect any stock split, stock dividend or other change in the Shares, which may be made by the Company pursuant to Section 13 of the Plan after the date of this Agreement.

6. Notices. Notices required hereunder shall be given in person or by registered mail to the address of Purchaser shown on the records of the Company, and to the Company at their respective principal executive offices.

7. Survival of Terms. This Agreement shall apply to and bind Purchaser and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

8. Section 83(b) Election. Purchaser hereby acknowledges that he or she has been informed that, with respect to the exercise of an Option for Unvested Shares, an election (the "**Election**") may be filed by the Purchaser with the Internal Revenue Service, within thirty (30) days of the purchase of the exercised Shares, electing pursuant to Section 83(b) of the Code to be taxed currently on any difference between the purchase price of the exercised Shares and their Fair Market Value on the date of purchase. In the case of a Nonstatutory Stock Option, this will result in a recognition of taxable income to the Purchaser on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the Option is exercised over the purchase price for the exercised Shares. Absent such an Election, taxable income will be measured and recognized by Purchaser at the time or times on which the Company's Repurchase Option lapses. In the case of an Incentive Stock Option, such an Election will result in a recognition of income to the Purchaser for alternative minimum tax purposes on the date of exercise, measured by the excess, if any, of the Fair Market Value of the exercised Shares, at the time the option is exercised, over the purchase price for the exercised Shares. Absent such an Election, alternative minimum taxable income will be measured and recognized by Purchaser at the time or times on which the Company's Repurchase Option lapses. Purchaser is strongly encouraged to seek the

advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of the Election under Section 83(b) of the Code. A form of Election under Section 83(b) is attached hereto as **Exhibit C-4** for reference.

PURCHASER ACKNOWLEDGES THAT IT IS PURCHASER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF PURCHASER REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON PURCHASER'S BEHALF.

9. Representations. Purchaser has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Purchaser is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Purchaser understands that he (and not the Company) shall be responsible for his own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

10. Governing Law. This Agreement shall be governed by the internal substantive laws, but not the choice of law rules, of Utah.

Purchaser represents that he has read this Agreement and is familiar with its terms and provisions. Purchaser hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under this Agreement.

IN WITNESS WHEREOF, this Agreement is deemed made as of the date first set forth above.

OPTIONEE

SENTRX SURGICAL, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Residence Address

Dated: \_\_\_\_\_, \_\_\_\_\_

EXHIBIT C-2

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED I, \_\_\_\_\_, hereby sell, assign and transfer unto Sentrx Surgical, Inc. \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Sentrx Surgical, Inc. standing in my name of the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Purchase Agreement between Sentrx Surgical, Inc. and the undersigned dated \_\_\_\_\_, \_\_\_\_ (the "**Agreement**").

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature: \_\_\_\_\_

INSTRUCTIONS: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its "repurchase option," as set forth in the Agreement, without requiring additional signatures on the part of the Purchaser.

EXHIBIT C-3

JOINT ESCROW INSTRUCTIONS

Corporate Secretary  
Sentrx Surgical, Inc.  
P.O. Box S81378  
Salt Lake City, Utah 84158

Dear \_\_\_\_\_:

As Escrow Agent for both Sentrx Surgical, Inc. (the "**Company**"), and the undersigned purchaser of stock of the Company (the "**Purchaser**"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Purchase Agreement (the "**Agreement**") between the Company and the undersigned, in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively for convenience herein as the "**Company**") exercises the Company's repurchase option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver the stock assignments, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's repurchase option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a stockholder of the Company while the stock is held by you.

4. Upon written request of the Purchaser, but no more than once per calendar year, unless the Company's repurchase option has been exercised, you will deliver to Purchaser a

certificate or certificates representing so many shares of stock as are not then subject to the Company's repurchase option. Within 120 days after cessation of Purchaser's continuous employment by or services to the Company, or any parent or subsidiary of the Company, you will deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's repurchase option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.



14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions shall be governed by the internal substantive laws, but not the choice of law rules, of Utah.

PURCHASER

SENTRX SURGICAL, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Residence Address

ESCROW AGENT

\_\_\_\_\_  
Corporate Secretary

Dated: \_\_\_\_\_, \_\_\_\_\_

EXHIBIT C-4

**ELECTION UNDER SECTION 83(b)  
OF THE INTERNAL REVENUE CODE OF 1986**

The undersigned taxpayer hereby elects, pursuant to Sections 55 and 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income or alternative minimum taxable income, as the case may be, for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

NAME: TAXPAYER: SPOUSE:

ADDRESS:

IDENTIFICATION NO.: TAXPAYER: SPOUSE:

TAXABLE YEAR:

2. The property with respect to which the election is made is described as follows: \_\_\_\_\_ shares (the "**Shares**") of the Common Stock of Sentrx Surgical, Inc. (the "**Company**").

3. The date on which the property was transferred is: \_\_\_\_\_, \_\_\_\_\_.

4. The property is subject to the following restrictions:

The Shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions contained in such agreement.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$\_\_\_\_\_.

6. The amount (if any) paid for such property is: \$\_\_\_\_\_.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
Spouse of Taxpayer

## CARBYLAN THERAPEUTICS, INC.

## 2014 STOCK OPTION PLAN

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business by providing for the grant of Incentive Stock Options and Nonstatutory Stock Options.

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

(a) "Administrator" means the Board or any of its Committees as shall be administering the Plan in accordance with Section 4 hereof.

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

(c) "Award" means an award of an Option or Restricted Stock held pursuant to the exercise of an Option.

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

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

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities, except that any change in the beneficial ownership of the securities of the Company as a result of a private financing of the Company that is approved by the Board, shall not be deemed to be a Change in Control; or

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets; or

(iii) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

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

(g) “Committee” means a committee of Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 hereof.

(h) “Common Stock” means the Common Stock of the Company, par value \$0.001 per share.

(i) “Company” means Carbylan Therapeutics, Inc., a Delaware corporation.

(j) “Consultant” means any person who is engaged by the Company or any Parent or Subsidiary to render consulting or advisory services to such entity.

(k) “Director” means a member of the Board.

(l) “Disability” means permanent and total disability as defined in Section 22(e)(3) of the Code.

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

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

(o) “Exchange Program” means a program under which (a) outstanding Options are surrendered or cancelled in exchange for Options of the same type (which may have lower exercise prices and different terms), Options of a different type, and/or cash, and/or (b) the exercise price of an outstanding Option is reduced, in either case, other than in connection with a “corporate transaction” as defined in Section 1.424-1(a)(3) of the Treasury Regulations. The terms and conditions of any Exchange Program will be determined by the Administrator in its sole discretion, provided that any new exercise price will not be lower than the Fair Market Value of a Share on the date of the exchange.

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

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

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator, consistent with the rules of Sections 409A and 422 of the Code to the extent applicable.

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

(r) “Nonstatutory Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

(s) “Option” means a stock option to purchase Shares granted pursuant to the Plan.

(t) “Option Agreement” means a written or electronic agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

(u) “Optioned Stock” means the Common Stock subject to an Option.

(v) “Optionee” means the holder of an outstanding Option granted under the Plan.

(w) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(x) “Plan” means this Carbylan Therapeutics, Inc. 2014 Stock Option Plan.

(y) “Restricted Stock” means restricted Shares issued pursuant to the early exercise of an Option.

(z) “Restricted Stock Purchase Agreement” means a written or electronic agreement between the Company and the Optionee evidencing the terms and restrictions applying to Restricted Stock purchased pursuant to an Option Agreement that provides for early exercise of Options prior to vesting. The Restricted Stock Purchase Agreement is subject to the terms and conditions of the Plan and the notice of grant.

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

(bb) “Share” means a share of the Common Stock, as adjusted in accordance with Section 12 below.

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

### 3. Stock Subject to the Plan.

(a) Number of Shares. Subject to adjustment as provided in Section 12(a) of the Plan, the maximum aggregate number of Shares that may be delivered in satisfaction of Awards under the Plan is One Million (1,000,000) Shares (and all of which may be delivered upon the exercise of ISOs). The Shares may be authorized but unissued, or reacquired Common Stock. In

addition, any Shares that remain available for issuance under the Carbylan Biosurgery, Inc. Amended and Restated 2004 Stock Option Plan (the “**2004 Plan**”) upon its expiration, or that become available for grant under the 2004 Plan following its expiration as a result of the forfeiture of awards granted under the 2004 Plan, will be available for issuance under this Plan.

(b) Shares Returned to the Plan. If an Award expires or becomes unexercisable without having been exercised in full, or is surrendered pursuant to an Exchange Program, the unpurchased Shares that were subject thereto shall again become available for future grant or sale under the Plan (unless the Plan has terminated). However, Shares that have actually been issued under the Plan, upon exercise of an Option or that are withheld by the Company in payment of the exercise price of an Option or in satisfaction of any tax withholding requirements in respect of an Option, shall not be returned to the Plan and shall not become available for future distribution under the Plan, except that if unvested Shares of Restricted Stock are repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

#### 4. Administration of the Plan.

(a) Administrator. The Plan shall be administered by the Board or a Committee appointed by the Board, which Committee shall be constituted in accordance with Applicable Laws.

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

- (i) to determine the Fair Market Value;
- (ii) to select the Service Providers to whom Options may from time to time be granted hereunder;
- (iii) to determine the number of Shares to be covered by each such Option granted hereunder;
- (iv) to approve forms of agreement for use under the Plan;
- (v) to determine the terms and conditions of any Award granted hereunder. Such terms and conditions may include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or Restricted Stock or Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine, regardless of any adverse or potentially adverse tax or other consequences resulting from such acceleration;
- (vi) to institute an Exchange Program;
- (vii) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws;

(viii) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by Optionees to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

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

(x) to otherwise do all things necessary to carry out the purposes of the Plan.

(c) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees.

5. Eligibility. The Administrator will select the Service Providers to whom Options may be granted, provided that Incentive Stock Options may be granted only to Employees, and further provided that Nonstatutory Stock Options may be granted only to Service Providers who are providing direct services on the date of grant to the Company or a subsidiary of the Company as described in the first sentence of Section 1.409A-1(b)(5)(iii)(E) of the Treasury Regulations.

6. Limitations.

(a) Incentive Stock Option Limit. Each Option shall be designated in the Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Option with respect to such Shares is granted.

(b) Rights Limited. Neither the Plan nor any Award shall confer upon any Award holder any right with respect to continuing such individual's relationship as a Service Provider with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause, and with or without notice. Neither the Plan nor any Award shall confer upon any Award holder any right as a stockholder except as to Shares actually issued under the Plan. The loss of existing or potential profit in Awards will not constitute an element of damages in the event of termination of relationship as a Service Provider for any reason, even if the termination is in violation of an obligation of the Company or an affiliate to the Service Provider.

7. Term of Plan. Subject to stockholder approval in accordance with Section 17, the Plan shall become effective upon its adoption by the Board. Unless sooner terminated under Section 13,

it shall continue in effect for a term of ten (10) years after the earlier of the date of adoption of the Plan and the date the Plan is approved by stockholders.

8. Term of Option. The term of each Option shall be stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Option Agreement.

9. Option Exercise Price and Consideration.

(a) Exercise Price. The per share exercise price for the Shares to be issued upon exercise of an Option shall be such price as is determined by the Administrator, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

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

(B) granted to any other Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator, having due regard for the requirements for exemption from, or compliance with, Section 409A of the Code.

(iii) Notwithstanding the foregoing, Options may be granted with a per Share exercise price other than as required above in connection with a "corporate transaction" as described in Section 1.424-1(a)(3) of the Treasury Regulations and in accordance with the requirements thereunder.

(b) Forms of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). Such consideration may consist of, without limitation, if so permitted by the Administrator and if legally permissible, (1) cash, (2) check, (3) promissory note, (4) other Shares, provided Shares acquired directly from the Company (x) have been owned by the Optionee, and have not been subject to a substantial risk of forfeiture, for more than six months on the date of surrender, and (y) that have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan, or (6) any combination of the foregoing methods of payment. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.



## 10. Exercise of Option.

### (a) Procedure for Exercise; Rights as a Stockholder.

(i) Any Option granted hereunder shall be exercisable according to the terms hereof at such times and under such conditions as determined by the Administrator and set forth in the Option Agreement. An Option may not be exercised for a fraction of a Share.

(ii) An Option shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised, including any required tax withholding. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 12 of the Plan.

(iii) Exercise of an Option in any manner shall result in a decrease in the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

### (b) Termination of Relationship as a Service Provider.

(i) Generally. If an Optionee ceases to be a Service Provider, such Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option as set forth in the Option Agreement). In the absence of a specified time in the Option Agreement, and except as set forth pursuant to Section 10(b)(ii) or Section 10(b)(iii) below, the vested portion of the Option shall remain exercisable for three (3) months following the Optionee's termination. Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall be forfeited by the Optionee and revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall be forfeited by the Optionee and revert to the Plan. Notwithstanding the foregoing, if the Service Provider is terminated for cause as determined by the Administrator, all Shares covered by the Option, whether vested or unvested, shall immediately be forfeited by the Optionee and revert to the Plan.

(ii) Disability of Optionee. If an Optionee ceases to be a Service Provider as a result of the Optionee's Disability, the Optionee may exercise his or her Option within such period of time as is specified in the Option Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the

Option Agreement). In the absence of a specified time in the Option Agreement, the vested portion of the Option shall remain exercisable for twelve (12) months following the Optionee's termination. Unless the Administrator provides otherwise, if on the date of termination the Optionee is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option shall be forfeited by the Optionee and revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall be forfeited by the Optionee and revert to the Plan.

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

(iv) Separation from Service. In construing the provisions of any Award relating to the payment of "nonqualified deferred compensation" (subject to Section 409A of the Code) upon a termination or cessation of employment, references to termination or cessation of employment, separation from service, retirement or similar or correlative terms shall be construed to require a "separation from service" (as that term is defined in Section 1.409A-1(h) of the Treasury Regulations) from the Company and from all other corporations and trades or businesses, if any, that would be treated as a single "service recipient" with the Company under Section 1.409A-1(h)(3) of the Treasury Regulations. The Company may, but need not, elect in writing, subject to the applicable limitations under Section 409A, any of the special elective rules prescribed in Section 1.409A-1(h) of the Treasury Regulations for purposes of determining whether a "separation from service" has occurred. Any such written election shall be deemed a part of the Plan.

(c) Leaves of Absence.

(i) Unless the Administrator provides otherwise, vesting of Options granted hereunder shall be suspended during any unpaid leave of absence.

(ii) A Service Provider shall not cease to be an Employee in the case of (A) any leave of absence approved by the Company or (B) transfers between locations of the Company or between the Company, its Parent, any Subsidiary, or any successor.

(iii) For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so

guaranteed, then three (3) months following the 91<sup>st</sup> day of such leave, any Incentive Stock Option held by the Optionee shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

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

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

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

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

(c) Merger or Change in Control. In the event of a merger of the Company with or into another corporation, or a Change in Control, each outstanding Award shall be assumed or an equivalent award substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation in a merger or Change in Control refuses to assume or substitute for the Award, then the Awards shall fully vest, and each Option shall become fully exercisable. If an Option becomes fully vested and exercisable in lieu of assumption or substitution in the event of a merger or Change in Control, the Administrator shall notify the Optionee in writing or electronically that the Option shall be fully exercisable for a period of time as determined by the Administrator, and the Option shall terminate upon expiration of such period. For the purposes of this paragraph, an Award shall be considered assumed if, following the merger or Change in Control, the award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the merger or Change in Control, the consideration (whether stock, cash, or other securities or property) received in the merger or Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or vesting of the Restricted Stock, for each Share subject to the Option or Restricted Stock, to be solely common stock of the successor corporation or its Parent equal in fair

market value to the per share consideration received by holders of common stock in the merger or Change in Control.

13. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend or alter the Plan or any outstanding Award for any purposes for which may at the time be permitted by law, and the Board may at any time suspend or terminate the Plan as to any future grants of Options.

(b) Stockholder Approval. The Board shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. Except as otherwise expressly provided in the Plan, the Administrator may not, without the Optionee's consent, alter the terms of an Award so as to affect materially and adversely the Optionee's rights under the Award, unless the Administrator expressly reserved the right to do so at the time the Award was granted. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

14. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Certificates. The Company may require that a certificate evidencing Shares issued under the Plan bear an appropriate legend reflecting any restrictions on transfer applicable to such Shares and the Company may hold the certificates pending lapse of the applicable restrictions.

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

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

16. Reservation of Shares. The Company, during the term of this Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

17. Stockholder Approval. The Plan shall be subject to approval by the stockholders of the Company within twelve (12) months after the date the Plan is adopted. Such stockholder approval shall be obtained in the degree and manner required under Applicable Laws.

18. Miscellaneous

(a) Award Provisions. By accepting (or, under such rules as the Administrator may prescribe, being deemed to have accepted) an Award, the Optionee shall be deemed to have agreed to the terms of the Award and the Plan.

(b) Coordination with Other Plans. Awards under the Plan may be granted in tandem with, or in satisfaction of or substitution for, other Awards under the Plan or awards made under other compensatory plans or programs of the Company or its subsidiaries. For example, but without limiting the generality of the foregoing, awards under other compensatory plans or programs of the Company or its subsidiaries may be settled in Shares if the Administrator so determines, in which case the shares delivered will be treated as awarded under the Plan (and will reduce the number of shares thereafter available under the Plan in accordance with the rules set forth in Section 3).

(c) Taxes. The delivery, vesting and retention of Shares under an Award are conditioned upon full satisfaction by the Optionee of all tax withholding requirements with respect to the Award. The Administrator will prescribe such rules for the withholding of taxes as it deems necessary. The Administrator may, but need not, hold back Shares from an Award or permit an Optionee to tender previously owned Shares in satisfaction of tax withholding requirements (but not in excess of the minimum withholding required by law).

(d) Section 409A. Each Award may contain such terms as the Administrator determines, and shall be construed and administered, such that the Award either (i) qualifies for an exemption from the requirements of Section 409A, or (ii) satisfies such requirements.

(e) Certain Requirements of Corporate Law. Awards shall be granted and administered consistent with the requirements of Applicable Law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Common Stock is listed or entered for trading, in each case as determined by the Administrator.

(f) Waiver of Jury Trial. By accepting an Award under the Plan, each Optionee waives any right to a trial by jury in any action, proceeding or counterclaim concerning any rights under the Plan and any Award, or under any amendment, waiver, consent, instrument, document or other agreement delivered or which in the future may be delivered in connection therewith, and agrees that any such action, proceedings or counterclaim shall be tried before a court and not before a jury. By accepting an Award under the Plan, each Optionee certifies that no officer, representative, or attorney of the Company has represented, expressly or otherwise, that the Company would not, in the event of any action, proceeding or counterclaim, seek to enforce the foregoing waivers.

(g) Limitation of Liability. Notwithstanding anything to the contrary in the Plan, neither the Company, nor any affiliate, nor the Administrator, nor any person acting on behalf of the Company, any affiliate, or the Administrator, will be liable to any Optionee or to the estate or beneficiary of any Optionee or to any other holder of an Award by reason of any acceleration of

income, or any additional tax (including any interest and penalties), asserted by reason of the failure of an Award to satisfy the requirements of Section 422 or Section 409A of the Code or by reason of Section 4999 of the Code, or otherwise asserted with respect to the Award; provided, that nothing in this Section 18(g) will limit the ability of the Administrator or the Company, in its discretion, to provide by separate express written agreement with an Optionee for a gross-up payment or other payment in connection with any such acceleration of income or additional tax.

(h) Establishment of Sub-Plans. The Board may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable blue sky, securities or tax laws of various jurisdictions. The Board will establish such sub-plans by adopting supplements to the Plan setting forth (i) such limitations on the Administrator's discretion under the Plan as the Board deems necessary or desirable and (ii) such additional terms and conditions not otherwise inconsistent with the Plan as the Board deems necessary or desirable. All supplements adopted by the Board will be deemed to be part of the Plan, but each supplement will apply only to Optionees within the affected jurisdiction and the Company will not be required to provide copies of any supplement to Optionees in any jurisdiction that is not affected.

(i) Additional Requirement to Provide Information to California Participants. The Company shall provide to each holder of an Award not less frequently than annually during the period such individual has one or more Awards outstanding, and, in the case of an individual who acquires Shares pursuant to the Plan, during the period such individual owns such Shares, copies of annual financial statements. The Company shall not be required to provide such statements to key Employees whose duties in connection with the Company assure their access to equivalent information.

#### 19. Governing Law.

(a) Certain Requirements of Corporate Law. Awards will be granted and administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Shares are listed or entered for trading, in each case as determined by the Board.

(b) Other Matters. Except as otherwise provided by the express terms of an Award, under a sub-plan described in Section 18(h) or as provided in Section 19(a) above, the provisions of the Plan and of Awards under the Plan and all claims or disputes arising out of or based upon the Plan or any Award under the Plan or relating to the subject matter hereof or thereof will be governed by and construed in accordance with the domestic substantive laws of the State of California without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

**CARBYLAN THERAPEUTICS, INC.**

**2014 STOCK OPTION PLAN**

**STOCK OPTION AGREEMENT**

Unless otherwise defined herein, the terms defined in the 2014 Stock Option Plan shall have the same defined meanings in this Stock Option Agreement.

**I. NOTICE OF GRANT**

**Optionee:**

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	\$ _____
Total Number of Shares Granted	_____
Total Exercise Price	\$ _____
Type of Option:	_____ Incentive Stock Option _____ Nonstatutory Stock Option
Expiration Date:	_____

**Vesting Schedule:**

This Option shall be exercisable in whole or in part according to the following vesting schedule:

Termination Period:

This Option shall be exercisable for three months after the Optionee ceases to be a Service Provider. Upon the Optionee's death or Disability, this Option shall be exercisable for one year after Optionee ceases to be Service Provider. In no event may the Optionee exercise this Option after the Expiration Date set forth above.

II. AGREEMENT

1. Grant of Option. The Company hereby grants to the Optionee named in the Notice of Grant in Part I of this Agreement (the "**Optionee**"), an option (the "**Option**") to purchase the number of Shares set forth in the Notice of Grant, at the Exercise Price per Share set forth in the Notice of Grant (the "**Exercise Price**"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("**ISO**"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("**NSO**").

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 10 of the Plan as follows:

(a) Right to Exercise.

(i) Subject to subsections 2(a)(ii) and 2(b) below, this Option shall be exercisable according to the vesting schedule set forth in the Notice of Grant.

(ii) This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as **Exhibit A** (the "**Exercise Notice**"). The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to the portion of this Option so exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by full payment of the aggregate Exercise Price by one of the methods set forth in Section 5 below and satisfaction of all tax withholding requirements by such methods as permitted under the Plan.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company an Investment Representation Statement in the form attached hereto as **Exhibit B**.

4. Lock-Up Period. The Optionee hereby agrees that the Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of,



directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by the Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act.

The Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, the Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. The Optionee agrees that any transferee of the Option or shares acquired pursuant to the Option shall be bound by this Section.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the portion of this Option exercised..

6. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution or as set forth in the Plan and may be exercised during the lifetime of the Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to the Optionee herein is an ISO, and if the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, and (2) the date one year after the date of exercise, the Optionee shall immediately notify the

Company in writing of such disposition. The Optionee agrees that the Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

8. Entire Agreement. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee.

9. No Guarantee of Continued Service. THE OPTIONEE AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). THE OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH THE OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE THE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

The Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. The Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. The Optionee further agrees to notify the Company upon any change in the residence address indicated below.

**OPTIONEE**

**CARBYLAN THERAPEUTICS, INC.**

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**2014 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Carbylan Therapeutics, Inc.

Attention: President

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("***Optionee***") hereby elects to exercise Optionee's option (the "***Option***") to purchase \_\_\_\_\_ shares of the Common Stock (the "***Shares***") of Carbylan Therapeutics, Inc. (the "***Company***") under and pursuant to the 2014 Stock Option Plan (the "***Plan***") and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the "***Option Agreement***"). Except as otherwise defined herein, all capitalized terms have the same meaning as in the Plan.

2. **Delivery of Payment.** Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. **Representations of Optionee.** Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement.

5. **Company's Right of First Refusal.** Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "***Holder***") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "***Right of First Refusal***").

(a) **Notice of Proposed Transfer.** The Holder of the Shares shall deliver to the Company a written notice (the "***Notice***") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("***Proposed Transferee***"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "***Offered Price***"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price (“**Purchase Price**”) for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder’s Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during Optionee’s lifetime or on Optionee’s death by will or intestacy to Optionee’s immediate family or a trust for the benefit of Optionee’s immediate family shall be exempt from the provisions of this Section. “**Immediate Family**” as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee’s purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with

the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law. This Exercise Notice will be administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Shares are listed or entered for trading, in each case as determined by the Board. Except as otherwise provided in the preceding sentence, the provisions of this Exercise Notice and all claims or disputes arising out of our based upon this Exercise Notice or relating to the subject matter hereof will be governed by and construed in accordance with the domestic substantive laws of the State of California without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

Accepted by:

OPTIONEE

CARBYLAN THERAPEUTICS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Its

\_\_\_\_\_  
Address:

\_\_\_\_\_  
Address:

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date Received

**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE :  
COMPANY : CARBYLAN THERAPEUTICS, INC.  
SECURITY : COMMON STOCK  
AMOUNT :  
DATE :

In connection with the purchase of the above-listed securities (“**Securities**”), the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company’s business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee’s own account only and not with a view to, or for resale in connection with, any “distribution” thereof within the meaning of the Securities Act of 1933, as amended (the “**Securities Act**”).

(b) Optionee acknowledges and understands that the Securities constitute “restricted securities” under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee’s investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee’s representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of “restricted securities” acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such

longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

\_\_\_\_\_

Date: \_\_\_\_\_



CARBYLAN THERAPEUTICS, INC.

2014 STOCK OPTION PLAN

STOCK OPTION AGREEMENT— EARLY EXERCISE

Unless otherwise defined herein, the terms defined in the 2014 Stock Option Plan shall have the same defined meanings in this Stock Option Agreement.

I. NOTICE OF GRANT

**Optionee:**

The undersigned Optionee has been granted an Option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as follows:

Date of Grant \_\_\_\_\_

Vesting Commencement Date \_\_\_\_\_

Exercise Price per Share \$ \_\_\_\_\_

Total Number of Shares Granted \_\_\_\_\_

Total Exercise Price \$ \_\_\_\_\_

Type of Option: \_\_\_\_\_ Incentive Stock Option

\_\_\_\_\_ Nonstatutory Stock Option

Expiration Date: \_\_\_\_\_

Vesting Schedule:

This Option shall be exercisable in whole or in part according to the following vesting schedule:

Termination Period:

This Option shall be exercisable for three months after the Optionee ceases to be a Service Provider. Upon the Optionee's death or Disability, this Option shall be exercisable for one year after Optionee ceases to be Service Provider. In no event may the Optionee exercise this Option after the Expiration Date set forth above.

II. AGREEMENT

1. Grant of Option. The Company hereby grants to the Optionee named in the Notice of Grant in Part I of this Agreement (the "**Optionee**"), an option (the "**Option**") to purchase the number of Shares set forth in the Notice of Grant, at the Exercise Price per Share set forth in the Notice of Grant (the "**Exercise Price**"), and subject to the terms and conditions of the Plan, which is incorporated herein by reference. In the event of a conflict between the terms and conditions of the Plan and this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("**ISO**"), this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. Nevertheless, to the extent that it exceeds the \$100,000 rule of Code Section 422(d), this Option shall be treated as a Nonstatutory Stock Option ("**NSO**").

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the provisions of Section 10 of the Plan as follows:

(a) Right to Exercise.

(i) Subject to subsections 2(a)(ii), 2(a)(iii) and 2(b) below, this Option shall be exercisable according to the vesting schedule set forth in the Notice of Grant. Alternatively, at the election of the Optionee, this Option may be exercised in whole or in part at any time as to Shares that have not yet vested. Vested Shares shall not be subject to the Company's repurchase right (as set forth in the Restricted Stock Purchase Agreement, attached hereto as **Exhibit C-1**).

(ii) As a condition to exercising this Option for unvested Shares, the Optionee shall execute the Restricted Stock Purchase Agreement.

(iii) This Option may not be exercised for a fraction of a Share.

(b) Method of Exercise. This Option shall be exercisable by delivery of an exercise notice in the form attached as **Exhibit A** (the "**Exercise Notice**"). The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to the portion of this Option so exercised. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by full payment of the aggregate Exercise Price by one of the methods set forth in Section 5 below and satisfaction of all tax withholding requirements by such methods as permitted under the Plan.

3. Optionee's Representations. In the event the Shares have not been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), at the time this Option is exercised, the Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company an Investment Representation Statement in the form attached hereto as **Exhibit B**.

4. Lock-Up Period. The Optionee hereby agrees that the Optionee shall not offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Common Stock (or other securities) of the Company or enter into any swap, hedging or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Common Stock (or other securities) of the Company held by the Optionee (other than those included in the registration) for a period specified by the representative of the underwriters of Common Stock (or other securities) of the Company not to exceed one hundred eighty (180) days following the effective date of any registration statement of the Company filed under the Securities Act.

The Optionee agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter which are consistent with the foregoing or which are necessary to give further effect thereto. In addition, if requested by the Company or the representative of the underwriters of Common Stock (or other securities) of the Company, the Optionee shall provide, within ten (10) days of such request, such information as may be required by the Company or such representative in connection with the completion of any public offering of the Company's securities pursuant to a registration statement filed under the Securities Act. The obligations described in this Section shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form S-4 or similar forms that may be promulgated in the future. The Company may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of said one hundred eighty (180) day period. The Optionee agrees that any transferee of the Option or shares acquired pursuant to the Option shall be bound by this Section.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

(a) cash;

(b) check;

(c) consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan; or

(d) surrender of other Shares which, (i) in the case of Shares acquired from the Company, either directly or indirectly, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the portion of this Option exercised.

6. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution or as set forth in the Plan and may be exercised during the lifetime of the Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Notice of Disqualifying Disposition of ISO Shares. If the Option granted to the Optionee herein is an ISO, and if the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, and (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that the Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee.

8. Entire Agreement. The Plan is incorporated herein by reference. The Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee.

9. No Guarantee of Continued Service. THE OPTIONEE AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). THE OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH THE OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE THE OPTIONEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

The Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. The Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option. The Optionee further agrees to notify the Company upon any change in the residence address indicated below.

**OPTIONEE**

**CARBYLAN THERAPEUTICS, INC.**

\_\_\_\_\_  
Signature

By: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**2014 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Carbylan Therapeutics, Inc.

Attention: President

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_, the undersigned ("***Optionee***") hereby elects to exercise Optionee's option (the "***Option***") to purchase \_\_\_\_\_ shares of the Common Stock (the "***Shares***") of Carbylan Therapeutics, Inc. (the "***Company***") under and pursuant to the 2014 Stock Option Plan (the "***Plan***") and the Stock Option Agreement dated \_\_\_\_\_, \_\_\_\_\_ (the "***Option Agreement***"). Except as otherwise defined herein, all capitalized terms have the same meaning as in the Plan.

2. **Delivery of Payment.** Optionee herewith delivers to the Company the full purchase price of the Shares, as set forth in the Option Agreement, and any and all withholding taxes due in connection with the exercise of the Option.

3. **Representations of Optionee.** Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. **Rights as Stockholder.** Until the issuance of the Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Shares shall be issued to the Optionee as soon as practicable after the Option is exercised in accordance with the Option Agreement.

5. **Company's Right of First Refusal.** Before any Shares held by Optionee or any transferee (either being sometimes referred to herein as the "***Holder***") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section (the "***Right of First Refusal***").

(a) **Notice of Proposed Transfer.** The Holder of the Shares shall deliver to the Company a written notice (the "***Notice***") stating: (i) the Holder's bona fide intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("***Proposed Transferee***"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the bona fide cash price or other consideration for which the Holder proposes to transfer the Shares (the "***Offered Price***"), and the Holder shall offer the Shares at the Offered Price to the Company or its assignee(s).

(b) Exercise of Right of First Refusal. At any time within thirty (30) days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (c) below.

(c) Purchase Price. The purchase price ("**Purchase Price**") for the Shares purchased by the Company or its assignee(s) under this Section shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(d) Payment. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(e) Holder's Right to Transfer. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section, then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 120 days after the date of the Notice, that any such sale or other transfer is effected in accordance with any applicable securities laws and that the Proposed Transferee agrees in writing that the provisions of this Section shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(f) Exception for Certain Family Transfers. Anything to the contrary contained in this Section notwithstanding, the transfer of any or all of the Shares during Optionee's lifetime or on Optionee's death by will or intestacy to Optionee's immediate family or a trust for the benefit of Optionee's immediate family shall be exempt from the provisions of this Section. "**Immediate Family**" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section.

(g) Termination of Right of First Refusal. The Right of First Refusal shall terminate as to any Shares upon the earlier of (i) first sale of Common Stock of the Company to the general public, or (ii) a Change in Control in which the successor corporation has equity securities that are publicly traded.

6. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee's purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with

the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

7. Restrictive Legends and Stop-Transfer Orders.

(a) Legends. Optionee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT AS TO THE SECURITIES UNDER SAID ACT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED. THIS CERTIFICATE MUST BE SURRENDERED TO THE COMPANY OR ITS TRANSFER AGENT AS A CONDITION PRECEDENT TO THE SALE, PLEDGE OR OTHER TRANSFER OF ANY INTEREST IN ANY OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER, OR HIS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

(b) Stop-Transfer Notices. Optionee agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Exercise Notice or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

8. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

9. Interpretation. Any dispute regarding the interpretation of this Exercise Notice shall be submitted by Optionee or by the Company forthwith to the Administrator, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Administrator shall be final and binding on all parties.

10. Governing Law. This Exercise Notice will be administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Shares are listed or entered for trading, in each case as determined by the Board. Except as otherwise provided in the preceding sentence, the provisions of this Exercise Notice and all claims or disputes arising out of our based upon this Exercise Notice or relating to the subject matter hereof will be governed by and construed in accordance with the domestic substantive laws of the State of California without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

11. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan, the Option Agreement and the Investment Representation Statement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and may not be modified adversely to Optionee's interest except by means of a writing signed by the Company and Optionee.

Submitted by:

Accepted by:

OPTIONEE

CARBYLAN THERAPEUTICS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Its

Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Address:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Date Received



**EXHIBIT B**

**INVESTMENT REPRESENTATION STATEMENT**

OPTIONEE :  
COMPANY : CARBYLAN THERAPEUTICS, INC.  
SECURITY : COMMON STOCK  
AMOUNT :  
DATE :

In connection with the purchase of the above-listed securities ("*Securities*"), the undersigned Optionee represents to the Company the following:

(a) Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. Optionee is acquiring these Securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "*Securities Act*").

(b) Optionee acknowledges and understands that the Securities constitute "restricted securities" under the Securities Act and have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein. In this connection, Optionee understands that, in the view of the Securities and Exchange Commission, the statutory basis for such exemption may be unavailable if Optionee's representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future. Optionee further understands that the Securities must be held indefinitely unless they are subsequently registered under the Securities Act or an exemption from such registration is available. Optionee further acknowledges and understands that the Company is under no obligation to register the Securities. Optionee understands that the certificate evidencing the Securities will be imprinted with any legend required under applicable state securities laws.

(c) Optionee is familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of the grant of the Option to Optionee, the exercise will be exempt from registration under the Securities Act. In the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter (or such

longer period as any market stand-off agreement may require) the Securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including: (1) the resale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, (3) the amount of Securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), and (4) the timely filing of a Form 144, if applicable.

In the event that the Company does not qualify under Rule 701 at the time of grant of the Option, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144.

(d) Optionee further understands that in the event all of the applicable requirements of Rule 701 or 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the Securities and Exchange Commission has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk. Optionee understands that no assurances can be given that any such other registration exemption will be available in such event.

Signature of Optionee:

\_\_\_\_\_

Date: \_\_\_\_\_

EXHIBIT C-1

CARBYLAN THERAPEUTICS, INC.

2014 STOCK OPTION PLAN

RESTRICTED STOCK PURCHASE AGREEMENT

THIS AGREEMENT is made between [ ] (“**Purchaser**”) and Carbylan Therapeutics, Inc. (the “**Company**”) or its assignees of rights hereunder as of \_\_\_\_\_, \_\_\_\_\_.

Unless otherwise defined herein, the terms defined in the 2014 Stock Option Plan shall have the same defined meanings in this Agreement.

RECITALS

A. Pursuant to the exercise of the option granted to Purchaser under the Plan and pursuant to the Option Agreement dated \_\_\_\_\_, \_\_\_\_\_, by and between the Company and Purchaser with respect to such grant (the “**Option**”), which Plan and Option Agreement are hereby incorporated by reference, Purchaser has elected to purchase \_\_\_\_\_ of those shares of Common Stock which have not become vested under the vesting schedule set forth in the Option Agreement (“**Unvested Shares**”). The Unvested Shares and the shares subject to the Option Agreement that have become vested are collectively referred to herein as the “**Shares**.”

B. As required by the Option Agreement, as a condition to Purchaser’s election to exercise the Option, Purchaser must execute this Agreement, which sets forth the rights and obligations of the parties with respect to Shares acquired upon exercise of the Option.

1. Repurchase Option.

(a) If Purchaser’s status as a Service Provider is terminated for any reason, including for death and Disability, the Company shall have the right and option for ninety (90) days from such date to purchase from Purchaser, or Purchaser’s personal representative, as the case may be, all of Purchaser’s Unvested Shares as of the date of such termination at the lesser of the price paid by Purchaser for such Shares and the Fair Market Value of such Shares on the date of repurchase (the “**Repurchase Option**”).

(b) Upon the occurrence of such termination, the Company may exercise the Repurchase Option by delivering personally or by registered mail, to Purchaser (or Purchaser’s transferee or legal representative, as the case may be) with a copy to the escrow agent described in Section 2 below, a notice in writing indicating the Company’s intention to exercise the Repurchase Option AND, at the Company’s option, (i) by delivering to Purchaser (or Purchaser’s transferee or legal representative) a check in the amount of the aggregate repurchase price, or (ii) by the Company canceling an amount of Purchaser’s indebtedness to the Company equal to the aggregate repurchase price, or (iii) by a combination of (i) and (ii) so that the combined payment and cancellation of

indebtedness equals such aggregate repurchase price. Upon delivery of such notice and payment of the aggregate repurchase price in any of the ways described above, the Company shall become the legal and beneficial owner of the Unvested Shares being repurchased and the rights and interests therein or relating thereto, and the Company shall have the right to retain and transfer to its own name the number of Unvested Shares being repurchased by the Company.

(c) Whenever the Company shall have the right to repurchase Unvested Shares hereunder, the Company may designate and assign one or more employees, officers, directors or stockholders of the Company or other persons or organizations to exercise all or a part of the Company's Repurchase Option under this Agreement and purchase all or a part of such Unvested Shares.

(d) If the Company does not elect to exercise the Repurchase Option conferred above by giving the requisite notice within ninety (90) days following the termination, the Repurchase Option shall terminate.

(e) The Repurchase Option shall terminate in accordance with the vesting schedule contained in Purchaser's Option Agreement.

2. Transferability of the Shares; Escrow.

(a) Purchaser hereby authorizes and directs the Secretary of the Company, or such other person designated by the Company, to transfer the Unvested Shares as to which the Repurchase Option has been exercised from Purchaser to the Company.

(b) To insure the availability for delivery of Purchaser's Unvested Shares upon repurchase by the Company pursuant to the Repurchase Option under Section 1, Purchaser hereby appoints the Secretary, or any other person designated by the Company as escrow agent (the "**Escrow Agent**"), as its attorney-in-fact to sell, assign and transfer unto the Company, such Unvested Shares, if any, repurchased by the Company pursuant to the Repurchase Option and shall, upon execution of this Agreement, deliver and deposit with the Escrow Agent, the share certificates representing the Unvested Shares, together with the stock assignment duly endorsed in blank, attached hereto as **Exhibit C-2**. The Unvested Shares and stock assignment shall be held by the Escrow Agent in escrow, pursuant to the Joint Escrow Instructions of the Company and Purchaser attached as **Exhibit C-3** hereto, until the Company exercises its Repurchase Option, until such Unvested Shares are vested, or until such time as this Agreement no longer is in effect. Upon vesting of the Unvested Shares, the Escrow Agent shall promptly deliver to Purchaser the certificate or certificates representing such Shares in the Escrow Agent's possession belonging to Purchaser, and the Escrow Agent shall be discharged of all further obligations hereunder; provided, however, that the Escrow Agent shall nevertheless retain such certificate or certificates as Escrow Agent if so required pursuant to other restrictions imposed pursuant to this Agreement.

(c) The Company nor the Escrow Agent shall be liable for any act it may do or omit to do with respect to holding the Shares in escrow and while acting in good faith and in the exercise of its judgment.

(d) Transfer or sale of the Shares is subject to restrictions on transfer imposed by any applicable state and federal securities laws. Any transferee shall hold such Shares subject to all

the provisions hereof and the Exercise Notice executed by Purchaser with respect to any Unvested Shares purchased by Purchaser and shall acknowledge the same by signing a copy of this Agreement.

3. Ownership, Voting Rights, Duties. This Agreement shall not affect in any way the ownership, voting rights or other rights or duties of Purchaser, except as specifically provided herein.

4. Legends. The share certificate evidencing the Shares issued hereunder shall be endorsed with the following legend (in addition to any legend required under applicable federal and state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE STOCKHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

5. Notices. Notices required hereunder shall be given in person or by registered mail to the address of Purchaser shown on the records of the Company, and to the Company at their respective principal executive offices.

6. Survival of Terms. This Agreement shall apply to and bind Purchaser and the Company and their respective permitted assignees and transferees, heirs, legatees, executors, administrators and legal successors.

7. Section 83(b) Election. Purchaser hereby acknowledges that he or she has been informed that, with respect to the exercise of an Option for Unvested Shares, an election (an "**Election**") may be filed by Purchaser with the Internal Revenue Service, within thirty (30) days of the purchase of the Shares, electing pursuant to Section 83(b) of the Code to be taxed currently on any difference between the purchase price of the Shares and their Fair Market Value on the date of purchase. Purchaser is strongly encouraged to seek the advice of his or her own tax consultants in connection with the purchase of the Shares and the advisability of filing of an Election. A form of Election under Section 83(b) is attached hereto as **Exhibit C-4** for reference.

PURCHASER ACKNOWLEDGES THAT IT IS PURCHASER'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S TO FILE TIMELY THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF PURCHASER REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON PURCHASER'S BEHALF.

8. Representations. Purchaser has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by this Agreement. Purchaser is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Purchaser understands that Purchaser (and not the Company) shall be responsible for his own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

9. Governing Law. This Agreement will be administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Shares are listed or entered for trading, in each case as determined by the Board. Except as otherwise provided in the preceding sentence, the provisions of this Agreement and all claims or disputes arising out of our based upon this Agreement or relating to the subject matter hereof will be governed by and construed in accordance with the domestic substantive laws of the State of California without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

Purchaser represents that he or she has read this Agreement and is familiar with its terms and provisions. Purchaser hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under this Agreement.

IN WITNESS WHEREOF, this Agreement is deemed made as of the date first set forth above.

OPTIONEE

CARBYLAN THERAPEUTICS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Residence Address:  
\_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

EXHIBIT C-2

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED I, \_\_\_\_\_, hereby sell, assign and transfer unto Carbylan Therapeutics, Inc. \_\_\_\_\_(\_\_\_\_\_) shares of the Common Stock of Carbylan Therapeutics, Inc. standing in my name of the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer the said stock on the books of the within named corporation with full power of substitution in the premises.

This Stock Assignment may be used only in accordance with the Restricted Stock Purchase Agreement between Carbylan Therapeutics, Inc. and the undersigned dated \_\_\_\_\_, \_\_\_\_\_(the "**Agreement**").

Dated: \_\_\_\_\_, \_\_\_\_

Signature: \_\_\_\_\_

INSTRUCTIONS: Please do not fill in any blanks other than the signature line. The purpose of this assignment is to enable the Company to exercise its "repurchase option," as set forth in the Agreement, without requiring additional signatures on the part of Purchaser.

EXHIBIT C-3

JOINT ESCROW INSTRUCTIONS

Corporate Secretary  
Carbylan Therapeutics, Inc.  
3181 Porter Drive  
Palo Alto, CA 94306

Dear \_\_\_\_\_:

As Escrow Agent for both Carbylan Therapeutics, Inc. (the "**Company**"), and the undersigned purchaser of stock of the Company ("**Purchaser**"), you are hereby authorized and directed to hold the documents delivered to you pursuant to the terms of that certain Restricted Stock Purchase Agreement (the "**Agreement**") between the Company and the undersigned, in accordance with the following instructions:

1. In the event the Company and/or any assignee of the Company (referred to collectively for convenience herein as the "**Company**") exercises the Company's repurchase option set forth in the Agreement, the Company shall give to Purchaser and you a written notice specifying the number of shares of stock to be purchased, the purchase price, and the time for a closing hereunder at the principal office of the Company. Purchaser and the Company hereby irrevocably authorize and direct you to close the transaction contemplated by such notice in accordance with the terms of said notice.

2. At the closing, you are directed (a) to date the stock assignments necessary for the transfer in question, (b) to fill in the number of shares being transferred, and (c) to deliver the stock assignments, together with the certificate evidencing the shares of stock to be transferred, to the Company or its assignee, against the simultaneous delivery to you of the purchase price (by cash, a check, or some combination thereof) for the number of shares of stock being purchased pursuant to the exercise of the Company's repurchase option.

3. Purchaser irrevocably authorizes the Company to deposit with you any certificates evidencing shares of stock to be held by you hereunder and any additions and substitutions to said shares as defined in the Agreement. Purchaser does hereby irrevocably constitute and appoint you as Purchaser's attorney-in-fact and agent for the term of this escrow to execute with respect to such securities all documents necessary or appropriate to make such securities negotiable and to complete any transaction herein contemplated, including but not limited to the filing with any applicable state blue sky authority of any required applications for consent to, or notice of transfer of, the securities. Subject to the provisions of this paragraph 3, Purchaser shall exercise all rights and privileges of a stockholder of the Company while the stock is held by you.

4. Upon written request of Purchaser, but no more than once per calendar year, unless the Company's repurchase option has been exercised, you will deliver to Purchaser a certificate or



certificates representing so many shares of stock as are not then subject to the Company's repurchase option. Within 120 days after cessation of Purchaser's continuous employment by or services to the Company, or any parent or subsidiary of the Company, you will deliver to Purchaser a certificate or certificates representing the aggregate number of shares held or issued pursuant to the Agreement and not purchased by the Company or its assignees pursuant to exercise of the Company's repurchase option.

5. If at the time of termination of this escrow you should have in your possession any documents, securities, or other property belonging to Purchaser, you shall deliver all of the same to Purchaser and shall be discharged of all further obligations hereunder.

6. Your duties hereunder may be altered, amended, modified or revoked only by a writing signed by all of the parties hereto.

7. You shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by you to be genuine and to have been signed or presented by the proper party or parties. You shall not be personally liable for any act you may do or omit to do hereunder as Escrow Agent or as attorney-in-fact for Purchaser while acting in good faith, and any act done or omitted by you pursuant to the advice of your own attorneys shall be conclusive evidence of such good faith.

8. You are hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and are hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case you obey or comply with any such order, judgment or decree, you shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such compliance, notwithstanding any such order, judgment or decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

9. You shall not be liable in any respect on account of the identity, authorities or rights of the parties executing or delivering or purporting to execute or deliver the Agreement or any documents or papers deposited or called for hereunder.

10. You shall not be liable for the outlawing of any rights under the Statute of Limitations with respect to these Joint Escrow Instructions or any documents deposited with you.

11. You shall be entitled to employ such legal counsel and other experts as you may deem necessary properly to advise you in connection with your obligations hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor.

12. Your responsibilities as Escrow Agent hereunder shall terminate if you shall cease to be an officer or agent of the Company or if you shall resign by written notice to each party. In the event of any such termination, the Company shall appoint a successor Escrow Agent.

13. If you reasonably require other or further instruments in connection with these Joint Escrow Instructions or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

14. It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the securities held by you hereunder, you are authorized and directed to retain in your possession without liability to anyone all or any part of said securities until such disputes shall have been settled either by mutual written agreement of the parties concerned or by a final order, decree or judgment of a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but you shall be under no duty whatsoever to institute or defend any such proceedings.

15. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail with postage and fees prepaid, addressed to each of the other parties thereunto entitled at the following addresses or at such other addresses as a party may designate by ten days' advance written notice to each of the other parties hereto.

16. By signing these Joint Escrow Instructions, you become a party hereto only for the purpose of said Joint Escrow Instructions; you do not become a party to the Agreement.

17. This instrument shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and permitted assigns.

18. These Joint Escrow Instructions will be administered consistent with the requirements of applicable Delaware law relating to the issuance of stock and the consideration to be received therefor, and with the applicable requirements of the stock exchanges or other trading systems on which the Shares are listed or entered for trading, in each case as determined by the Board. Except as otherwise provided in the preceding sentence, the provisions of these Joint Escrow Instructions and all claims or disputes arising out of our based upon these Joint Escrow Instructions or relating to the subject matter hereof will be governed by and construed in accordance with the domestic substantive laws of the State of California without giving effect to any choice or conflict of laws provision or rule that would cause the application of the domestic substantive laws of any other jurisdiction.

PURCHASER

CARBYLAN THERAPEUTICS, INC.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
By

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

Residence Address:  
\_\_\_\_\_  
\_\_\_\_\_

ESCROW AGENT

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\_\_\_\_\_  
Corporate Secretary

Dated: \_\_\_\_\_, \_\_\_\_\_

EXHIBIT C-4

**ELECTION UNDER SECTION 83(b)  
OF THE INTERNAL REVENUE CODE OF 1986**

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in taxpayer's gross income or alternative minimum taxable income, as the case may be, for the current taxable year the amount of any compensation taxable to taxpayer in connection with taxpayer's receipt of the property described below

1. The name, address, taxpayer identification number and taxable year of the undersigned are as follows:

Name of Taxpayer: \_\_\_\_\_  
\_\_\_\_\_

Name of Spouse: \_\_\_\_\_  
\_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Identification No. of Taxpayer: \_\_\_\_\_  
\_\_\_\_\_

Identification No. of Spouse: \_\_\_\_\_  
\_\_\_\_\_

Taxable Year: \_\_\_\_\_

2. The property with respect to which the election is made is described as follows: \_\_\_\_\_ shares (the "**Shares**") of the Common Stock of Carbylan Therapeutics, Inc. (the "**Company**").

3. The date on which the property was transferred is: \_\_\_\_\_.

4. The property is subject to the following restrictions:

The Shares may not be transferred and are subject to forfeiture under the terms of an agreement between the taxpayer and the Company. These restrictions lapse upon the satisfaction of certain conditions contained in such agreement.

5. The fair market value at the time of transfer, determined without regard to any restriction other than a restriction which by its terms will never lapse, of such property is: \$\_\_\_\_\_.

6. The amount (if any) paid for such property is: \$\_\_\_\_\_.

The undersigned has submitted a copy of this statement to the person for whom the services were performed in connection with the undersigned's receipt of the above-described property. The transferee of such property is the person performing the services in connection with the transfer of said property.

The undersigned understands that the foregoing election may not be revoked except with the consent of the Commissioner.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Taxpayer

The undersigned spouse of taxpayer joins in this election.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Spouse of Taxpayer

## LOAN AND SECURITY AGREEMENT

**THIS LOAN AND SECURITY AGREEMENT** (this “**Agreement**”) dated as of October 26, 2011 (the “**Effective Date**”) between **SILICON VALLEY BANK**, a California corporation (“**Bank**”), and **CARBYLAN BIOSURGERY, INC.**, a Delaware corporation (“**Borrower**”), provides the terms on which Bank shall lend to Borrower and Borrower shall repay Bank. The parties agree as follows:

### 1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP (except for non-compliance with FASB ASC Topic 718 in the monthly reporting). Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in Section 13. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein.

### 2 LOAN AND TERMS OF PAYMENT

**2.1 Promise to Pay.** Borrower hereby unconditionally promises to pay Bank the outstanding principal amount of all Credit Extensions and accrued and unpaid interest thereon as and when due in accordance with this Agreement.

#### 2.1.1 **Term Loans.**

(a) Availability. Subject to the terms and conditions of this Agreement: (i) Bank agrees to lend to Borrower from time to time prior to the Commitment Termination Date, two advances (each a “**Term Loan**” and collectively the “**Term Loans**”) in an aggregate original principal amount not to exceed the Term Loan Commitment; (ii) the first Term Loan, shall be in an amount of Three Million (\$3,000,000) (the “**First Term Loan**”) and shall be available until two (2) Business Days after the Effective Date but no later than October 31, 2011; and (iii) the second Term Loan, shall be in an amount of Two Million Dollars (\$2,000,000) (the “**Second Term Loan**”) and shall be available from January 1, 2012 through June 30, 2012 and only so long as the Second Term Loan Condition has occurred. The “**Second Term Loan Condition**” means that Borrower or its investors have presented evidence satisfactory to Bank that Borrower has obtained pivotal trial guidance from the FDA that is satisfactory to Borrower’s Board of Directors. When repaid, the Term Loans may not be re-borrowed. Bank’s obligation to lend hereunder shall terminate on the Commitment Termination Date.

(b) Repayment. For the First Term Loan: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the First Term Loan and continuing thereafter on the first day of each successive calendar month through and including July 1, 2012, (ii) commencing on August 1, 2012 and continuing thereafter on the first day of each successive calendar month through and including the Term Loan Maturity Date, Borrower shall make thirty-six (36) equal monthly payments of principal and interest which would fully amortize the First Term Loan, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Term Loan Maturity Date with respect to the First Term Loan. For the Second Term Loan: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the Second Term Loan and continuing thereafter on the first day of each successive calendar month during the Term Loan Interest Only Period, (ii) commencing on the Term Loan Amortization Date and continuing thereafter on the first day of each successive calendar month through and including the Term Loan Maturity Date, Borrower shall make thirty (30) equal monthly payments of principal and interest which would fully amortize the Second Term Loan, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Term Loan Maturity Date with respect to the Second Term Loan. Each date that a monthly payment of principal and interest is due as to a Term Loan shall be referred to herein as a “**Scheduled Payment Date**” and each scheduled monthly payment of principal and interest as to a Term Loan shall be referred to herein as “**Scheduled Payment**”, and collectively, “**Scheduled Payments.**” Term Loans may only be prepaid in accordance with Sections 2.1.1(d) and 2.1.1(e).

(c) Final Payment. On the final Scheduled Payment Date with respect to each Term Loan, Borrower shall pay, in addition to the outstanding principal, accrued and unpaid interest, and all other amounts due on such date with respect to such Term Loan, an amount equal to the Final Payment.

(d) Mandatory Prepayment Upon an Acceleration. If the Term Loans are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of: (i) all outstanding principal plus accrued interest, (ii) the Final Payment, plus (iii) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(e) Permitted Prepayment of Loans. Borrower shall have the option to prepay all, but not less than all, of the Term Loans advanced by Bank under this Agreement, provided Borrower (i) provides written notice to Bank of its election to prepay Term Loans at least thirty (30) days prior to such prepayment, and (ii) pays, on the date of such prepayment (A) all outstanding principal plus accrued interest, (B) the Final Payment, plus (C) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

## 2.2 Intentionally omitted.

## 2.3 Payment of Interest on the Credit Extensions.

### (a) Interest Rate.

(i) Term Loan. Subject to Section 2.3(b), the principal amount outstanding under each Term Loan shall accrue interest, which interest shall be payable monthly, at a fixed per annum rate equal to the greater of (i) five percent (5%), or (ii) the Basic Rate as determined on its Funding Date.

(b) Default Rate. Immediately upon the occurrence and during the continuance of an Event of Default, Obligations shall bear interest at a rate per annum which is five percentage points (5.00%) above the rate that is otherwise applicable thereto (the “**Default Rate**”) unless Bank otherwise elects from time to time in its sole discretion to impose a smaller increase. Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Bank Expenses) but are not paid when due shall bear interest until paid at a rate equal to the highest rate applicable to the Obligations. Payment or acceptance of the increased interest rate provided in this Section 2.3(b) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Bank.

### (c) Intentionally Omitted.

(d) Computation; 360-Day Year. In computing interest, the date of the making of any Credit Extension shall be included and the date of payment shall be excluded; *provided, however*, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension. Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed.

(e) Debit of Accounts. Bank may debit any of Borrower’s deposit accounts, including the Designated Deposit Account, for principal and interest payments or any other amounts Borrower owes Bank when due. These debits shall not constitute a set-off.

### (f) Interest Payment Date. Unless otherwise provided, interest is payable monthly on the first (1<sup>st</sup>) calendar day of each month.

## 2.4 Fees. Borrower shall pay to Bank:

### (a) Final Payment. The Final Payment, when due hereunder; and

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys’ fees and expenses for documentation and negotiation of this Agreement) incurred through and after the Effective Date, when due. The Borrower has paid to Bank a good faith deposit of \$15,000 which shall be used by Bank to pay Bank Expenses through the Effective Date with any remainder to be refunded to Borrower.

## 2.5 Payments; Application of Payments.

(a) All payments (including prepayments) to be made by Borrower under any Loan Document shall be made in immediately available funds in U.S. Dollars, without setoff or counterclaim, before

12:00 p.m. Pacific time on the date when due. Payments of principal and/or interest received after 12:00 p.m. Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid.

(b) Borrower shall have no right to specify the order or the accounts to which Bank shall allocate or apply any payments required to be made by Borrower to Bank or otherwise received by Bank under this Agreement when any such allocation or application is not specified elsewhere in this Agreement.

### **3 CONDITIONS OF LOANS**

**3.1 Conditions Precedent to Initial Credit Extension.** Bank's obligation to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, such documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate, including, without limitation:

- (a) duly executed original signatures to the Loan Documents;
- (b) duly executed original signatures to the Warrant;
- (c) duly executed original signatures to the Control Agreements required by Section 6.6(b);

(d) Borrower's Operating Documents and a good standing certificate of Borrower certified by the Secretary of State of the States of Delaware and California as of a date no earlier than thirty (30) days prior to the Effective Date;

(e) duly executed original signatures to the completed Borrowing Resolutions for Borrower;

(f) certified copies, dated as of a recent date, of financing statement searches, as Bank shall request, accompanied by written evidence (including any UCC termination statements) that the Liens indicated in any such financing statements either constitute Permitted Liens or have been or, in connection with the initial Credit Extension, will be terminated or released;

(g) the Perfection Certificate of Borrower, together with the duly executed original signature thereto;

(h) a copy of its Registration Rights Agreement and any amendments thereto;

(i) evidence satisfactory to Bank that the insurance policies required by Section 6.5 hereof are in full force and effect, together with appropriate evidence showing lender loss payable and/or additional insured clauses and cancellation notice to Bank (or endorsements reflecting the same) in favor of Bank;

(j) payment of the fees and Bank Expenses then due as specified in Section 2.4 hereof.

**3.2 Conditions Precedent to all Credit Extensions.** Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) except as otherwise provided in Section 3.5(a), timely receipt of an executed Payment/Advance Form;

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Payment/Advance Form and on the Funding Date of each Credit Extension; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete in all material respects; provided, however, that such materiality



qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date;

- (c) with respect to the Second Term Loan, the Second Term Loan Condition has occurred; and
- (d) in Bank's sole discretion, there is a lack of Investor Support.

**3.3 Intentionally omitted.**

**3.4 Covenant to Deliver.** Borrower agrees to deliver to Bank each item required to be delivered to Bank under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Bank of any such item shall not constitute a waiver by Bank of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Bank's sole discretion.

**3.5 Procedures for Borrowing.**

(a) Term Loans. To obtain the Second Term Loan, Borrower must notify Bank by electronic mail, facsimile or telephone by 12:00 p.m. Pacific Time five (5) Business Days prior to the date the Term Loan is to be made. If such notification is by telephone, Borrower must promptly confirm the notification by delivering to Bank a completed Payment/Advance Form in the form attached as Exhibit B. On the Funding Date, Bank shall credit to Borrower's deposit account, an amount equal to the amount of the Term Loan. Bank may make Term Loans under this Agreement based on instructions from a Responsible Officer or his or her designee. Bank may rely on any telephone notice given by a person whom such Bank believes is a Responsible Officer or designee.

**4 CREATION OF SECURITY INTEREST**

**4.1 Grant of Security Interest.** Borrower hereby grants Bank, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Bank, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

**4.2 Priority of Security Interest.** Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens that may have superior priority to Bank's Lien under this Agreement). If Borrower shall acquire a commercial tort claim, Borrower shall promptly notify Bank in a writing signed by Borrower of the general details thereof and grant to Bank in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Bank.

If this Agreement is terminated, Bank's Lien in the Collateral shall continue until the Obligations (other than inchoate indemnity obligations) are repaid in full in cash. Upon payment in full in cash of the Obligations (other than inchoate indemnity obligations) and at such time as Bank's obligation to make Credit Extensions has terminated, Bank shall, at Borrower's sole cost and expense, release its Liens in the Collateral and all rights therein shall revert to Borrower.

**4.3 Authorization to File Financing Statements.** Borrower hereby authorizes Bank to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Bank's interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate the rights of Bank under the Code.

**5 REPRESENTATIONS AND WARRANTIES**

Borrower represents and warrants as follows:

**5.1 Due Organization, Authorization; Power and Authority.** Borrower is duly existing and in good standing as a Registered Organization in its jurisdiction of formation and is qualified and licensed to do

business and is in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified except where the failure to do so could not reasonably be expected to have a material adverse effect on Borrower's business. In connection with this Agreement, Borrower has delivered to Bank a completed certificate signed by Borrower, entitled "Perfection Certificate". Borrower represents and warrants to Bank that (a) Borrower's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof; (b) Borrower is an organization of the type and is organized in the jurisdiction set forth in the Perfection Certificate; (c) the Perfection Certificate accurately sets forth Borrower's organizational identification number or accurately states that Borrower has none; (d) the Perfection Certificate accurately sets forth Borrower's place of business, or, if more than one, its chief executive office as well as Borrower's mailing address (if different than its chief executive office); (e) Borrower (and each of its predecessors) has not, in the past five (5) years, changed its jurisdiction of formation, organizational structure or type, or any organizational number assigned by its jurisdiction; and (f) all other information set forth on the Perfection Certificate pertaining to Borrower and each of its Subsidiaries is accurate and complete (it being understood and agreed that Borrower may from time to time update certain information in the Perfection Certificate after the Effective Date to the extent permitted by one or more specific provisions in this Agreement). If Borrower is not now a Registered Organization but later becomes one, Borrower shall promptly notify Bank of such occurrence and provide Bank with Borrower's organizational identification number.

The execution, delivery and performance by Borrower of the Loan Documents to which it is a party have been duly authorized, and do not (i) conflict with any of Borrower's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect) or (v) constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound in which the default could reasonably be expected to have a material adverse effect on Borrower's business.

**5.2 Collateral.** Borrower has good title to, has rights in, and the power to transfer each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no deposit accounts other than the deposit accounts with Bank, the deposit accounts, if any, described in the Perfection Certificate delivered to Bank in connection herewith, or of which Borrower has given Bank notice and taken such actions as are necessary to give Bank a perfected security interest therein.

The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in the Perfection Certificate. None of the components of the Collateral shall be maintained at locations other than as provided in the Perfection Certificate or as permitted pursuant to Section 7.2.

Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (a) non-exclusive licenses granted to its customers in the ordinary course of business and licenses permitted under Section 7.1(e), (b) over-the-counter software that is commercially available to the public, and (c) material Intellectual Property licensed to Borrower and noted on the Perfection Certificate. Each Patent which it owns or purports to own and which is material to Borrower's business is valid and enforceable, and no part of the Intellectual Property which Borrower owns or purports to own and which is material to Borrower's business has been judged invalid or unenforceable, in whole or in part. To the best of Borrower's knowledge, no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim would not reasonably be expected to have a material adverse effect on Borrower's business. Except as noted on the Perfection Certificate, Borrower is not a party to, nor is it bound by, any Restricted License.

**5.3 Intentionally omitted.**

**5.4 Litigation.** There are no actions or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000).

**5.5 Financial Statements; Financial Condition.** All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Bank fairly present in all material respects Borrower's consolidated financial

condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

**5.6 Solvency.** The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

**5.7 Regulatory Compliance.** Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended. Borrower is not 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). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to have a material adverse effect on its business. None of Borrower's or any of its Subsidiaries' properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Authorities that are necessary to continue their respective businesses as currently conducted.

**5.8 Subsidiaries; Investments.** Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

**5.9 Tax Returns and Payments; Pension Contributions.** Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower. Borrower may defer payment of any contested taxes, provided that Borrower (a) in good faith contests its obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Bank in writing of the commencement of, and any material development in, the proceedings, (c) posts bonds or takes any other steps required to prevent the governmental authority levying such contested taxes from obtaining a Lien upon any of the Collateral that is other than a "Permitted Lien". Borrower is unaware of any claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

**5.10 Use of Proceeds.** Borrower shall use the proceeds of the Credit Extensions solely as working capital and to fund its general business requirements and not for personal, family, household or agricultural purposes.

**5.11 Full Disclosure.** No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Bank, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results).

**5.12 Definition of "Knowledge."** For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of the Responsible Officers.

## **6 AFFIRMATIVE COVENANTS**

Borrower shall do all of the following:

### **6.1 Government Compliance.**

(a) 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 Borrower's business or operations. Borrower shall comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business.

(b) Obtain all of the Governmental Approvals necessary for the performance by Borrower of its obligations under the Loan Documents to which it is a party and the grant of a security interest to Bank in all of its property. Borrower shall promptly provide copies of any such obtained Governmental Approvals to Bank.

### **6.2 Financial Statements, Reports, Certificates.** Deliver to Bank:

(a) Monthly Financial Statements. As soon as available, but no later than thirty (30) days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such month certified by a Responsible Officer and in a form acceptable to Bank (the "**Monthly Financial Statements**");

(b) Monthly Compliance Certificate. Within thirty (30) days after the last day of each month and together with the Monthly Financial Statements, a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth calculations showing compliance with the financial covenants set forth in this Agreement and such other information as Bank shall reasonably request;

(c) Annual Audited Financial Statements. When audited financial statements are required by Borrower's Board of Directors, as soon as available, but no later than one hundred eighty (180) days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank in its reasonable discretion;

(d) Annual Projections. As soon as available, annual financial projections approved by Borrower's Board of Directors within thirty (30) days of such Board approval at its first meeting held in such fiscal year, consistent in form and detail with those provided to Borrower's venture capital investors;

(e) Other Statements. Within five (5) days of delivery, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt;

(f) SEC Filings. In the event that Borrower becomes subject to the reporting requirements under the Exchange Act within five (5) days of filing, copies of all periodic and other reports, proxy statements and other materials filed by Borrower with the SEC, any Governmental Authority succeeding to any or all of the functions of the SEC or with any national securities exchange, or distributed to its shareholders, as the case may be. Documents required to be delivered pursuant to the terms hereof (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date on which Borrower posts such documents, or provides a link thereto, on Borrower's website on the Internet at Borrower's website address;

(g) Legal Action Notice. A prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, One Hundred Thousand Dollars (\$100,000) or more; and

(h) Other Financial Information. Other financial information reasonably requested by Bank.

**6.3 Inventory; Returns.** Keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its Account Debtors shall follow Borrower's customary

practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than Fifty Thousand Dollars (\$50,000).

**6.4 Taxes; Pensions.** Timely file, and require each of its Subsidiaries to timely file, all required tax returns and reports and timely pay, and require each of its Subsidiaries to timely pay, all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, except for deferred payment of any taxes contested pursuant to the terms of Section 5.9 hereof, and shall deliver to Bank, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

**6.5 Insurance.** Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Bank may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are satisfactory to Bank. All property policies shall have a lender's loss payable endorsement showing Bank as a lender loss payee and waive subrogation against Bank. All liability policies shall show, or have endorsements showing, Bank as an additional insured. All policies (or their respective endorsements) shall provide that the insurer shall give Bank at least twenty (20) days notice before canceling, amending, or declining to renew its policy. At Bank's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy shall, at Bank's option, be payable to Bank on account of the Obligations. Notwithstanding the foregoing, (a) so long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy up to Five Hundred Thousand Dollars (\$500,000) in the aggregate for all losses under all casualty policies in any one year, toward the replacement or repair of destroyed or damaged property; provided that any such replaced or repaired property (i) shall be of equal or like value as the replaced or repaired Collateral and (ii) shall be deemed Collateral in which Bank has been granted a first priority security interest, and (b) after the occurrence and during the continuance of an Event of Default, all proceeds payable under such casualty policy shall, at the option of Bank, be payable to Bank on account of the Obligations. If Borrower fails to obtain insurance as required under this Section 6.5 or to pay any amount or furnish any required proof of payment to third persons and Bank, Bank may make all or part of such payment or obtain such insurance policies required in this Section 6.5, and take any action under the policies Bank deems prudent.

**6.6 Operating Accounts.**

(a) Maintain its primary operating and other deposit accounts and securities accounts with Bank and Bank's Affiliates.

(b) Provide Bank five (5) days prior written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank's Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank's Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. The provisions of the previous sentence shall not apply to deposit accounts exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of Borrower's employees and identified to Bank by Borrower as such.

**6.7 Protection of Intellectual Property Rights.**

(a) (i) Use commercially reasonable efforts to protect, defend and maintain the validity and enforceability of its Intellectual Property material to its business; (ii) promptly advise Bank in writing of material infringements of its Intellectual Property; and (iii) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

(b) Provide written notice to Bank within ten (10) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public). Borrower shall take such commercially reasonable steps as Bank requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed "Collateral" and for Bank to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted

License, whether now existing or entered into in the future, and (ii) Bank to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Bank's rights and remedies under this Agreement and the other Loan Documents.

**6.8 Litigation Cooperation.** From the date hereof and continuing through the termination of this Agreement, make available to Bank, without expense to Bank, Borrower and its officers, employees and agents and Borrower's books and records, to the extent that Bank may deem them reasonably necessary to prosecute or defend any third-party suit or proceeding instituted by or against Bank with respect to any Collateral or relating to Borrower.

**6.9 Access to Collateral; Books and Records.** Allow Bank, or its agents, at reasonable times, on one (1) Business Day's notice (provided no notice is required if an Event of Default has occurred and is continuing) to inspect the Collateral and audit and copy Borrower's Books. Such inspections or audits shall be conducted no more often than once every twelve (12) months unless an Event of Default has occurred and is continuing. The foregoing inspections and audits shall be at Borrower's expense.

**6.10 Further Assurances.** Execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's Lien in the Collateral or to effect the purposes of this Agreement.

## **7 NEGATIVE COVENANTS**

Borrower shall not do any of the following without Bank's prior written consent:

**7.1 Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (collectively, "**Transfer**"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out or obsolete Equipment; (c) in connection with Permitted Liens and Permitted Investments; (d) of non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business and (e) exclusive licenses approved by Borrower's board of directors that could not result in a legal transfer of title of the licensed property and that does not result in a liquidation, dissolution or winding up of Borrower.

**7.2 Changes in Business, Management, Ownership, or Business Locations.** (a) Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; (b) liquidate or dissolve; or (c) (i) any Responsible Officer shall cease to be actively engaged in the management of Borrower unless a replacement for such Responsible Officer is approved by Borrower's Board of Directors and engaged by Borrower within ninety (90) days; or (ii) enter into any transaction or series of related transactions in which the stockholders of Borrower who were not stockholders immediately prior to the first such transaction own more than 49% of the voting stock of Borrower immediately after giving effect to such transaction or related series of such transactions (other than by the sale of Borrower's equity securities in a public offering or to venture capital investors so long as Borrower identifies to Bank the venture capital investors prior to the closing of the transaction and provides to Bank a description of the material terms of the transaction); provided, however, only advance written notice to Bank (but not any consent from Bank) will be required for any of the restricted actions in this Section 7.2(c)(ii) if: (A) (i) all Obligations are being repaid in full pursuant to Section 2.1.1(e) as a condition to consummation of such action, and (ii) Bank has no further obligation hereunder to make any further Credit Extensions; or (B) such action constitutes a Permitted Merger Event.

Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Twenty Five Thousand Dollars (\$25,000) in Borrower's assets or property) or deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Twenty Five Thousand Dollars (\$25,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of Twenty Five Thousand Dollars (\$25,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the

written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance satisfactory to Bank in its sole discretion.

**7.3 Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, without the prior written consent of Bank, which decision as to whether to consent shall not be unreasonably delayed once Borrower has provided Bank all information reasonably requested by Bank concerning such transaction; provided, however, only advance written notice to Bank (but not any consent from Bank) will be required for any of the restricted actions in this Section 7.3 if: (a) (i) all Obligations are being repaid in full pursuant to Section 2.1.1(e) as a condition to consummation of such action, and (ii) Bank has no further obligation hereunder to make any further Credit Extensions; or (b) such action constitutes a Permitted Merger Event. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

**7.4 Indebtedness.** Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

**7.5 Encumbrance.** Create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, permit any Collateral not to be subject to the first priority security interest granted herein, except for Permitted Liens; or enter into any agreement, document, instrument or other arrangement (except with or in favor of Bank) with any Person which directly or indirectly prohibits or has the effect of prohibiting Borrower or any Subsidiary from assigning, mortgaging, pledging, granting a security interest in or upon, or encumbering any of Borrower's or any Subsidiary's Intellectual Property, except as is otherwise permitted in Section 7.1 hereof and the definition of "Permitted Liens" herein.

**7.6 Maintenance of Collateral Accounts.** Maintain any Collateral Account except pursuant to the terms of Section 6.6(b) hereof.

**7.7 Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock provided that (i) Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower may pay dividends solely in common stock; and (iii) Borrower may repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase, provided such repurchase does not exceed in the aggregate of One Hundred Thousand Dollars (\$100,000) per fiscal year; or (b) directly or indirectly make any Investment other than Permitted Investments, or permit any of its Subsidiaries to do so.

**7.8 Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for (a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person, and (b) sale of equity securities to current investors of Borrower so long as any such Indebtedness, if any, is Subordinated Debt.

**7.9 Subordinated Debt.** (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 the Subordinated Debt which would increase the amount thereof or adversely affect the subordination thereof to Obligations owed to Bank.

**7.10 Compliance.** Become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower,

including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

## **8 EVENTS OF DEFAULT**

Any one of the following shall constitute an event of default (an “**Event of Default**”) under this Agreement:

**8.1 Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

### **8.2 Covenant Default.**

(a) Borrower fails or neglects to perform any obligation in Sections 6.2, 6.4, 6.5, 6.6 or violates any covenant in Section 7; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 8) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) day period or cannot after diligent attempts by Borrower be cured within such ten (10) day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to cure the default shall not be deemed an Event of Default (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply, among other things, to any other covenants set forth in clause (a) above;

**8.3 Investor Abandonment.** Bank determines, in its good faith judgment, that it is the clear intention of Borrower’s investors to not continue to fund Borrower in the amounts and timeframe necessary to enable Borrower to satisfy its financial obligations, including the Obligations, as they become due and payable;

### **8.4 Attachment; Levy; Restraint on Business.**

(a) (i) The service of process seeking to attach, by trustee or similar process, any funds of Borrower or of any entity under the control of Borrower (including a Subsidiary) on deposit or otherwise maintained with Bank or any Bank Affiliate, or (ii) a notice of lien or levy is filed against any of Borrower’s assets by any government agency, and the same under subclauses (i) and (ii) hereof are not, within ten (10) days after the occurrence thereof, discharged or stayed (whether through the posting of a bond or otherwise); provided, however, no Credit Extensions shall be made during any ten (10) day cure period; or

(b) (i) any material portion of Borrower’s assets is attached, seized, levied on, or comes into possession of a trustee or receiver, or (ii) any court order enjoins, restrains, or prevents Borrower from conducting any material part of its business;

**8.5 Insolvency** (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within thirty (30) days (but no Credit Extensions shall be made while of any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

**8.6 Other Agreements.** There is, under any agreement to which Borrower is a party with a third party or parties, (a) any default resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount individually or in the aggregate in excess of One Hundred Thousand Dollars (\$100,000); or (b) any default by Borrower, the result of which could have a material adverse effect on Borrower’s business;



**8.7 Judgments.** One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least One Hundred Thousand Dollars (\$100,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within ten (10) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions will be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

**8.8 Misrepresentations.** Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made;

**8.9 Subordinated Debt.** Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect, any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement; or

**8.10 Lien Priority.** There is a material impairment in the priority of Bank's security interest in the Collateral.

## **9 BANK'S RIGHTS AND REMEDIES**

**9.1 Rights and Remedies.** While an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);

(b) stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Bank considers advisable, notify any Person owing Borrower money of Bank's security interest in such funds, and verify the amount of such account;

(d) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(e) apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(f) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is hereby granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit;

(g) place a "hold" on any account maintained with Bank and/or deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(h) demand and receive possession of Borrower's Books; and

(i) exercise all rights and remedies available to Bank under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

**9.2 Power of Attorney.** Borrower hereby irrevocably appoints Bank as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Bank determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) transfer the Collateral into the name of Bank or a third party as the Code permits. Borrower hereby appoints Bank as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Bank's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Bank is under no further obligation to make Credit Extensions hereunder. Bank's foregoing appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

**9.3 Protective Payments.** If Borrower fails to obtain the insurance called for by Section 6.5 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, Bank may obtain such insurance or make such payment, and all amounts so paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then highest rate applicable to the Obligations, and secured by the Collateral. Bank will make reasonable efforts to provide Borrower with notice of Bank obtaining such insurance at the time it is obtained or within a reasonable time thereafter. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

**9.4 Application of Payments and Proceeds Upon Default.** If an Event of Default has occurred and is continuing, Bank may apply any funds in its possession, whether from Borrower account balances, payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Bank shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto; Borrower shall remain liable to Bank for any deficiency. If Bank, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Bank shall have the option, exercisable at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Bank of cash therefor.

**9.5 Bank's Liability for Collateral.** So long as Bank complies with reasonable banking practices regarding the safekeeping of the Collateral in the possession or under the control of Bank, Bank shall not be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

**9.6 No Waiver; Remedies Cumulative.** Bank's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Bank thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Bank's rights and remedies under this Agreement and the other Loan Documents are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election and shall not preclude Bank from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay in exercising any remedy is not a waiver, election, or acquiescence.

**9.7 Demand Waiver.** Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

## **10 NOTICES**

All notices, consents, requests, approvals, demands, or other communication by any party to this Agreement or any other Loan Document must be in writing and shall be deemed to have been validly served, given, or delivered: (a) upon the earlier of actual receipt and three (3) Business Days after deposit in the U.S. mail, first class, registered or certified mail return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by electronic mail or facsimile transmission; (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address, facsimile number, or email address indicated below. Bank or Borrower may change its mailing or electronic mail address or facsimile number by giving the other party written notice thereof in accordance with the terms of this Section 10.

If to Borrower: Carbylan Biosurgery, Inc.  
3181 Porter Drive  
Palo Alto, CA 94304  
Attn: Gordon Saul, Chief Business Officer  
Fax: 650-855-9119  
Email: [gsaul@carbylan.com](mailto:gsaul@carbylan.com)

If to Bank: Silicon Valley Bank  
2400 Hanover Street  
Palo Alto, CA 94304  
Attn: Kevin Longo  
Fax: (650) 320-0016  
Email: [klongo@sv.com](mailto:klongo@sv.com)

## **11 CHOICE OF LAW, VENUE, JURY TRIAL WAIVER, AND JUDICIAL REFERENCE**

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Bank from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Bank. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrower in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrower's actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

**TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THIS AGREEMENT, THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.**

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time

shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

**12      GENERAL PROVISIONS**

**12.1 Successors and Assigns.** This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or obligations under it without Bank’s prior written consent (which may be granted or withheld in Bank’s discretion). Bank has the right, without the consent of or notice to Borrower, to sell, transfer, assign, negotiate, or grant participation in all or any part of, or any interest in, Bank’s obligations, rights, and benefits under this Agreement and the other Loan Documents (other than the Warrant, as to which assignment, transfer and other such actions are governed by the terms of the Warrant).

**12.2 Indemnification.** Borrower agrees to indemnify, defend and hold Bank and its directors, officers, employees, agents, attorneys, or any other Person affiliated with or representing Bank (each, an “**Indemnified Person**”) harmless against: (a) all obligations, demands, claims, and liabilities (collectively, “**Claims**”) claimed or asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or expenses (including Bank Expenses) in any way suffered, incurred, or paid by such Indemnified Person as a result of, following from, consequential to, or arising from transactions between Bank and Borrower contemplated by the Loan Documents (including reasonable attorneys’ fees and expenses), except for Claims and/or losses directly caused by such Indemnified Person’s gross negligence or willful misconduct.

**12.3 Time of Essence.** Time is of the essence for the performance of all Obligations in this Agreement.

**12.4 Severability of Provisions.** Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

**12.5 Correction of Loan Documents.** Bank may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties, so long as Bank provides Borrower with prompt written notice of such correction.

**12.6 Amendments in Writing; Waiver; Integration.** No purported amendment or modification of any Loan Document, or waiver, discharge or termination of any obligation under any Loan Document, shall be enforceable or admissible unless, and only to the extent, expressly set forth in a writing signed by the party against which enforcement or admission is sought. Without limiting the generality of the foregoing, no oral promise or statement, nor any action, inaction, delay, failure to require performance or course of conduct shall operate as, or evidence, an amendment, supplement or waiver or have any other effect on any Loan Document. Any waiver granted shall be limited to the specific circumstance expressly described in it, and shall not apply to any subsequent

or other circumstance, whether similar or dissimilar, or give rise to, or evidence, any obligation or commitment to grant any further waiver. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of the Loan Documents merge into the Loan Documents.

**12.7 Counterparts.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

**12.8 Survival.** All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in Section 12.2 to indemnify Bank shall survive until the statute of limitations with respect to such claim or cause of action shall have run.

**12.9 Confidentiality.** In handling any confidential information, Bank shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Bank's Subsidiaries or Affiliates (such Subsidiaries and Affiliates, together with Bank, collectively, "Bank Entities"); (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, Bank shall use its best efforts to obtain any prospective transferee's or purchaser's agreement to the terms of this provision); (c) as required by law, regulation, subpoena, or other order; (d) to Bank's regulators or as otherwise required in connection with Bank's examination or audit; (e) as Bank considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Bank so long as such service providers have executed a confidentiality agreement with Bank with terms no less restrictive than those contained herein. Confidential information does not include information that is either: (i) in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (ii) disclosed to Bank by a third party if Bank does not know that the third party is prohibited from disclosing the information.

Bank Entities may use the confidential information for reporting purposes and the development and distribution of databases and market analyses so long as such confidential information is aggregated and anonymized prior to distribution unless otherwise expressly prohibited by Borrower. The provisions of the immediately preceding sentence shall survive the termination of this Agreement.

**12.10 Attorneys' Fees, Costs and Expenses.** In any action or proceeding between Borrower and Bank arising out of or relating to the Loan Documents, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled.

**12.11 Electronic Execution of Documents.** The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

**12.12 Captions.** The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

**12.13 Construction of Agreement.** The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

**12.14 Relationship.** The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

**12.15 Third Parties.** Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any

person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

### 13 DEFINITIONS

**13.1 Definitions.** As used in the Loan Documents, the word “shall” is mandatory, the word “may” is permissive, the word “or” is not exclusive, the words “includes” and “including” are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

“**Account**” is any “account” as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

“**Account Debtor**” is any “account debtor” as defined in the Code with such additions to such term as may hereafter be made.

“**Affiliate**” is, with respect to any Person, each other Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person’s senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person’s managers and members.

“**Agreement**” is defined in the preamble hereof.

“**Bank**” is defined in the preamble hereof.

“**Bank Expenses**” are all audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

“**Basic Rate**” is the per annum rate of interest (based on a year of 360 days) equal to the sum of (a) U.S. Treasury note yield to maturity for a term equal to the Treasury Note Maturity as reported in the Federal Reserve Statistical Release H.15-Selected Interest Rates under the heading “U.S. Government Securities/Treasury Constant Maturities” on the Funding Date, plus (b) the Loan Margin. (In the event Release H.15 is no longer published, Bank shall select a comparable publication to determine the U.S. Treasury note yield to maturity.)

“**Borrower**” is defined in the preamble hereof.

“**Borrower’s Books**” are all Borrower’s books and records including ledgers, federal and state tax returns, records regarding Borrower’s assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Resolutions**” are, with respect to any Person, those resolutions substantially in the form attached hereto as Exhibit C.

“**Business Day**” is any day that is not a Saturday, Sunday or a day on which Bank is closed.

“**Cash Equivalents**” means (a) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition; (b) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.; (c) Bank’s certificates of deposit issued maturing no more than one (1) year after issue; and (d) money market funds at least ninety-five percent (95%) of the assets of which constitute Cash Equivalents of the kinds described in clauses (a) through (c) of this definition.

“**Code**” is the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; 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, Bank's Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term "**Code**" 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.

"**Collateral**" is any and all properties, rights and assets of Borrower described on Exhibit A.

"**Collateral Account**" is any Deposit Account, Securities Account, or Commodity Account.

"**Commitment Termination Date**" is: (a) for the First Term Loan, the earliest of (i) two (2) Business Days after the Effective Date, (ii) October 31, 2011 or (iii) an Event of Default; and (b) for the Second Term Loan, the earlier of (i) June 30, 2012 or (ii) an Event of Default, but in no event may the Second Term Loan be available until on or after January 1, 2012.

"**Commodity Account**" is any "commodity account" as defined in the Code with such additions to such term as may hereafter be made.

"**Compliance Certificate**" is that certain certificate in the form attached hereto as Exhibit D.

"**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 obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse 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.

"**Control Agreement**" is any control agreement entered into among the depository institution at which Borrower maintains a Deposit Account or the securities intermediary or commodity intermediary at which Borrower maintains a Securities Account or a Commodity Account, Borrower, and Bank pursuant to which Bank obtains control (within the meaning of the Code) over such Deposit Account, Securities Account, or Commodity Account.

"**Copyrights**" are any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

"**Credit Extension**" is any Term Loan or any other extension of credit by Bank for Borrower's benefit.

"**Default Rate**" is defined in Section 2.3(b).

"**Deposit Account**" is any "deposit account" as defined in the Code with such additions to such term as may hereafter be made.

"**Designated Deposit Account**" is Borrower's deposit account, account number 3300502056, maintained with Bank.

"**Dollars,**" "**dollars**" or use of the sign "\$" means only lawful money of the United States and not any other currency, regardless of whether that currency uses the "\$" sign to denote its currency or may be readily converted into lawful money of the United States.

"**Effective Date**" is defined in the preamble hereof.

**“Equipment”** is all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

**“ERISA”** is the Employee Retirement Income Security Act of 1974, and its regulations.

**“Event of Default”** is defined in Section 8.

**“Exchange Act”** is the Securities Exchange Act of 1934, as amended.

**“Final Payment”** is, for each Term Loan, a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earlier of (a) the final Scheduled Payment Date for such Term Loan or (b) the acceleration or prepayment of such Term Loan, equal to the original principal amount of such Term Loan, multiplied by the Final Payment Percentage.

**“Final Payment Percentage”** is, for each Term Loan, nine percent (9.0%).

**“First Term Loan”** is defined in Section 2.1.1(a).

**“Funding Date”** is any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

**“GAAP”** is generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination.

**“General Intangibles”** is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

**“Governmental Approval”** is any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

**“Governmental Authority”** is any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

**“Indebtedness”** is (a) indebtedness for borrowed money or the deferred price of property or services, 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, and (d) Contingent Obligations.

**“Indemnified Person”** is defined in Section 12.2.

**“Insolvency Proceeding”** is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

**“Intellectual Property”** means all of Borrower’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;



- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to Borrower;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“**Inventory**” is all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“**Investment**” is any beneficial ownership interest in any Person (including stock, partnership interest or other securities), and any loan, advance or capital contribution to any Person.

“**Investor Support**” means it is the clear intention of Borrower’s investors to continue to fund the Borrower in the amounts and timeframe necessary to enable Borrower to satisfy the Obligations as they become due and payable.

“**Lien**” is a claim, 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.

“**Loan Amount**” in respect of each Term Loan is the original principal amount of such Term Loan.

“**Loan Documents**” are, collectively, this Agreement, the Warrant, the Perfection Certificate, any note, or notes or guaranties executed by Borrower, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, restated, or otherwise modified.

“**Loan Margin**” is 467 basis points, or 4.67%.

“**Merger Event**” means (i) any reorganization, consolidation or merger (or similar transaction or series of transactions) by Borrower or any of its subsidiaries with or into any other Person; (ii) any transaction, including the sale or exchange of outstanding shares of Borrower’s capital stock, in which the holders of Borrower’s outstanding capital stock immediately before consummation of such transaction or series of related transactions do not, immediately after consummation of such transaction or series of related transactions, retain capital stock representing at least 50.0% of the voting power of the surviving corporation of such transaction or series of related transactions (or the parent corporation of such surviving corporation if such surviving corporation is wholly owned by such parent corporation), in each case without regard to whether Borrower is the surviving corporation, or (iii) the sale, license or other disposition of all or substantially all of Borrower’s or any of its subsidiaries’ assets.

“**Monthly Financial Statements**” is defined in Section 6.2(a).

“**Obligations**” are Borrower’s obligations to pay when due any debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, whether under this Agreement, the Loan Documents (other than the Warrant), or otherwise, including, without limitation, all obligations relating to letters of credit (including reimbursement obligations for drawn and undrawn letters of credit), cash management services, and foreign exchange contracts, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents (other than the Warrant).

**“Operating Documents”** are, for any Person, such Person’s formation documents, as certified with the Secretary of State of such Person’s state of formation on a date that is no earlier than 30 days prior to the Effective Date, and, (a) if such Person is a corporation, its bylaws in current form, (b) if such Person is a limited liability company, its limited liability company agreement (or similar agreement), and (c) if such Person is a partnership, its partnership agreement (or similar agreement), each of the foregoing with all current amendments or modifications thereto.

**“Patents”** means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

**“Payment/Advance Form”** is that certain form attached hereto as Exhibit B.

**“Perfection Certificate”** is defined in Section 5.1.

**“Permitted Indebtedness”** is:

- (a) Borrower’s Indebtedness to Bank under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date and shown on the Perfection Certificate;
- (c) Subordinated Debt;
- (d) unsecured Indebtedness to trade creditors incurred in the ordinary course of business;
- (e) Indebtedness incurred as a result of endorsing negotiable instruments received in the ordinary course of business;
- (f) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of “Permitted Liens” hereunder; and

(g) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (f) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

**“Permitted Investments”** are:

- (a) Investments (including, without limitation, Subsidiaries) existing on the Effective Date and shown on the Perfection Certificate and;
- (b) Investments consisting of Cash Equivalents;
- (c) Investments consisting of the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of Borrower;
- (d) Investments consisting of deposit accounts in which Bank has a perfected security interest;
- (e) Investments accepted in connection with Transfers permitted by Section 7.1;

(f) Investments (i) by Borrower in Subsidiaries not to exceed One Hundred Thousand Dollars (\$100,000) in the aggregate in any fiscal year and (ii) by Subsidiaries in other Subsidiaries or in Borrower;

(g) Investments consisting of (i) travel advances and employee relocation loans and other employee loans and advances in the ordinary course of business, and (ii) loans to employees, officers or directors relating to the purchase of equity securities of Borrower or its Subsidiaries pursuant to employee stock purchase plans or agreements approved by Borrower’s Board of Directors;

(h) Investments (including debt obligations) received in connection with the bankruptcy or reorganization of customers or suppliers and in settlement of delinquent obligations of, and other disputes with, customers or suppliers arising in the ordinary course of business; and

(i) Investments consisting of notes receivable of, or prepaid royalties and other credit extensions, to customers and suppliers who are not Affiliates, in the ordinary course of business; provided that this paragraph (i) shall not apply to Investments of Borrower in any Subsidiary.

**“Permitted Liens”** are:

(a) Liens existing on the Effective Date and shown on the Perfection Certificate or arising under this Agreement and the other Loan Documents;

(b) 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 Borrower maintains adequate reserves on its Books, provided that no notice of any such Lien has been filed or recorded under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations adopted thereunder;

(c) purchase money Liens (i) on Equipment acquired or held by Borrower incurred for financing the acquisition of the Equipment securing no more than Two Hundred Fifty Thousand Dollars (\$250,000) 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;

(d) 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 and 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;

(e) 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);

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), 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;

(g) leases or subleases of real property granted in the ordinary course of Borrower’s 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 Borrower’s 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 Bank a security interest therein;

(h) non-exclusive licenses of Intellectual Property granted to third parties in the ordinary course of business;

(i) Liens arising from attachments or judgments, orders, or decrees in circumstances not constituting an Event of Default under Sections 8.4 and 8.7; and

(j) Liens in favor of other financial institutions arising in connection with Borrower’s deposit and/or securities accounts held at such institutions, provided that Bank has a perfected security interest in the amounts held in such deposit and/or securities accounts pursuant to Section 6.6(b).

**“Permitted Merger Event”** means the consummation of a Merger Event with or into any other Person so long as (a) Borrower or any surviving or successor entity (collectively the **“Surviving Entity”**) or the holder of 100% of the Surviving Entity’s equity interests in the Merger Event is a company with a Moody’s Credit Rating of Baa2 or higher or an S&P Credit Rating of BBB or higher or has a market capitalization of \$500,000,000 or greater, (b) the Surviving Entity will execute an agreement reasonably satisfactory to Bank containing an assumption by the Surviving Entity of the due and punctual payment and performance of all of the Obligations and performance and

observance of each Borrower's covenants and agreements under the Loan Documents; (c) immediately after giving effect to such Merger Event, no Event of Default shall have occurred and be continuing; and (d) the credit risk to Bank, in its sole discretion, of making Credit Extensions to the Surviving Entity shall not be increased from the credit risk as of the Closing Date of making Credit Extensions under this Agreement to Borrower.

**"Person"** is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

**"Registered Organization"** is any "registered organization" as defined in the Code with such additions to such term as may hereafter be made.

**"Requirement of Law"** is as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

**"Responsible Officer"** is any of the Chief Executive Officer, President, and Chief Business Officer of Borrower.

**"Restricted License"** is any material license or other agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with the Bank's right to sell any Collateral.

**"Scheduled Payment"** is defined in Section 2.1.1(b).

**"Scheduled Payment Date"** is defined in Section 2.1.1(b).

**"SEC"** shall mean the Securities and Exchange Commission, any successor thereto, and any analogous Governmental Authority.

**"Second Term Loan"** is defined in Section 2.1.1(a).

**"Second Term Loan Condition"** is defined in Section 2.1.1(a).

**"Securities Account"** is any "securities account" as defined in the Code with such additions to such term as may hereafter be made.

**"Subordinated Debt"** is indebtedness incurred by Borrower subordinated to all of Borrower's now or hereafter indebtedness to Bank (pursuant to a subordination, intercreditor, or other similar agreement in form and substance satisfactory to Bank entered into between Bank and the other creditor), on terms acceptable to Bank.

**"Subsidiary"** is, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

**"Term Loan"** is a loan made by Bank pursuant to the terms of Section 2.1.1 hereof.

**"Term Loan Amortization Date"** means, for the Second Term Loan, the earlier of: (a) the day nine (9) months after its Funding Date, or if such date is not the first day of the month, then the first day of the calendar month immediately following such date, and (b) January 1, 2013.

**“Term Loan Commitment”** is an aggregate original principal amount equal to Five Million Dollars (\$5,000,000).

**“Term Loan Interest Only Period”** means, for the Second Term Loan, the period of time commencing on its Funding Date through the day before its Term Loan Amortization Date.

**“Term Loan Maturity Date”** is: (i) for the First Term Loan is July 1, 2015, and (iii) for the Second Term Loan is its thirtieth (30<sup>th</sup>) Scheduled Payment Date, but no later than June 1, 2015.

**“Trademarks”** means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

**“Transfer”** is defined in Section 7.1.

**“Treasury Note Maturity”** is thirty six (36) months.

**“Warrant”** is that certain Warrant to Purchase Stock dated the Effective Date executed by Borrower in favor of Bank.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

BORROWER:

CARBYLAN BIOSURGERY, INC.

By: /s/ George Daniloff  
Name: George Daniloff  
Title: President and CEO

BANK:

SILICON VALLEY BANK

By: /s/ Kevin Longo  
Name: Kevin Longo  
Title: Relationship Manager

[Signature Page to Loan and Security Agreement]

**EXHIBIT A – COLLATERAL DESCRIPTION**

The Collateral consists of all of Borrower's right, title and interest in and to the following personal property:

All goods, Accounts (including health-care receivables), Equipment, Inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, General Intangibles (except as provided below), commercial tort claims, documents, instruments (including any promissory notes), chattel paper (whether tangible or electronic), cash, deposit accounts, fixtures, letters of credit rights (whether or not the letter of credit is evidenced by a writing), securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located; and all Borrower's Books relating to the foregoing, and any and all claims, rights and interests in any of the above and all substitutions for, additions, attachments, accessories, accessions and improvements to and replacements, products, proceeds and insurance proceeds of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include any Intellectual Property; provided, however, the Collateral shall include all Accounts and all proceeds of Intellectual Property. If a judicial authority (including a U.S. Bankruptcy Court) would hold that a security interest in the underlying Intellectual Property is necessary to have a security interest in such Accounts and such property that are proceeds of Intellectual Property, then the Collateral shall automatically, and effective as of the Effective Date, include the Intellectual Property to the extent necessary to permit perfection of Bank's security interest in such Accounts and such other property of Borrower that are proceeds of the Intellectual Property.

Pursuant to the terms of a certain negative pledge arrangement with Bank, Borrower has agreed not to encumber any of its Intellectual Property without Bank's prior written consent.

**EXHIBIT B – LOAN PAYMENT/ADVANCE REQUEST FORM**

**DEADLINE FOR SAME DAY PROCESSING IS NOON PACIFIC TIME**

Fax To: \_\_\_\_\_

Date: \_\_\_\_\_

**LOAN PAYMENT:**

Carbylan Biosurgery, Inc.

From Account # \_\_\_\_\_  
(Deposit Account #)

To Account # \_\_\_\_\_  
(Loan Account #)

Principal \$ \_\_\_\_\_

and/or Interest \$ \_\_\_\_\_

Authorized Signature: \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

**LOAN ADVANCE:**

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account # \_\_\_\_\_  
(Loan Account #)

To Account # \_\_\_\_\_  
(Deposit Account #)

Amount of Advance \$ \_\_\_\_\_

All Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the request for an advance; provided, however, that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof; and provided, further that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date:

Authorized Signature: \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

**OUTGOING WIRE REQUEST:**

**Complete only if all or a portion of funds from the loan advance above is to be wired.**

Deadline for same day processing is noon, Pacific Time

Beneficiary Name: \_\_\_\_\_  
Beneficiary Bank: \_\_\_\_\_  
City and State: \_\_\_\_\_

Amount of Wire: \$ \_\_\_\_\_  
Account Number: \_\_\_\_\_

Beneficiary Bank Transit (ABA) #: \_\_\_\_\_

Beneficiary Bank Code (Swift, Sort, Chip, etc.): \_\_\_\_\_  
**(For International Wire Only)**

Intermediary Bank: \_\_\_\_\_  
For Further Credit to: \_\_\_\_\_

Transit (ABA) #: \_\_\_\_\_

Special Instruction: \_\_\_\_\_

*By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).*

Authorized Signature: \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_  
Telephone #: \_\_\_\_\_

2nd Signature (if required): \_\_\_\_\_  
Print Name/Title: \_\_\_\_\_  
Telephone #: \_\_\_\_\_



**EXHIBIT C**

**BORROWING RESOLUTIONS**



A Member of SVB Financial Group

**CORPORATE BORROWING CERTIFICATE**

**BORROWER:** Carbylan Biosurgery, Inc. **DATE:** \_\_\_\_\_  
**BANK:** Silicon Valley Bank

I hereby certify as follows, as of the date set forth above:

1. I am the Secretary, Assistant Secretary or other officer of the Borrower. My title is as set forth below.
2. Borrower’s exact legal name is set forth above. Borrower is a corporation existing under the laws of the State of Delaware.
3. Attached hereto are true, correct and complete copies of Borrower’s Certificate of Incorporation (including amendments), as filed with the Secretary of State of the State of Delaware. Such Certificate of Incorporation has not been amended, annulled, rescinded, revoked or supplemented, and remain in full force and effect as of the date hereof.
4. The following resolutions were duly and validly adopted by Borrower’s Board of Directors at a duly held meeting of such directors (or pursuant to a unanimous written consent or other authorized corporate action). Such resolutions are in full force and effect as of the date hereof and have not been in any way modified, repealed, rescinded, amended or revoked, and Bank may rely on them until Bank receives written notice of revocation from Borrower. In addition, these resolutions were approved by the requisite number of holders of Borrower’s preferred stock, as set forth in Borrower’s Certificate of Incorporation.

**RESOLVED**, that **any one** of the following officers or employees of Borrower, whose names, titles and signatures are below, may act on behalf of Borrower:

<u>Name</u>	<u>Title</u>	<u>Signature</u>	<u>Authorized to Add or Remove Signatories</u>
<u>George Daniloff</u>	<u>President and CEO</u>	_____	<input checked="" type="checkbox"/>
<u>Gordon Saul</u>	<u>Chief Business Officer</u>	_____	<input checked="" type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>
_____	_____	_____	<input type="checkbox"/>

**RESOLVED FURTHER**, that **any one** of the persons designated above with a checked box beside his or her name may, from time to time, add or remove any individuals to and from the above list of persons authorized to act on behalf of Borrower.

**RESOLVED FURTHER**, that such individuals may, on behalf of Borrower:

- Borrow Money.** Borrow money from Silicon Valley Bank (“Bank”).
- Execute Loan Documents.** Execute any loan documents Bank requires.

**Grant Security.** Grant Bank a security interest in any of Borrower's assets.

**Negotiate Items.** Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.

**Letters of Credit.** Apply for letters of credit from Bank.

**Foreign Exchange Contracts.** Execute spot or forward foreign exchange contracts.

**Issue Warrants.** Issue warrants for Borrower's capital stock.

**Further Acts.** Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreement that waive Borrowers right to a jury trial) they believe to be necessary to effectuate such resolutions.

**RESOLVED FURTHER,** that all acts authorized by the above resolutions and any prior acts relating thereto are ratified.

5. The persons listed above are Borrower's officers or employees with their titles and signatures shown next to their names.

By: \_\_\_\_\_

Name: Mark Weeks

Title: Secretary

*\*\*\* If the Secretary, Assistant Secretary or other certifying officer executing above is designated by the resolutions set forth in paragraph 4 as one of the authorized signing officers, this Certificate must also be signed by a second authorized officer or director of Borrower.*

I, the \_\_\_\_\_ of Borrower, hereby certify as to paragraphs 1 through 5 above, as of the date set forth above.  
[print title]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_



**FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT**

THIS **FIRST AMENDMENT** to Loan and Security Agreement (this "**Amendment**") is entered into this 27th day of July, 2012 (the "**First Amendment Effective Date**"), by and between Silicon Valley Bank ("**Bank**") and Carbylan Biosurgery, Inc., a Delaware corporation ("**Borrower**") whose address is 3181 Porter Drive, Palo Alto, CA 94304.

**RECITALS**

**A.** Bank and Borrower have entered into that certain Loan and Security Agreement dated as October 26, 2011 (as the same may from time to time be amended, modified, supplemented or restated, the "**Loan Agreement**"). Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

**B.** Borrower has requested that Bank amend the Loan Agreement to (i) extend the availability of the Second Term Loan, and (iii) make certain other revisions to the Loan Agreement as more fully set forth herein.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. **Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.
2. **Amendments to Loan Agreement.**

**2.1 Section 2.1.1(a) (Availability).** The Second Term Loan Condition has been satisfied. **Section 2.1.1(a)** of the Loan Agreement is hereby amended to read in its entirety as follows:

Subject to the terms and conditions of this Agreement: (i) Bank agrees to lend to Borrower from time to time prior to the Commitment Termination Date, two advances (each a "**Term Loan**" and collectively the "**Term Loans**") in an aggregate original principal amount not to exceed the Term Loan Commitment; (ii) the first Term Loan, shall be in an amount of Three Million (\$3,000,000) (the "**First Term Loan**") and shall be available until two (2) Business Days after the Effective Date but no later than October 31, 2011; and (iii) the second Term Loan, shall be in an amount of Two Million Dollars (\$2,000,000) (the "**Second Term Loan**") and shall be available from January 1, 2012 through September 30, 2012 and, if Borrower makes a request to extend the availability of the Second Term Loan to November 30, 2012 (the "**Availability Extension Request**"), the Second Term Loan shall be available until November 30, 2012. When repaid, the Term Loans may not be re-borrowed. Bank's obligation to lend hereunder shall terminate on the Commitment Termination Date.

**2.2 Section 13 (Definitions).** The following terms and their respective definitions are added in **Section 13.1** in proper alphabetical order:

"**Availability Extension Request**" is defined in Section 2.1.1(a).

"**First Amendment**" is the First Amendment to Loan and Security Agreement by and between Bank and Borrower.

"**First Amendment Effective Date**" is defined in the First Amendment.

"**Warrant Amendment**" is that certain First Amendment to Warrant to Purchase Stock dated the First Amendment Effective Date executed by Borrower and SVB Financial Group.

**2.3 Section 13 (Definitions).** The following terms and their respective definitions set forth in **Section 13.1** are amended in their entirety and replaced with the following:

**“Commitment Termination Date”** is: (a) for the First Term Loan, the earlier of (i) two (2) Business Days after the Effective Date, or (ii) October 31, 2011; and (b) for the Second Term Loan, September 30, 2012, but if Borrower makes the Availability Extension Request, the Commitment Termination Date is extended to November 30, 2012.

**“Warrant”** means that certain Warrant to Purchase Stock dated the Effective Date executed by Borrower in favor of Bank, as amended by the Warrant Amendment.

**3. Limitation of Amendments.**

**3.1** The amendments set forth in **Section 2** above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

**4.1** Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

**4.2** Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

**4.3** The organizational documents of Borrower delivered to Bank prior to the First Amendment Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

**4.5** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

**4.6** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. **Bank Expenses.** Borrower shall pay to Bank all Bank Expenses (including reasonable attorneys' fees and reasonable expenses for documentation and negotiation of this Amendment) incurred through and after the First Amendment Effective Date, when due.

6. **Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

7. **Effectiveness.** This Amendment shall be deemed effective as of the First Amendment Effective Date upon the occurrence of all of the following:

- (a) the due execution and delivery to Bank of this Amendment by each party hereto; and
- (b) the due execution and delivery to Bank of the Warrant Amendment by each party thereto.

8. **Amendments in Writing; Integration.** This Amendment is a Loan Document. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Amendment and the Loan Documents.

9. **Governing Law; Venue.** The provisions of Section 11 of the Loan Agreement apply to this Amendment.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this First Amendment to Loan and Security Agreement to be duly executed and delivered as of the date first written above.

**BORROWER:**

CARBYLAN BIOSURGERY, INC.

By: /s/ George Y. Daniloff  
Name: George Y. Daniloff  
Title: President & CEO

**BANK:**

SILICON VALLEY BANK

By: /s/ Kevin Longo  
Name: Kevin Longo  
Title: Relationship Manager

**SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT**

THIS **SECOND AMENDMENT** to Loan and Security Agreement (this "**Amendment**") is entered into this 15th day of February, 2013 (the "**Second Amendment Effective Date**"), by and between Silicon Valley Bank ("**Bank**") and Carbylan Biosurgery, Inc., a Delaware corporation ("**Borrower**") whose address is 3181 Porter Drive, Palo Alto, CA 94304.

**RECITALS**

**A.** Bank and Borrower have entered into that certain Loan and Security Agreement dated as October 26, 2011 (as the same may from time to time be amended, modified, supplemented or restated, the "**Loan Agreement**"). Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

**B.** Borrower has requested that Bank amend the Loan Agreement to (i) extend a Growth Capital Advance facility, and (ii) make certain other revisions to the Loan Agreement as more fully set forth herein.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. **Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.
2. **Amendments to Loan Agreement.**

**2.1 Section 2.1.2 (Growth Capital Advances).** A new Section 2.1.2 is added to the Loan Agreement which reads as follows:

**2.1.2 Growth Capital Advances.**

(a) **Availability.** Subject to the terms and conditions of this Agreement: (i) Bank agrees to lend to Borrower from time to time prior to the Growth Capital Commitment Termination Date, two advances (each a "**Growth Capital Advance**" and collectively the "**Growth Capital Advances**") in an aggregate original principal amount not to exceed the Growth Capital Advance Commitment; (ii) the first Growth Capital Advance, shall be in an amount of Three Million (\$3,000,000) (the "**First Growth Capital Advance**") and shall be available until two (2) Business Days after the Second Amendment Effective Date and the proceeds of the First Growth Capital Advance shall be used to prepay all Term Loans pursuant to Section 2.1.1(e) with the remaining proceeds to be delivered to Borrower; and (iii) the second Growth Capital Advance, shall be in an amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) (the "**Second Growth Capital Advance**") and shall be available from June 30, 2013 through November 30, 2013 and only so long as the Second Growth Capital Advance Condition has occurred. The "**Second Growth Capital Advance Condition**" means that, on or before November 30, 2013, Borrower or its investors have presented evidence satisfactory to Bank that Borrower has begun treating the first patient in its Phase II-B clinical study. When repaid, the Growth Capital Advances may not be re-borrowed. Bank's obligation to lend hereunder shall terminate on the Growth Capital Commitment Termination Date.

(b) **Repayment.** For the First Growth Capital Advance: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the First Growth Capital Advance and continuing thereafter on the first day of each successive calendar month through and including December 31, 2013 (or March 31, 2014 if the Second Growth Capital Advance Condition occurs),



(ii) commencing on January 1, 2014 (or April 1, 2014 if the Second Growth Capital Advance Condition occurs), and continuing thereafter on the first day of each successive calendar month through and including the Growth Capital Advance Maturity Date, Borrower shall make thirty (30) equal monthly payments of principal and interest which would fully amortize the First Growth Capital Advance, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Growth Capital Advance Maturity Date with respect to the First Growth Capital Advance. For the Second Growth Capital Advance: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the Second Growth Capital Advance and continuing thereafter on the first day of each successive calendar month through and including March 31, 2014, (ii) commencing on April 1, 2014 and continuing thereafter on the first day of each successive calendar month through and including the Growth Capital Advance Maturity Date, Borrower shall make thirty (30) equal monthly payments of principal and interest which would fully amortize the Second Growth Capital Advance, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Growth Capital Advance Maturity Date with respect to the Second Growth Capital Advance. Each date that a monthly payment of principal and interest is due as to a Growth Capital Advance shall be referred to herein as a “**Growth Capital Scheduled Payment Date**” and each scheduled monthly payment of principal and interest as to a Growth Capital Advance shall be referred to herein as “**Growth Capital Scheduled Payment**,” and collectively, “**Growth Capital Scheduled Payments**.” Growth Capital Advances may only be prepaid in accordance with Sections 2.1.2(d) and 2.1.2(e).

(c) Growth Capital Final Payment. On the final Growth Capital Scheduled Payment Date with respect to each Growth Capital Advance, Borrower shall pay, in addition to the outstanding principal, accrued and unpaid interest, and all other amounts due on such date with respect to such Growth Capital Advance, an amount equal to the Growth Capital Final Payment.

(d) Mandatory Prepayment Upon an Acceleration. If the Growth Capital Advances are accelerated following the occurrence of an Event of Default, Borrower shall immediately pay to Bank an amount equal to the sum of: (i) all outstanding principal plus accrued interest, (ii) the Growth Capital Final Payment, plus (iii) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

(e) Permitted Prepayment of Loans. Borrower shall have the option to prepay all, but not less than all, of the Growth Capital Advances advanced by Bank under this Agreement, provided Borrower (i) provides written notice to Bank of its election to prepay Growth Capital Advances at least thirty (30) days prior to such prepayment, and (ii) pays, on the date of such prepayment (A) all outstanding principal plus accrued interest, (B) the Growth Capital Final Payment, plus (C) all other sums, if any, that shall have become due and payable, including interest at the Default Rate with respect to any past due amounts.

**2.2 Section 2.3(a)(ii) (Interest Rate)**. A new Sub-section 2.3(a)(ii) is added to the Loan Agreement which reads as follows:

(ii) Growth Capital Advances. Subject to Section 2.3(b), the principal amount outstanding under each Growth Capital Advance shall accrue interest, which interest shall be payable monthly, at a fixed per annum rate equal to the greater of (i) three and one-quarter percent (3.25%), or (ii) the Growth Capital Basic Rate as determined on its Funding Date.

**2.3 Section 6.6(a) (Operating Accounts)**. Section 6.6(a) is amended in its entirety and replaced with the following:

(a) Maintain its primary operating and other deposit accounts and securities accounts with Bank and Bank’s Affiliates and conduct its primary cash management and foreign exchange with Bank and Bank’s Affiliates.

**2.4 Section 13 (Definitions).** The following terms and their respective definitions are added in **Section 13.1** in proper alphabetical order:

**“First Growth Capital Advance”** is defined in Section 2.1.2(a).

**“Growth Capital Advance”** is a loan made by Bank pursuant to the terms of Section 2.1.2 hereof.

**“Growth Capital Advance Commitment”** is an aggregate original principal amount equal to Four Million Two Hundred Fifty Thousand Dollars (\$4,250,000).

**“Growth Capital Basic Rate”** is the per annum rate of interest (based on a year of 360 days) equal to the sum of (a) U.S. Treasury note yield to maturity for a term equal to the Treasury Note Maturity as reported in the Federal Reserve Statistical Release H.15-Selected Interest Rates under the heading “U.S. Government Securities/Treasury Constant Maturities” on the Funding Date, plus (b) the Growth Capital Loan Margin. (In the event Release H.15 is no longer published, Bank shall select a comparable publication to determine the U.S. Treasury note yield to maturity.)

**“Growth Capital Commitment Termination Date”** is: (a) for the First Growth Capital Advance, the earliest of (i) two (2) Business Days after the Second Amendment Effective Date, or (ii) an Event of Default; and (b) for the Second Growth Capital Advance, the earlier of (i) November 30, 2013 or (ii) an Event of Default.

**“Growth Capital Advance Maturity Date”** is: (i) for the First Growth Capital Advance, June 1, 2016 (or September 1, 2016 if the Second Growth Capital Advance Condition occurs), and (ii) for the Second Growth Capital Advance, September 1, 2016.

**“Growth Capital Final Payment”** is, for each Growth Capital Advance, a payment (in addition to and not a substitution for the regular monthly payments of principal plus accrued interest) due on the earlier of (a) the final Growth Capital Scheduled Payment Date for such Growth Capital Advance or (b) the acceleration or prepayment of such Growth Capital Advance, equal to the original principal amount of such Growth Capital Advance, multiplied by eleven and one-half percent (11.5%).

**“Growth Capital Loan Margin”** is 288 basis points, or 2.88%.

**“Growth Capital Scheduled Payment”** is defined in Section 2.1.2(b).

**“Growth Capital Scheduled Payment Date”** is defined in Section 2.1.2(b).

**“Second Amendment”** is the Second Amendment to Loan and Security Agreement by and between Bank and Borrower.

**“Second Amendment Effective Date”** is defined in the Second Amendment.

**“Second Amendment to 2011 Warrant”** is that certain Second Amendment to Warrant to Purchase Stock dated the Second Amendment Effective Date executed by Borrower and SVB Financial Group.

**“Second Amendment Warrant”** means that certain Warrant to Purchase Stock dated the Second Amendment Effective Date executed by Borrower in favor of Bank.

**“Second Growth Capital Advance”** is defined in Section 2.1.2(a).

**“Second Growth Capital Advance Condition”** is defined in Section 2.1.2(a).

**2.5 Section 13 (Definitions).** The following terms and their respective definitions set forth in **Section 13.1** are amended in their entirety and replaced with the following:

“**Credit Extension**” is any Term Loan, Growth Capital Advance or any other extension of credit by Bank for Borrower’s benefit.

“**Warrant**” means, individually and collectively, (i) that certain Warrant to Purchase Stock dated the Effective Date executed by Borrower in favor of Bank, as amended by the Warrant Amendment and as further amended by the Second Amendment to 2011 Warrant, and (ii) the Second Amendment Warrant.

### **3. Limitation of Amendments.**

**3.1** The amendments set forth in **Section 2** above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

### **4. Representations and Warranties.** To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

**4.1** Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

**4.2** Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

**4.3** The organizational documents of Borrower delivered to Bank prior to the Second Amendment Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

**4.5** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

**4.6** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. **Bank Expenses.** Borrower shall pay to Bank all Bank Expenses (including reasonable attorneys' fees and reasonable expenses for documentation and negotiation of this Amendment) incurred through and after the Second Amendment Effective Date, when due. The Borrower has paid to Bank a good faith deposit of \$10,000 which shall be used by Bank to pay Bank Expenses through the Second Amendment Effective Date with any remainder to be refunded to Borrower.

6. **Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

7. **Effectiveness.** This Amendment shall be deemed effective as of the Second Amendment Effective Date upon the occurrence of all of the following:

- (a) the due execution and delivery to Bank of this Amendment by each party hereto;
- (b) the due execution and delivery to Bank of the Second Amendment Warrant by each party thereto; and
- (c) the due execution and delivery to Bank of the Second Amendment to 2011 Warrant by each party thereto.

8. **Amendments in Writing; Integration.** This Amendment is a Loan Document. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Amendment and the Loan Documents.

9. **Governing Law; Venue.** The provisions of Section 11 of the Loan Agreement apply to this Amendment.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Second Amendment to Loan and Security Agreement to be duly executed and delivered as of the date first written above.

**BORROWER:**

CARBYLAN BIOSURGERY, INC.

By: /s/ George Daniloff  
Name: George Daniloff  
Title: President & CEO

**BANK:**

SILICON VALLEY BANK

By: /s/ Kevin Longo  
Name: Kevin Longo  
Title: Relationship Manager

### THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS **THIRD AMENDMENT** to Loan and Security Agreement (this "**Amendment**") is entered into this 10th day of December, 2013 (the "**Third Amendment Effective Date**"), by and between Silicon Valley Bank ("**Bank**") and Carbylan Biosurgery, Inc., a Delaware corporation ("**Borrower**") whose address is 3181 Porter Drive, Palo Alto, CA 94304.

#### RECITALS

**A.** Bank and Borrower have entered into that certain Loan and Security Agreement dated as October 26, 2011 (as the same may from time to time be amended, modified, supplemented or restated, the "**Loan Agreement**"). Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

**B.** Bank has made the First Growth Capital Advance. Borrower has requested that Bank amend the Loan Agreement to (i) extend the availability of the Second Growth Capital Advance, and (ii) make certain other revisions to the Loan Agreement as more fully set forth herein.

#### AGREEMENT

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. **Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.
2. **Amendments to Loan Agreement.**

**2.1 Sections 2.1.2(a) and (b) (Growth Capital Advances).** Sections 2.1.2(a) and (b) of the Loan Agreement are amended in their entirety to read as follows:

(a) **Availability.** Subject to the terms and conditions of this Agreement: (i) Bank agrees to lend to Borrower from time to time prior to the Growth Capital Commitment Termination Date, two advances (each a "**Growth Capital Advance**" and collectively the "**Growth Capital Advances**") in an aggregate original principal amount not to exceed the Growth Capital Advance Commitment; (ii) the first Growth Capital Advance, shall be in an amount of Three Million (\$3,000,000) (the "**First Growth Capital Advance**") and shall be available until two (2) Business Days after the Third Amendment Effective Date and the proceeds of the First Growth Capital Advance shall be used to prepay all Term Loans pursuant to Section 2.1.1(e) with the remaining proceeds to be delivered to Borrower; and (iii) the second Growth Capital Advance, shall be in an amount of One Million Two Hundred Fifty Thousand Dollars (\$1,250,000) (the "**Second Growth Capital Advance**") and shall be available from June 30, 2013 through January 31, 2014 and only so long as the Second Growth Capital Advance Condition has occurred. The "**Second Growth Capital Advance Condition**" means that, on or before January 31, 2014, Borrower or its investors have presented evidence satisfactory to Bank that (i) Borrower has begun treating the first patient in its Phase II-B clinical study, *or* (ii) Borrower has received guidance from the FDA that Borrower can pursue approval of its product as a Medical Device. When repaid, the Growth Capital Advances may not be re-borrowed. Bank's obligation to lend hereunder shall terminate on the Growth Capital Commitment Termination Date.

(b) **Repayment.** For the First Growth Capital Advance: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the First Growth Capital Advance and continuing thereafter on the first day of each successive calendar month through and including January 1, 2014 (or April 30, 2014 if the Second Growth Capital Advance Condition occurs), (ii) commencing on February 1, 2014 (or May 1, 2014 if the Second Growth Capital Advance Condition occurs), and continuing thereafter on the first day of each successive calendar month

through and including the Growth Capital Advance Maturity Date, Borrower shall make twenty-nine (29) equal monthly payments of principal and interest which would fully amortize the First Growth Capital Advance, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Growth Capital Advance Maturity Date with respect to the First Growth Capital Advance. For the Second Growth Capital Advance: (i) Borrower shall make monthly payments of interest only commencing on the first day of the month following the month in which the Funding Date occurs with respect to the Second Growth Capital Advance and continuing thereafter on the first day of each successive calendar month through and including April 30, 2014, (ii) commencing on May 1, 2014 and continuing thereafter on the first day of each successive calendar month through and including the Growth Capital Advance Maturity Date, Borrower shall make twenty-nine (29) equal monthly payments of principal and interest which would fully amortize the Second Growth Capital Advance, and (iii) all unpaid principal and accrued and unpaid interest is due and payable in full on the Growth Capital Advance Maturity Date with respect to the Second Growth Capital Advance. Each date that a monthly payment of principal and interest is due as to a Growth Capital Advance shall be referred to herein as a “**Growth Capital Scheduled Payment Date**” and each scheduled monthly payment of principal and interest as to a Growth Capital Advance shall be referred to herein as “**Growth Capital Scheduled Payment,**” and collectively, “**Growth Capital Scheduled Payments.**” Growth Capital Advances may only be prepaid in accordance with Sections 2.1.2(d) and 2.1.2(e).

**2.2 Section 8.1 (Payment Default).** Section 8.1 of the Loan Agreement is amended in its entirety to read as follows:

**Payment Default.** Borrower fails to (a) make any payment of principal or interest on any Credit Extension on its due date, or (b) pay any other Obligations within three (3) Business Days after such Obligations are due and payable (which three (3) Business Day cure period shall not apply to payments due on the Term Loan Maturity Date or the Growth Capital Advance Maturity Date). During the cure period, the failure to make or pay any payment specified under clause (b) hereunder is not an Event of Default (but no Credit Extension will be made during the cure period);

**2.3 Section 13 (Definitions).** The following terms and their respective definitions are added in **Section 13.1** in proper alphabetical order:

“**Third Amendment**” is the Third Amendment to Loan and Security Agreement by and between Bank and Borrower.

“**Third Amendment Effective Date**” is defined in the Third Amendment.

**2.4 Section 13 (Definitions).** The following term and its definition set forth in **Section 13.1** is amended in its entirety and replaced with the following:

“**Growth Capital Commitment Termination Date**” is: (a) for the First Growth Capital Advance, the earliest of (i) two (2) Business Days after the Third Amendment Effective Date, or (ii) an Event of Default; and (b) for the Second Growth Capital Advance, the earlier of (i) January 31, 2014 or (ii) an Event of Default.

### **3. Limitation of Amendments.**

**3.1** The amendments set forth in **Section 2** above are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the

Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

**4.1** Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

**4.2** Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

**4.3** The organizational documents of Borrower delivered to Bank prior to the Third Amendment Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

**4.5** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

**4.6** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on either Borrower, except as already has been obtained or made; and

**4.7** This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

**5. Bank Expenses.** Borrower shall pay to Bank all Bank Expenses (including reasonable attorneys' fees and reasonable expenses for documentation and negotiation of this Amendment) incurred through and after the Third Amendment Effective Date, when due.

**6. Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**7. Effectiveness.** This Amendment shall be deemed effective as of the Third Amendment Effective Date upon the due execution and delivery to Bank of this Amendment by each party hereto.

**8. Amendments in Writing; Integration.** This Amendment is a Loan Document. This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Amendment and the Loan Documents.



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9. **Governing Law; Venue.** The provisions of Section 11 of the Loan Agreement apply to this Amendment.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Third Amendment to Loan and Security Agreement to be duly executed and delivered as of the date first written above.

BORROWER:

CARBYLAN BIOSURGERY, INC.

By: /s/ David M. Renzi  
Name: David M. Renzi  
Title: President & CEO

BANK:

SILICON VALLEY BANK

By: /s/ Jason Hughes  
Name: Jason Hughes  
Title: Managing Director

## COMMERCIAL LEASE

THIS LEASE is entered into as of January 26, 2012 (the "**Effective Date**"), by and between THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY, a body having corporate powers under the laws of the State of California ("**Landlord**"), and CARBYLAN BIOSURGERY, INC, a Delaware corporation ("**Tenant**"), in the following factual context:

A. Landlord owns certain real property commonly known as 3181-3183 Porter Drive, Palo Alto, California (the "**Land**").

B. Landlord and Philip D. Leighton, Trustee ("**Ground Lessee**"), are parties to that certain Ground Lease dated as of March 10, 1961 (as amended and assigned, the "**Ground Lease**"), pursuant to which Landlord ground leased the Land to Ground Lessee, which Ground Lease expires on March 9, 2012.

C. Ground Lessee and Tenant are parties to that certain Lease dated as of December 20, 2005, as amended by that certain First Amendment to Lease dated as of July 25, 2011 (as amended, the "**Prior Lease**"), pursuant to which Ground Lessee leased a portion of the Premises (as defined below) to Tenant, which Prior Lease expires on March 9, 2012.

D. Landlord desires to lease to Tenant, and Tenant desires to lease from Landlord, the Premises, effective upon the expiration of the Ground Lease, as set forth in the Lease.

NOW THEREFORE, the parties agree as follows:

**1. BASIC LEASE INFORMATION.** The following is a summary of basic lease information. Each item in this Article 1 incorporates all of the terms set forth in this Lease pertaining to such item and to the extent there is any conflict between the provisions of this Article 1 and any other provisions of this Lease, the other provisions shall control. Any capitalized term not defined in this Lease shall have the meaning set forth in the Glossary that appears at the end of this Lease.

Description of Premises:	16,065 square feet of Rentable Area, as more particularly described on <b>Exhibit A</b>
Address of Premises:	3181-3182 Porter Drive, Palo Alto, California
Rentable Area of Premises:	16,065 square feet of Rentable Area
Term:	Approximately Four (4) years
Commencement Date:	March 10, 2012
Expiration Date:	February 29, 2016
Base Rent:	As set forth below, subject to Section 5.1

Period During Term	Monthly Base Rent per sq. ft. of Rentable Area	Square Footage Basis	Monthly Base Rent
3/10/12 – 7/9/12	\$2.10	8,442	\$17,728.20
7/10/12 - 3/9/13	\$2.15	16,065	\$34,539.75
3/10/13 - 3/9/14	\$2.16	16,065	\$34,700.40
3/10/14 - 3/9/15	\$2.23	16,065	\$35,824.95
3/10/15 - 2/29/16	\$2.28	16,065	\$36,628.20
Security Deposit:	\$69,079.50, subject to Section 5.4		
Parking:	All of the parking in the Parking Area of the Property		
Use:	Research and development, laboratory, manufacturing and general office uses, and all other uses as approved by the City of Palo Alto and Landlord		
Addresses for Notice:			
Landlord:	The Board of Trustees of the Leland Stanford Junior University 2755 Sand Hill Road, Suite 100 Menlo Park, CA 94025 Attention: Managing Director, Real Estate		
with a copy to:	Carol K. Dillon, Esq. Bingham McCutchen LLP 1117 S. California Avenue Palo Alto, CA 94304		
Tenant:	Carbylan Biosurgery, Inc. 3181-3183 Porter Drive Palo Alto, CA 94304 Attn: Chief Business Officer		

with a copy to:

Cooley, LLP  
3175 Hanover Street  
Palo Alto, CA 94304-1130  
Attn: Mark Weeks

Landlord's Wire  
Instructions:

Depository: Hines AAF Stanford University  
Bank: Bank of America – Global  
Account numbers intentionally omitted

Brokers:

Cornish & Carey Commercial Newmark Knight Frank  
(**"Tenant's Broker"**)

## 2. PREMISES.

**2.1 Premises.** Subject to the terms, covenants and conditions set forth in this Lease, Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord. The approximate total Rentable Area of the Premises is specified in Article 1. Landlord and Tenant hereby agree that such approximation is reasonable, is not subject to adjustment by either party, and no terms based thereon shall be subject to revision whether or the not the actual Rentable Area is more or less than as set forth in this Lease. The building in which the Premises will be located is sometimes referred to herein as the **"Building"**. Notwithstanding anything to the contrary contained in this Lease, Landlord hereby reserves the exclusive right to the exterior side walls, rear walls and roof of the Building, but expressly grants to Tenant exclusive use of the "mezzanine space" below the roof. Together, the Premises, the Building, the legal parcel upon which the Building now stands, and the Common Area (as defined below) are sometimes referred to in this Lease as the **"Property."**

**2.2 Common Area.** Landlord hereby grants to Tenant and its officers, employees, agents, contractors, invitees, permitted subtenants and any additional permitted occupants of the Premises (collectively, **"Tenant's Agents"**) an exclusive license to reasonably use the landscape areas, sidewalks, driveways, Parking Areas (as defined in Section 2.3) and other public amenities (the **"Common Area"**) associated with the Premises during the Term. Tenant's rights to the Common Area shall be subject to the Rules and Regulations described in Section 23.1, to Landlord's reserved rights described in Article 16 and to other applicable provisions of this Lease.

**2.3 Parking.** Provided that an Event of Default by Tenant is not in existence, Tenant and Tenant's Agents shall have the exclusive right to use any parking areas now on the Property and designated by Landlord for tenant use (the **"Parking Area"**) for parking operable motor vehicles and for ingress to and egress from the Property in connection with Tenant's use of the Premises, subject to the following terms and conditions:

(a) Tenant and Tenant's Agents shall have the right to use the entire Parking Area, as specified in Article 1.

(b) Tenant's license shall not be assigned, sublet or otherwise transferred separately from the Premises.

(c) Tenant shall not at any time park, or permit the parking of the trucks or vehicles of Tenant or Tenant's Agents in any portion of the Parking Areas or Common Area not designated by Landlord for such use by Tenant. Tenant shall not park nor permit to be parked any inoperative vehicles or store any materials or equipment on any portion of the Parking Area or other areas of the Common Area.

(d) Tenant agrees to assume responsibility for compliance by Tenant's Agents with the parking provisions contained in this Section. Tenant hereby authorizes Landlord at Tenant's expense to attach violation stickers or notices to such vehicles not parked in compliance with this Section and to tow away any such vehicles, in addition, one or more specific section of the Parking Area may be set aside by Landlord from time to time for visitor parking for the Property, for loading purposes, for car or van pool parking, or for other specific uses as designated by Landlord.

### 3. ACCEPTANCE.

(a) Prior to entering into this Lease, Tenant has occupied approximately 8,442 square feet the Premises pursuant to the Prior Lease, which space is identified on the attached **Exhibit B** (the "**Pre-Occupied Space**"), and Tenant has made a thorough and independent examination of the remainder of the Premises (the "**New Space**") and all matters related to Tenant's decision to enter into this Lease. Tenant is thoroughly familiar with all aspects of the Property and its construction and is satisfied that it is in an acceptable condition and meets Tenant's needs. Tenant acknowledges and agrees that Landlord has not been in possession of the Premises nor operated the Premises prior to the Commencement Date. Tenant does not rely on, and Landlord does not make, any express or implied representations or warranties as to any matters including, without limitation, (a) the physical condition of the Property, the Building Structure, or the Building Systems (including, without limitation, the indoor air quality), (b) the existence, quality, adequacy or availability of utilities serving the Property, (c) the size of the Premises, the Building or the Property, (d) the use, habitability, merchantability, fitness or suitability of the Premises for Tenant's intended use, (e) the likelihood of deriving business from Tenant's location or the economic feasibility of Tenant's business, (f) Hazardous Materials in the Premises, or on, in under or around the Property, (g) zoning, entitlements or any Applicable Laws which may apply to Tenant's use of the Premises or business operations, or the Property's compliance with Applicable Laws, or (h) any other matter. Tenant has satisfied itself as to such suitability and other pertinent matters by Tenant's own inquiries and tests into all matters relevant in determining whether to enter into this Lease, Tenant accepts the Premises in their existing "as-is" condition. Tenant shall, by entering into and occupying the Premises pursuant to this Lease, be deemed to have accepted the Premises and to have acknowledged that the same are in good order, condition and repair.

### 4. TERM.

**4.1 Term.** The Premises are leased for a term (the "**Term**") commencing on the Commencement Date and ending on the Expiration Date. The Term shall end on the

Expiration Date, or such earlier date on which this Lease terminates pursuant to its terms. The date upon which this Lease actually terminates, whether by expiration of the Term or earlier termination pursuant to the terms of this Lease, is sometimes referred to in this Lease as the **“Termination Date”**.

**4.2 Failure to Deliver Possession.** If for any reason Landlord cannot deliver possession all or any portion of the Premises to Tenant on the Commencement Date, then (a) the validity of this Lease and the obligations of Tenant under this Lease shall not be affected by any such delay in delivery, nor shall any such delay result in any extension of the Expiration Date, and (b) Tenant shall have no claim against Landlord arising out of Landlord’s failure to deliver possession of the Premises on the Commencement Date. If Landlord is unable to deliver the New Space to Tenant on the Commencement Date, the Commencement Date for the Pre-Occupied Space shall be deemed to occur on the Commencement Date set forth in Article 1, and the Commencement Date for the New Space shall be deemed to occur on the date the New Space is delivered to Tenant. Notwithstanding the foregoing, in no event shall the Expiration Date be changed or extended as a result of any delay in the delivery of possession of the Premises or any portion thereof.

**4.3 No Renewal Option.** Landlord shall have no obligation to extend or renew this Lease upon expiration or termination of this Lease, or to enter into a new lease of the Premises with Tenant upon the expiration or termination of this Lease. Tenant has no option to extend the Term of this Lease and Landlord reserves the right to lease the Premises to any other person or entity after the end of the Term.

## 5. RENT.

**5.1 Base Rent.** Subject to the terms of Section 5.5 below, commencing upon the Commencement Date, and thereafter during the Term, Tenant shall pay to Landlord the monthly Base Rent specified in Article 1 on or before the first day of each month, in advance, without any prior notice or demand and without any deductions or setoff whatsoever (except as otherwise expressly provided in this Lease). Base Rent shall be paid by wire transfer pursuant to the instructions set forth in Article 1 or, if requested by Landlord, at the address specified for Landlord in Article 1 or at such other place as Landlord designates in writing. If the Commencement Date occurs on a day other than the first day of a calendar month, or the Termination Date occurs on a day other than the last day of a calendar month, then the Base Rent for such fractional month will be prorated on the basis of the actual number of days in such month. Notwithstanding any of the foregoing, Tenant shall commence paying Rent for the PreOccupied Space on the Commencement Date and the Base Rent for the New Space shall be abated for the first four (4) months of the Term commencing on the Commencement Date of the New Space, as determined in accordance with Section 4.2 above. Tenant shall pay Operating Expenses for the New Space during such four (4) month period, commencing on the Commencement Date of the New Space, in accordance with the terms of Article 7 below,

**5.2 Additional Rent.** All sums due from Tenant to Landlord or to any third party under the terms of this Lease (other than Base Rent) shall be additional rent (**“Additional Rent”**), including without limitation the charges for Operating Expenses (described in Article 7) and all sums incurred by Landlord due to Tenant’s failure to perform its obligations under this

Lease. All Additional Rent that is payable to Landlord shall be paid at the time and place that Base Rent is paid, unless otherwise specifically provided in this Lease. Landlord will have the same remedies for a default in the payment of any Additional Rent as for a default in the payment of Base Rent. Together, Base Rent and Additional Rent are sometimes collectively referred to in this Lease as “**Rent**”.

**5.3 Late Payment.** Any unpaid Rent shall bear interest from the date due until paid at the interest Rate. In addition, Tenant recognizes that late payment of any Rent will result in administrative expense to Landlord, the extent of which expense is difficult and economically impracticable to determine. Therefore, Tenant agrees that if Tenant fails to pay any Rent within five (5) days after its due date, an additional late charge of five percent (5%) of the sums so overdue shall become immediately due and payable. Tenant agrees that the late payment charge is a reasonable estimate of the additional administrative costs and detriment that will be incurred by Landlord as a result of such failure by Tenant. In the event of nonpayment of interest or late charges on overdue Rent, Landlord shall have, in addition to all other rights and remedies, the rights and remedies provided in this Lease and by law for nonpayment of Rent.

**5.4 Security Deposit.** On or before the Commencement Date, Tenant shall deliver to Landlord the Security Deposit described in Article 1 in the form of cash. The Security Deposit shall be held by Landlord as security for the faithful performance of this Lease by Tenant of all of the terms, covenants and conditions of this Lease. If there is an Event of Default by Tenant with respect to any provisions of this Lease (including but not limited to the payment of Rent); if Tenant files a petition in bankruptcy, insolvency, reorganization, dissolution or liquidation under any law; makes an assignment for the benefit of its creditors; consents to or acquiesces in the appointment of a receiver of itself or the Premises, or if a court of competent jurisdiction enters an order or judgment appointing a receiver of Tenant or the Premises; or if a court of competent jurisdiction enters an order or judgment approving a petition filed against Tenant under any bankruptcy, insolvency or liquidation law, then in any such case Landlord may, without waiving any of Landlord’s other rights or remedies under this Lease, apply the Security Deposit in whole or in part to remedy any failure by Tenant to pay any sums due under this Lease, to repair or maintain the Premises, to perform any other terms, covenants or conditions contained in this Lease, to compensate Landlord for any loss or damages which Landlord may suffer as a result thereof, including without limitation any lost rent to which Landlord is entitled in the event the Lease terminates or is rejected as a result of any of the foregoing. Should Landlord so apply any portion of the Security Deposit, Tenant shall replenish the Security Deposit to the original amount within ten (10) days after written demand by Landlord, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. If Tenant has fully complied with all of the terms, covenants and conditions of this Lease, the Security Deposit (less any amount applied to cleaning, repairing damage to the Premises caused by Tenant or otherwise applied in accordance with the provisions of this Lease) shall be returned to Tenant after the Expiration Date and after delivery of possession of the Premises to Landlord in the manner required by this Lease. In the event of any Assignment of this Lease by Tenant, such Assignment shall be deemed to include an assignment of Tenant’s rights to recover the Security Deposit, and Landlord’s agreement to return the Security Deposit shall run only to Tenant’s assignee and not to the original Tenant. Tenant hereby expressly waives the provisions of



**6. USE OF PREMISES AND CONDUCT OF BUSINESS.**

**6.1 Permitted Use.** Tenant may use and occupy the Premises during the Term solely for the uses specified and permitted in Article 1 and for no other purpose without the prior written consent of Landlord, such consent to be granted or withheld in Landlord's sole and unfettered discretion. Tenant's use of the Property shall in all respects comply with all Applicable Laws.

**6.2 Prohibited Uses.** Tenant shall not use the Premises or allow the Premises to be used for any illegal or immoral purpose, or so as to create waste, or constitute a private or public nuisance. Tenant shall not place any loads upon the floors, walls, or ceiling that endanger the structure, or overload existing electrical or other mechanical systems. Tenant shall not use any machinery or equipment which causes any substantial noise or vibration. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises or outside of the Premises except in trash containers placed inside exterior enclosures designated by Landlord for that purpose or inside of the Premises where approved by Landlord. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain outside the Premises or on any portion of the Common Area unless otherwise approved by Landlord in its sole discretion. No loudspeaker or other device, system or apparatus which can be heard outside the Premises shall be used in or at the Premises without the prior written consent of Landlord. No explosives or firearms shall be brought into the Premises. Landlord shall have the right to enter and conduct an inspection of the Premises, at any reasonable time and upon reasonable advance notice (of not less than 24 hours, except in the case of an emergency in which event no prior notice shall be required, but Landlord shall give Tenant prompt notice following such emergency entry), to determine whether Tenant is complying with the terms of this Section 6.2. In the event such inspection identifies any deficiencies in Tenant's compliance with the terms of this Section 6.2, Tenant shall promptly correct such deficiency and shall reimburse Landlord within thirty (30) days after written demand as Additional Rent for any costs incurred by Landlord in connection with such inspection.

**7. OPERATING EXPENSES.**

**7.1 Net Lease.** This Lease is intended to be a net lease, and the Base Rent and all Additional Rent are to be paid by Tenant absolutely net of all costs and expenses relating to Landlord's ownership, operation and maintenance of the Property, except as specifically provided in this Lease. The provisions of this Article 7 for the payment of Operating Expenses are intended to pass on to Tenant all such costs and expenses that are incurred by Landlord in connection with the ownership, operation and maintenance of the Property.

**7.2 Operating Expenses.** "*Operating Expenses*" means the total costs and expenses paid or incurred by Landlord in connection with the ownership, management, operation, maintenance, repair and replacement of the Property, including, without limitation, all costs of:

(a) taxes, assessments and charges levied upon or with respect to the Property or any personal property of Landlord used in the operation of the Property, or on Landlord's interest in the Property or its personal property, including, without limitation, any increase in taxes, assessments or charges resulting from a reassessment of the Property upon the expiration of the Ground Lease ("**Real Estate Taxes**"). Real Estate Taxes shall include, without limitation, all general real property taxes and general and special assessments, charges, fees, or assessments for transit, housing, police, fire, or other governmental services or purported benefits to the Property or the occupants thereof, service payments in lieu of taxes that are now or hereafter levied or assessed against Landlord by the United States of America, the State of California or any political subdivision thereof, or any other political or public entity, and shall also include any other tax, assessment or fee, however described, that may be levied or assessed as a substitute for, or as an addition to, in whole or in part, any other Real Estate Taxes, whether or not now customary or in the contemplation of the parties as of the Effective Date. Real Estate Taxes shall also include reasonable legal fees, costs, and disbursements incurred in connection with proceedings to contest, determine, or reduce Real Estate Taxes. Real Estate Taxes shall not include franchise, transfer, succession, gift, inheritance, gross receipts or capital stock taxes or income taxes measured by the net income of Landlord unless, due to a change in the method of taxation, any of such taxes is levied or assessed against Landlord as a substitute for, or as an addition to, in whole or in part, any other tax that would otherwise constitute a Real Estate Tax. Without limiting be generality of the foregoing, Landlord shall have the right, in its sole discretion, to cause all Real Estate Taxes applicable to the Property to be segregated from other real property owned by Landlord, and to have such Real Estate Taxes billed directly to Tenant by the Santa Clara County Assessor. In the event Landlord exercises such right, Tenant shall be liable for and shall pay before delinquency all such Real Estate Taxes and shall deliver satisfactory evidence of such payment to Landlord before delinquency:

(b) repair, maintenance, replacement and supply of any air conditioning, electricity, steam, water, heating, ventilating, mechanical, lighting, cable television, elevator systems, sanitary and storm drainage systems and all other utilities and mechanical systems (the "**Building Systems**"); provided, however, the cost of any capital repairs, replacements or improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(o) below;

(c) landscaping and gardening of the Common Area;

(d) operating, cleaning, lighting, repaving, resealing, repairing, maintaining and restriping of the Parking Area, sidewalks, loading areas, driveways and vehicular entrances and exits at or serving the Property; provided, however, the cost of any capital repairs, replacements or improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(o) below;

(e) lighting, repairs and maintenance to the Common Area; provided, however, the cost of any capital repairs, replacements or improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(o) below,

(f) unless such items are handled directly by Tenant, repair, maintenance and replacement of any security systems and fire protection systems installed in the

Premises; provided, however, the cost of any capital repairs, replacements or improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(o) below;

(g) general maintenance, cleaning and service contracts and the cost of all supplies, tools and equipment required in connection therewith;

(h) the costs of all utilities and services furnished to or used at the Premises and not paid for directly by Tenant;

(i) all premiums, costs for insurance carried by Landlord on the Premises, the Common Area and the Property, or in connection with the use or occupancy thereof (including all amounts paid as a result of loss sustained that would be covered by such policies but for deductibles or self-insurance retentions), including, but not limited to, the premiums and costs of fire and extended coverage, flood, vandalism and malicious mischief, commercial liability and property damage, worker's compensation insurance, rental income insurance and any other insurance commonly carried by prudent owners of comparable buildings, excluding earthquake insurance;

(j) wages, salaries, payroll taxes and other labor costs and employee benefits for all on-site and off-site persons engaged in the operation, management, maintenance and security of the Property and the direct costs of training such employees, limiting such charges only to the amounts directly allocable to services rendered by the employees and personnel for the benefit of the Property;

(k) management fees at commercially reasonable rates (whether or not Landlord employs a third party manager), not to exceed three percent (3%) of Base Rent;

(l) fees, charges and other costs of all independent contractors engaged by Landlord;

(m) license, permit and inspection fees;

(n) the cost of supplies, tools, machines, materials and equipment used in operation and maintenance of the Common Area;

(o) the cost of any capital (as such term is interpreted by generally accepted accounting principles) repairs, replacements or improvements to the Property, including, without limitation, those that are required by any Applicable Laws, or that are made by Landlord to reduce energy or other utility requirements (including LEED certification); provided that the cost of any such capital repairs, replacements or improvements shall be amortized over the period commencing on the date of expenditure and ending ten (10) years later, together with interest on the unamortized balance at the Interest Rate;

(p) the cost of contesting the validity or applicability of any governmental enactments that may affect Operating Expenses;

(q) audit and bookkeeping fees, legal fees and expenses incurred in connection with the operation or management of the Property;

- (r) costs for an off-site or on-site property management office and office operation, provided that such cost shall be limited to the extent allocable to the management and operation of the Property;
- (s) legal and accounting services for the Property;
- (t) assessments, fees or other charges levied by an association; and
- (u) any other expenses of any kind whatsoever reasonably incurred in connection with the management, operation, maintenance, repair and replacement of the Property.

Notwithstanding anything in the definition of Operating Expenses to the contrary, Operating Expenses shall not include the following:

- (i) costs actually reimbursed to Landlord by insurance proceeds for the repair of damage to the Property;
- (ii) financing and refinancing costs, interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Property;
- (iii) legal fees, leasing commissions, cash allowances, buy-out amounts, advertising expenses, promotional expenses, and other costs of a similar nature incurred in the leasing of space at the Property;
- (iv) ground rent or any other payments paid under any present or future ground or overriding or underlying lease and/or grant affecting the Property and/or the Premises (other than payments which, independent of such lease, would constitute an Operating Expense hereunder);
- (v) costs incurred due to a breach of this Lease by Landlord;
- (vi) costs arising from the presence of any Hazardous Materials or violation of Environmental Laws as of or prior to the Commencement Date or caused by Landlord or Landlord's Agents;
- (vii) overhead and profit increment paid to subsidiaries or affiliates of Landlord for services on or to the Property, to the extent that the costs of such services exceed market-based costs for such services rendered by unaffiliated persons or entities of similar skill, competence and experience; and
- (viii) penalties, fines, legal expenses or late payment interest incurred by Landlord due to violation by Landlord or Landlord's Agents of either the payment terms and conditions of any lease or service contract covering space in the Building or Landlord's obligations as owner of the Building (such as late payment penalties and interest on real estate taxes or late payment of utility bills).

**7.3 Payment of Operating Expenses.** Commencing on the Commencement Date, Tenant shall pay to Landlord as Additional Rent one twelfth (1/12) of the Operating Expenses for each calendar year or portion thereof during the Term, in advance, on or before the first day of each month in an amount estimated by Landlord as stated in a written notice to Tenant; provided, further, that with respect to the Real Estate Taxes, in addition to the right to have Tenant billed directly by the County of Santa Clara for the Real Estate Taxes pursuant to Section 7.2(a), Landlord shall have the right to bill Tenant for, and require Tenant to pay to the Landlord the entire amount of each installment of the Real Estate Taxes not more than thirty (30) before the due date of such installment, or send any bill for Real Estate Taxes to Tenant and require that Tenant pay such Real Estate Taxes to the County of Santa Clara's tax collector no later than the due date. Landlord may by written notice to Tenant revise such estimates from time to time and Tenant shall thereafter make payments on the basis of such revised estimates. With reasonable promptness after the expiration of each calendar year, and in any event not later than May 1st of each year, Landlord will furnish Tenant with a statement ("**Landlord's Expense Statement**") setting forth in reasonable detail the actual Operating Expenses for the prior calendar year. If the actual Operating Expenses for such year exceed the estimated Operating Expenses paid by Tenant for such year, Tenant shall pay to Landlord (whether or not this Lease has terminated) the difference between the amount of estimated Operating Expenses paid by Tenant and the actual Operating Expenses within thirty (30) days after the receipt of Landlord's Expense Statement. If the total amount paid by Tenant for any year exceeds the actual Operating Expenses for that year, the excess shall be credited against the next installments of Base Rent due from Tenant to Landlord, or, if after the Termination Date, the excess shall first be credited against any unpaid Base Rent or Additional Rent due and any remaining excess shall be refunded to Tenant concurrently with the furnishing of Landlord's Expense Statement.

**7.4 Proration.** If either the Commencement Date or the Termination Date occurs on a date other than the first or last day, respectively, of a calendar year, Operating Expenses for the year in which the Commencement Date or Termination Date occurs shall be prorated based on a 365-day year.

**7.5 Taxes on Tenant's Property and Business.** Tenant shall pay prior to delinquency all taxes levied or assessed by any local, state or federal authority upon the conduct of Tenant's business in the Premises or upon Tenant's Property and shall deliver satisfactory evidence of such payment to Landlord. If the assessed value of the Property is increased by the inclusion of a value placed upon Tenant's Property, Tenant shall pay to Landlord, upon written demand, the taxes so levied against Landlord, or the portion of Landlord's taxes resulting from said increase in assessment, as determined from time to time by Landlord.

**7.6 Transit Fees.** Tenant shall pay as Additional Rent under this Lease its proportionate share of the cost of any transit services or traffic mitigation programs that Landlord implements in the Stanford Research Park, including without limitation charges for service and surcharges imposed directly or indirectly on the Property by any governmental agencies on or with respect to transit (including transit services which may be provided in the future to occupants of the Stanford Research Park) or automobile usage or parking facilities (collectively, "**Transit Fees**"). The share of Transit Fees allocated to the Building shall be assessed pro rata and on a non-discriminatory basis, based on a reasonable standard applied in a non-discriminatory manner by Landlord (for example, based on the rentable area of the Building as

compared to the total rentable area of the Stanford Research Park (or the area being served by the service, if less than the entire Stanford Research Park), or based on the average employee headcount in the Building as compared to the overall employee density of the Stanford Research Park), In no event shall Tenant's share Transit Fees exceed ten cents (\$0.10) per square foot of Rentable Area in the Premises per calendar year, increased annually on each anniversary of the Commencement Date by three percent (3%).

**7.7 Tenant's Audit Rights.** Each Landlord's Expense Statement shall be conclusive and binding upon Tenant unless, within ninety (90) days after receipt thereof, Tenant shall give Landlord notice that Tenant disputes the correctness of the Landlord's Expense Statement, specifying the particular respects in which the Landlord's Expense Statement is claimed to be incorrect. Tenant shall not have the right to withhold payment of Operating Expenses in the event of a dispute. Landlord shall maintain books and records appropriate for the computation and verification of Operating Expenses and shall permit Tenant's employees or a certified public accountant reasonably approved by Landlord examine Landlord's books and records, during Landlord's regular business hours at Landlord's place of business and with at least ten (10) days prior written notice, in order to verify the accuracy of the relevant Landlord's Expense Statement. If it shall be finally determined by an independent certified public accountant engaged by Tenant and reasonably approved by Landlord that Landlord's Expense Statement was incorrect or commercially unreasonable, then either (a) Landlord shall at its election reimburse Tenant for any overpayment or credit the amount of such overpayment against the next monthly installment of Operating Expenses payable under this Lease, or (b) Tenant shall within thirty (30) days after such determination pay any amounts due to Landlord. Tenant agrees to pay the cost of such audit, provided that, if the audit reveals that Landlord's determination of Operating Expenses was overstated by more than five percent (5%), Landlord shall pay the cost of such audit; provided that the audit cost paid by Landlord shall not exceed fifty percent (50%) of the overstated amount,

## **8. REPAIRS, MAINTENANCE, UTILITIES AND SERVICES.**

**8.1 Standard of Repair, Maintenance and Replacement.** Landlord and Tenant acknowledge that, after the Expiration Date, Landlord may redevelop the Property. Accordingly, during the Term of this Lease, the standard of repair, maintenance and replacement applicable to the Property shall be that which is reasonably necessary or appropriate to maintain or achieve a useable, safe, clean and sanitary condition.

**8.2 Landlord's Obligations.** Except as specifically provided in this Lease, Landlord shall not be required to furnish any services, facilities or utilities to the Premises or to Tenant, and Tenant assumes full responsibility for obtaining and paying for all services, facilities and utilities to the Premises. Landlord shall:

(a) repair, replace and maintain only the Building Systems, the Common Area, and the structural portions of the Premises, including, without limitation, the foundation, floor/ceiling slabs, roof, curtain wall, exterior glass and mullions, columns, beams, shafts (including elevator shafts), Common Area stairs, Building standard stairwells (but not stairs or stairwells installed by the Tenant or any former tenant) and elevators (collectively, the "**Building Structure**");

(b) provide hot and cold water, gas and electricity service to the Premises in amounts sufficient for normal office operations as provided in similar buildings in the Stanford Research Park; and

(c) provide the Common Areas with landscaping services to a standard similar to other properties in the Stanford Research Park.

Tenant shall notify Landlord in writing when it becomes aware of the need for any repair, replacement or maintenance which is Landlord's responsibility under this Section of which it becomes aware. The costs of such repair, replacement, maintenance, utility or service shall be included in Operating Expenses to the extent provided In Article 7; provided that, subject to Section 13.5, Tenant shall reimburse Landlord in full and within twenty (20) Business Days after written demand for the cost of any repair to the Property, Building Structure or Building Systems that is attributable to misuse by Tenant or Tenant's Agents. The reimbursement shall be Additional Rent. Tenant hereby waives and releases any right it may have under any Applicable Laws to make any repairs that are Landlord's obligation under this Section.

**8.3 Capital Expenditures.** In the event it is reasonably necessary for Landlord to (a) make any capital repairs, replacements or improvements to the Property, (b) replace components of the Building Systems in order to maintain the Property in the condition set forth in Section 8.1 or (c) make any repairs, replacements or improvements to the Property as a result of Applicable Laws (a "**Capital Expenditure**") and the estimated aggregate cost of all proposed Capital Expenditures exceeds one hundred thousand dollars (\$100,000) in any twelve (12) month period, Landlord shall have the right to terminate this Lease by providing Tenant written notice thereof, which termination shall become effective as of the date set forth in such notice, unless Tenant, within fifteen (15) Business Days after receipt of Landlord's termination notice, elects in writing to pay the entire cost of the Capital Expenditure in excess of \$100,000 in one lump sum payment, to be paid upon completion of the Capital Expenditure work and presentation of reasonable evidence of such costs.

**8.4 Tenant's Obligations.** Except as provided in Section 8.2, Tenant assumes full responsibility for the condition, repair, replacement and maintenance of the Premises, including, without limitation, all electrical, steam, water, heating, ventilating and mechanical systems and all other utilities, systems and equipment installed in the Premises by Tenant in connection with its use and occupancy of the Premises as permitted by this Lease ("**Tenant Systems**"). Landlord and Tenant acknowledge and agree that the Tenant Systems include, without limitation, eye wash and emergency shower stations, de-ionized water systems, fume hoods (including associated exhaust fans), natural gas lines from the main Building line to the Premises, vacuum system, lab water systems (industrial hot and cold), low temperature freezers, and other lab systems. Tenant shall be responsible for arranging for and supplying janitorial services, security services and telephone and other electronic communication services to the Premises and shall pay the costs of such utilities and services directly. Tenant shall take good care of the Premises, the Building and the Tenant Systems and keep the Premises and the Building (other than the Common Area, Building Structure and Building Systems that are the responsibility of Landlord to the extent expressly provided in Section 8.2) and the Tenant Systems in a useable, well-kept, safe, clean and sanitary condition. All repairs and replacements by Tenant for which Tenant is responsible are collectively referred to as the "**Tenant**

**Obligations”** and shall be made and performed: (a) at Tenant’s cost and expense, and at such time and in such manner as Landlord may designate, (b) by licensed and reputable contractors or mechanics approved by Landlord, (c) so that same shall be at least equal in quality, value and utility to the original work or installation, (d) in a manner and using equipment and materials that will not interfere with or impair the operation of or damage the Building Systems, and (e) in accordance with Article 9 (if applicable), and all Applicable Laws. Tenant shall cooperate fully and in good faith with Landlord and Landlord’s property manager in the performance of all such repairs and replacements by Tenant, and shall perform all such work and activities diligently and expeditiously to completion. Tenant shall reimburse Landlord within thirty (30) days after written demand as Additional Rent for any out-of-pocket expenses incurred by Landlord in connection with any repairs or replacements required to be made by Tenant, including, without limitation, any reasonable fees charged by Landlord’s contractors to review plans and specifications prepared by Tenant.

**8.5 Security.** Tenant shall be solely responsible for the security of the Premises and Tenant and Tenant’s Agents while in or about the Premises. Landlord shall not be obligated to provide any security services, facilities or equipment for the Premises, the Building, the Common Area or the Property. Any security services provided to the Property by Landlord shall be at Landlord’s sole discretion; provided that Landlord agrees to not provide any security services to the Premises unless requested by Tenant. Notwithstanding the foregoing, Landlord shall not be liable to Tenant or Tenant’s Agents for any failure to provide security services or any loss, injury or damage suffered as a result of a failure to provide security services.

**8.6 Landlord’s Right To Perform.** In the event Tenant fails to perform or adequately perform any of Tenant’s Obligations as reasonably determined by Landlord, Landlord, in its sole and absolute discretion, and upon thirty (30) days written notice to Tenant, may terminate Tenant’s right to perform Tenant’s Obligations, and Landlord shall then assume for itself or assign to Landlord’s property manager all responsibility for the performance of all such Tenant’s Obligations for the remainder of the Term, the cost of which shall be included within the definition of Operating Expenses.

**8.7 Special Services.** If Tenant requests any services from Landlord other than those for which Landlord is obligated under this Lease, Tenant shall make its request in writing and Landlord may elect in its sole discretion whether to provide the requested services. If Landlord provides any special services to Tenant, Landlord shall charge Tenant for such services at the prevailing rate being charged for such services by other property owners and property managers of comparable buildings in the area of the Property, and Tenant shall pay the cost of such services as Additional Rent within thirty (30) days after receipt of Landlord’s invoice.

## **9. ALTERATIONS.**

**9.1 Landlord’s Improvements.** The Premises as furnished by Landlord will consist of the improvements and fixtures as they exist in the Premises on and as of the Commencement Date, and Landlord shall have no obligation for construction work or for making or installing any improvements, fixtures or equipment on, to or within the Premises.



**9.2 Alterations by Tenant.** Tenant shall not make or permit any alterations to the Building Systems, and shall not make or permit any alterations, installations, additions or improvements, structural or otherwise (collectively, “**Alterations**”) in or to the Premises or the Building without Landlord’s prior written consent, which Landlord shall not unreasonably withhold, condition or delay. Landlord shall respond to any request by Tenant to make any Alteration within ten (10) Business Days after receipt of such request for consent from Tenant, which request shall include submission of detailed plans and specifications for the Alterations and all other information reasonably required by Landlord to act on the request per the standards and requirements set forth in this Article 9. Notwithstanding the foregoing, Landlord’s consent shall not be required (a) in the case of interior, cosmetic non-structural Alterations that do not (i) require a permit, (ii) affect the Building Systems, and (iii) affect the entryways or elevators or any other premises in the Building, or (b) in the case of other Alterations that do not exceed a total price of Fifteen Thousand Dollars (\$15,000) per project and do not affect the Building Systems, the structural integrity of the Building and the exterior appearance of the Building. All Alterations shall be done at Tenant’s sole cost and expense, including without limitation the cost and expense of obtaining all permits and approvals required for any Alterations.

**9.3 Project Requirements.** The following provisions of this Section 9.3 shall apply to all Alterations, whether or not requiring Landlord’s approval (unless otherwise noted):

(a) Prior to entering into a contract for any Alterations requiring Landlord’s approval, Tenant shall obtain Landlord’s written approval, which approval shall not be unreasonably withheld, conditioned or delayed, of the identity of each of the design architect and the general contractor.

(b) Before commencing the construction of any Alterations, Tenant shall procure or cause Tenant’s contractor to procure the insurance coverage described below and provide Landlord with certificates of such insurance in form reasonably satisfactory to Landlord. All such insurance shall comply with the following requirements of this Section and of Section 13.2.

(i) During the course of construction, to the extent not covered by property insurance maintained by Tenant pursuant to Section 13.2, comprehensive “all risk” builder’s risk insurance, including vandalism and malicious mischief, excluding earthquake and flood, covering all improvements in place on the Premises, all materials and equipment stored at the site and furnished under contract, and all materials and equipment that are in the process of fabrication at the premises of any third party or that have been placed in transit to the Premises when such fabrication or transit is at the risk of, or when title to or an insurable interest in such materials or equipment has passed to, Tenant or its construction manager, contractors or subcontractors (excluding any contractors’, subcontractors’ and construction managers’ tools and equipment, and property owned by the employees of the construction manager, any contractor or any subcontractor), such insurance to be written on a completed value basis in an amount not less than the full estimated replacement cost of the Alterations.

(ii) Commercial general liability insurance covering Tenant, Landlord and each construction manager, contractor and subcontractor engaged in any work on the Premises, which insurance may be effected by endorsement, if obtainable, on the policy

required to be carried pursuant to Section 13.2, including insurance for completed operations, owner's, construction manager's and contractor's protective liability, products completed operations for one (1) year after the date of acceptance of the work by Tenant, broad form blanket contractual liability, broad form property damage and full form personal injury (including but not limited to bodily injury), covering the performance of all work at or from the Premises by Tenant, its construction manager, contractors and subcontractors, and in a liability amount not less than the amount at the time carried by prudent owners of comparable construction projects, but in any event not less than Two Million Dollars (\$2,000,000) combined single limit, which policy shall include thereunder for the mutual benefit of Landlord and Tenant, bodily injury liability and property damage liability, and automobile insurance on any non-owned, hired or leased automotive equipment used in the construction of any work.

(iii) Workers' Compensation Insurance approved by the State of California, in the amounts and coverages required under workers' compensation, disability and similar employee benefit laws applicable to the Premises, and Employer's Liability Insurance with limits not less than One Million Dollars (\$1,000,000) or such higher amounts as may be required by law.

(c) All construction and other work shall be done at Tenant's sole cost and expense and in a prudent and first class manner. Tenant shall cause all work to be performed in accordance with all Applicable Laws, and with plans and specifications that are in accordance with the provisions of this Article 9 and all other provisions of this Lease.

(d) Prior to the commencement of any Alteration in excess of Ten Thousand Dollars (\$10,000), Landlord shall have the right to post in a conspicuous location on the Premises and to record in the public records a notice of Landlord's nonresponsibility. Tenant covenants and agrees to give Landlord at least ten (10) days prior written notice of the commencement of any such Alteration in order that Landlord shall have sufficient time to post such notice.

(e) Tenant shall reimburse Landlord within thirty (30) days after written demand as Additional Rent for any out-of-pocket expenses incurred by Landlord in connection with the Alterations and/or any repairs or replacements required to be made by Tenant, including, without limitation, any reasonable fees charged by Landlord's contractors and/or consultants to review plans and specifications or working drawings prepared by Tenant and to inspect or supervise any work performed by or on behalf of Tenant. Tenant acknowledges and agrees that Landlord and Landlord's contractors and consultants, in reviewing Tenant's plans and specifications or working drawings, in granting approval for them, and in approving any work done by Tenant, owe no duty and assume no responsibility to Tenant for the design and construction of the Alterations, it being expressly understood and agreed that Landlord, its contractors and consultants may, in their sole discretion, limit the scope of its review to only such matters as may appear appropriate or necessary in the interests of Landlord.

(f) Tenant shall take all necessary safety precautions during any construction.

(g) Tenant shall take all necessary and prudent measures to secure the Premises, all of the materials and equipment stored on the Property in connection with Tenant's Alterations and any components of the Building or the Property exposed as a result of Tenant's Alterations. Tenant shall be solely responsible for any loss, injury or damage suffered as a result of a failure to provide such security measures.

(h) Tenant shall prepare and maintain (i) on a current basis during construction, annotated plans and specifications showing clearly all changes, revisions and substitutions during construction, and (ii) upon completion of construction, as-built drawings showing clearly all changes, revisions and substitutions during construction, including, without limitation, field changes and the final location of all mechanical equipment, utility lines, ducts, outlets, structural members, walls, partitions and other significant features. These as-built drawings and annotated plans and specifications shall be kept at the Premises and Tenant shall update them as often as necessary to keep them current. The as-built drawings and annotated plans and specifications shall be made available for copying and inspection by Landlord at all reasonable times.

(i) Upon completion of the construction of any Alterations in excess of Ten Thousand Dollars (\$10,000) during the Term, Tenant shall file for recordation, or cause to be filed for recordation, a notice of completion and shall deliver to Landlord evidence satisfactory to Landlord of payment of all costs, expenses, liabilities and liens arising out of or in any way connected with such construction (except for liens that are contested in the manner provided herein).

**9.4 Communications and Computer Lines.** Tenant may install, maintain, replace, remove or use any communications or computer wires and cables serving the Premises (collectively, the "**Lines**"), provided that (a) Tenant shall obtain Landlord's prior written consent, use an experienced and qualified contractor approved in writing by Landlord, and comply with all provisions of Article 9; (b) the Lines (including riser cables) shall be appropriately insulated to prevent excessive electromagnetic fields or radiation and shall be surrounded by a protective conduit reasonably acceptable to Landlord; (c) the Lines shall be clearly marked with adhesive plastic labels (or plastic tags attached to such Lines with wire) to show Tenant's name, suite number, telephone number and the name of the person to contact in case of an emergency (i) every four feet (4') outside the Premises (including the electrical room risers and other Common Areas), and (ii) at the Lines' termination point(s); (d) any new or existing Lines serving the Premises shall comply with all Applicable Laws; (e) as a condition to permitting the installation of new Lines, if Landlord does not intend to demolish the Premises at the end of the Term, Landlord may require that Tenant remove existing Lines located in or serving the Premises and repair any damage in connection with such removal; and (f) Tenant shall pay all costs in connection therewith.

**9.5 Ownership of Improvements.**

(a) Except as provided in Section 9.6, all Alterations, and any other appurtenances, fixtures, improvements, equipment, additions and property permanently attached to or installed in the Premises at the commencement of or during the Term, shall at the end of the Term become Landlord's property without compensation to Tenant, or be removed in

accordance with this Section; provided that any fume hoods installed by Tenant shall remain the property of Tenant and will be removed by Tenant prior to the end of the Term. Landlord shall notify Tenant in writing at the time of Landlord's approval of the Alterations whether or not the proposed Alterations will be required to be removed by Tenant at the end of the Term. If Landlord fails to so notify Tenant, no such Alterations shall be required to be removed by Tenant prior to the end of the Term. Tenant shall repair or pay the cost of repairing any damage to the Property caused by the removal of Alterations. If Tenant fails to perform its repair or removal obligations, without limiting any other right or remedy, Landlord may on five (5) Business Days prior written notice to Tenant perform such obligations at Tenant's expense without liability to Tenant for any loss or damage, and Tenant shall reimburse Landlord within thirty (30) days after demand for all out-of-pocket costs and expenses incurred by Landlord in connection with such repair or removal. Tenant's obligations under this Section shall survive the termination of this Lease. Notwithstanding the foregoing, Tenant shall not be required to remove any Alterations previously designated for removal if Landlord decides to demolish the Premises at the end of the Term; provided that Tenant shall not be relieved from its obligation to remove all of Tenant's Hazardous Materials from the Property pursuant to Article 12 below and to complete all applicable facility closure requirements in accordance with Section 12.10 below (including, without limitation, removing any Alterations if necessary to satisfy Tenant's removal and closure obligations).

(b) The parties hereby confirm that (i) the Existing Improvements (as defined below) are in place as of the Commencement Date of this Lease, and (ii) Tenant shall have no obligation to remove the Existing Improvements at the end of the Term; provided that Tenant's use of the Existing Improvements shall be in compliance with all Applicable Laws (including, without limitation, any permitting requirements) and nothing herein shall relieve Tenant from its obligation to remove all of Tenant's Hazardous Materials from the Property pursuant to Article 12 below and to complete all applicable facility closure requirements in accordance with Section 12.10 below (including, without limitation, removing any Existing improvements if necessary to satisfy Tenant's removal and closure obligations). As used herein, the "**Existing Improvements**" shall mean six (6) fume hoods and associated ducting and extractor fans, DI water treatment system on the outside of the Building and all of the internal lines that feed the lab benches, vacuum system outside the Building and all associated internal lines, compressed air system outside the Building and all associated internal lines, two (2) walk-in cold boxes inside the Building, lab benches, and free-standing sinks/faucets and emergency showers, all of which are located in the Pre-Occupied Space as of the Effective Date.

**9.6 Tenant's Personal Property.** All furniture, trade fixtures, furnishings, equipment and articles of movable personal property installed in the Premises by or for the account of Tenant (except for ceiling and related fixtures, HVAC equipment and floor coverings, which shall become the property of Landlord at the end of the Term), and which can be removed without structural or other material damage to the Property (collectively, "**Tenant's Property**") shall be and remain the property of Tenant and may be removed by it at any time during the Term, Tenant shall remove from the Premises all Tenant's Property on or before the Termination Date, except such items as the parties have agreed pursuant to the provisions of this Lease or by separate agreement are to remain and to become the property of Landlord. Tenant shall repair or pay the cost of repairing any damage to the Property resulting from such removal, and the provisions of Section 9.5 above shall apply in the event Tenant fails to do so; provided that

Tenant shall not be required to repair the damage caused by such removal if Landlord intends to demolish the Premises at the end of the Term. Any items of Tenant's Property which remain in the Premises after the Termination Date may, on five (5) Business Days prior written notice to Tenant, at the option of Landlord, be deemed abandoned and in such case may either be retained by Landlord as its property or be disposed of, without accountability, at Tenant's expense in such manner as Landlord may see fit.

## **10. LIENS.**

Tenant shall keep the Premises free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. If Tenant shall not, within ten (10) days after notice of the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided in this Lease and by law, the right but not the obligation to cause any such lien to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, reasonable counsel fees) shall be payable to Landlord by Tenant upon demand with interest from the date incurred at the Interest Rate. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by Applicable Laws or that Landlord shall deem proper for the protection of Landlord, the Premises and the Property from mechanics' and materialmen's liens, as more specifically provided in Section 9.3(d).

## **11. COMPLIANCE WITH LAWS AND INSURANCE REQUIREMENTS.**

**11.1 Applicable Laws.** Tenant, at Tenant's cost and expense, shall comply with all applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval, and requirements, of all federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers thereof, and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, whether now existing or hereafter enacted (collectively, "**Applicable Laws**"), relating to or affecting the Premises or the use, alteration, operation or occupancy of the Premises. Without limiting the foregoing, Tenant shall be solely responsible for compliance with and shall make or cause to be made all such improvements and alterations to and within the Premises (including, without limitation, removing barriers and providing alternative services) as shall be required to comply with all Applicable Laws relating to public accommodations, including the Americans with Disabilities Act of 1990, 42 U.S.C. §§ 12111 et seq. (the "**ADA**"), and the ADA Accessibility Guidelines promulgated by the Architectural and Transportation Barriers Compliance Board, the public accommodations title of the Civil Rights Act of 1964, 42 U.S.C. §§ 2000a et. seq., the Architectural Barriers Act of 1968, 42 U.S.C. §§ 4151 et. seq., as amended, Title V of the Rehabilitation Act of 1973, 29 U.S.C. §§ 790 et. seq., the Minimum Guidelines and Requirements for Accessible Design, 36 C.F.R. Part 1190, the Uniform Federal Accessibility Standards, and Title 24 of the California Code of Regulations, as the same may be amended from time to time, or any similar or successor (laws, ordinances and regulations, now or hereafter adopted, to the extent such compliance is required as a result of Tenant's particular use of the Premises or Tenant's Alterations to the Premises (including, without limitation, a request for

permits or approval of such proposed Alterations). Tenant's liability shall be primary and Tenant shall indemnify Landlord in accordance with Section 13.1 in the event of any failure or alleged failure of Tenant to comply with Applicable Laws. Any work or installations made or performed by or on behalf of Tenant or any person or entity claiming through or under Tenant pursuant to the provisions of this Section shall be made in conformity with and subject to the provisions of Article 9. Tenant shall deliver to Landlord within five (5) days of receipt, a copy of any notice from any governmental authority relating to any violation or alleged violation of any Applicable Law pertaining to the Premises or the Property or activities in, on or about the Premises or the Property. Tenant shall deliver to Landlord within five (5) days after receipt a copy of any notice from any governmental authority relating to any violation or alleged violation of any Applicable Laws pertaining to the Premises or Tenant's activities in, on or about the Premises or the Property. Notwithstanding the foregoing or anything to the contrary contained in this Lease, Tenant shall not be responsible for making any alterations or improvements to the Premises that are required by Applicable Law if such compliance is not required as a result of Tenant's use of the Premises or Tenant's Alterations to the Premises (including, without limitation, a request for permits or approval of such proposed Alterations). For example, if, as a result of an Applicable Law, any portion of the Building is required to be structurally strengthened against earthquake or should require the removal of Hazardous Materials from the Premises (not including any Tenant's Hazardous Materials) and such measures are imposed as a general requirement applicable to all tenants rather than as a condition to Tenant's specific use or occupancy of the Premises or Tenant's Alterations to the Premises (including, without limitation, a request for permits or approval of such proposed Alterations), such work shall not be Tenant's responsibility.

**11.2 Insurance Requirements.** Tenant shall not do anything, or permit anything to be done, in or about the Premises that would: (a) invalidate or be in conflict with the provisions of or cause any increase in the applicable rates for any fire or other insurance policies covering the Property or any property located therein (unless Tenant pays for such increased costs), or (b) result in a refusal by fire insurance companies of good standing to insure the Property or any such property in amounts reasonably satisfactory to Landlord (which amounts shall be comparable to the amounts required by comparable landlords of comparable buildings, or (c) subject Landlord to any liability or responsibility for injury to any person or property by reason of any business operation being conducted in the Premises. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body that shall hereafter perform the function of such Association.

## **12. HAZARDOUS MATERIALS.**

**12.1 Definitions.** As used in this Lease, the following terms shall have the following meanings:

(a) **"Environmental Activity"** means any use, treatment, keeping, storage, holding, release, emission, discharge, manufacturing, generation, processing, abatement, removal, disposition, handling, transportation, deposit, leaking, spilling, injecting, dumping or disposing of any Hazardous Materials from, into, on or under the Property, whether during the

Term of this Lease or the term of the Prior Lease, and shall include the exacerbation of any pro-existing contamination by Tenant or any of Tenant's Agents.

(b) **"Environmental Laws"** mean all Applicable Laws, now or hereafter in effect, relating to environmental conditions, industrial hygiene, Environmental Activity or Hazardous Materials on, under or about the Property, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Solid Waste Disposal Act, 42 U.S.C. Section 6901, et seq., the Clean Water Act, 33 U.S.C. Section 1251, et seq., the Clean Air Act, 42 U.S.C. Section 7401, et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 through 2629, the Safe Drinking Water Act, 42 U.S.C. Sections 300f through 300j, and any similar federal, state and local laws and ordinances and the regulations now or hereafter adopted and published and/or promulgated pursuant thereto.

(c) **"Hazardous Material"** means any chemical, substance, medical or other waste, living organism or combination thereof which is or may be hazardous to the environment or human or animal health or safety due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects. Hazardous Materials shall include, without limitation, petroleum hydrocarbons, including MTBE, crude oil or any fraction thereof, asbestos, radon, polychlorinated biphenyls (PCBs), methane, lead, urea, formaldehyde foam insulation, microbial matter (including mold, fungus or spores) and all substances which now or in the future may be defined as "hazardous substances," "hazardous wastes," "extremely hazardous wastes," "hazardous materials," "toxic substances," "infectious wastes," "biohazardous wastes," "medical wastes," "radioactive wastes" or which are otherwise listed, defined or regulated in any manner pursuant to any Environmental Laws.

(d) **"Tenant's Hazardous Materials"** means any Hazardous Materials resulting from, or used in connection with, any Environmental Activity by Tenant or any of Tenant's Agents, whether during the Term of this Lease or the term of the Prior Lease. Tenant's Hazardous Materials shall be identified on Tenant's Hazardous Materials Plan delivered to Landlord pursuant to Section 12.3 below.

**12.2 Environmental Release.** Landlord hereby informs Tenant that detectable amounts of Hazardous Materials may have come to be located on, beneath and/or in the vicinity of the Premises (see, for example, DISC Order No. HSA 88/89-010, amended 6/30/1997, DTSC Order No. HSA 90/91-004, dated 8/6/1990, and DTSC Order No. HAS 88/89-024 dated 3/24/1989). Tenant has made such investigations and inquiries as it deems appropriate to ascertain the effects, if any, of such substances and contaminants on its operations and persons using the Property. Landlord makes no representation or warranty with regard to the environmental condition of the Property. Tenant hereby releases Landlord and Landlord's officers, directors, trustees, agents and employees from any and all claims, demands, debts, liabilities, and causes of action of whatever kind or nature, whether known or unknown or suspected or unsuspected which Tenant or any of Tenant's Agents may have, claim to have, or which may hereafter accrue against the released parties or any of them, arising out of or relating to or in any way connected with Hazardous Materials presently in, on or under, or now or

hereafter emanating from or migrating onto the Property, in connection with such release, Tenant hereby waives any and all rights conferred upon it by the provisions of Section 1542 of the California Civil Code, which reads as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

**12.3 Use of Hazardous Materials.** Tenant shall not cause or permit any Hazardous Materials to be used, stored, discharged, released or disposed of in the Premises or cause any Hazardous Materials to be used, stored, discharged, released or disposed of in, on, from, under or about, the Property, or any other land or improvements in the vicinity of the Property. Notwithstanding the foregoing, Tenant may use and store in the Premises such types and quantities of Hazardous Materials as are normally used in connection with Tenant's permitted use of the Premises and then only in strict accordance with all Applicable Laws, including all Environmental Laws. Within thirty (30) days after the Effective Date, Tenant shall provide Landlord a complete list of all Hazardous Materials (other than standard janitorial and office products) used or stored, and expected to be used or stored, by Tenant or any of Tenant's Agents at the Premises during the term of the Prior Lease or during the Term of this Lease, which list shall include MSDS sheets for all such Hazardous Materials and shall identify the equipment and systems within the Premises affected by such Hazardous Materials in Tenant's business operations ("**Tenant's Hazardous Materials Plan**"). Throughout the Term on an annual basis and upon Landlord's written request, Tenant shall continue to update Tenant's Hazardous Materials Plan so that it remains current. Without limiting the foregoing, Tenant shall, at its own expense, procure, maintain in effect and comply with all conditions of any and all permits, licenses, and other governmental and regulatory approvals required for Tenant's use of Hazardous Materials at the Premises, including, without limitation, discharge of appropriately treated materials or wastes into or through any sanitary sewer serving the Premises. Tenant shall in all respects handle, treat, deal with and manage any and all Tenant's Hazardous Materials in total conformity with all Environmental Laws and prudent industry practices regarding management of such Hazardous Materials.

**12.4 Remediation of Hazardous Materials.** Tenant shall, upon demand of Landlord, and at Tenant's sole cost and expense, promptly take all actions to remediate the Property from the effects of any Tenant's Hazardous Materials. Such actions shall include, but not be limited to, the investigation of the environmental condition of the Property, the preparation of any feasibility studies, reports or remedial plans, and the performance of any cleanup, remediation, containment, operation, maintenance, monitoring or restoration work, whether on or off of the Property. Tenant shall take all actions necessary to remediate the Property from the effects of such Tenant's Hazardous Materials to a condition allowing unrestricted use of the Property (i.e. to a level that will allow any future use of the Property, including residential, hospital, or day care, without any engineering controls or deed restrictions), notwithstanding any lesser standard of remediation available under Applicable Laws; provided however, that the parties expressly agree that such obligation is limited to Tenant's Hazardous Materials, and not to any Hazardous Materials which exist on the Property prior to the date Tenant took possession of the Premises (whether pursuant to this Lease or the Prior Lease) or



later migrate onto the Property through the air, water or soil through no fault of Tenant or any of Tenant's Agents (collectively, "**Non-Tenant Hazardous Materials**"). Tenant shall have no liability arising out of or in connection with the Non-Tenant Hazardous Materials (other than any exacerbation of any Non-Tenant Hazardous Materials by Tenant or any of Tenant's Agents) and shall have no responsibility in the event that the Property's use is restricted as a result of the presence of Non-Tenant Hazardous Materials (except to the extent caused by the exacerbation of any Non-Tenant Hazardous Materials by Tenant or any of Tenant's Agents). All work shall be performed by one or more contractors selected by Tenant and reasonably approved in advance and in writing by Landlord. Tenant shall proceed continuously and diligently with such investigatory and remedial actions, provided that in all cases such actions shall be in accordance with all Applicable Laws. Any such actions shall be performed in a good, safe and workmanlike manner. Tenant shall pay all costs in connection with such investigatory and remedial activities, including but not limited to all power and utility costs, and any and all taxes or fees that may be applicable to such activities. Tenant shall promptly provide to Landlord copies of testing results and reports that are generated in connection with the above activities and any that are submitted to any governmental entity. Promptly upon completion of such investigation and remediation, Tenant shall permanently seal or cap all monitoring wells and test holes in accordance with sound engineering practice and in compliance with Applicable Laws, remove all associated equipment, and restore the Property to the maximum extent possible, which shall include, without limitation, the repair of any surface damage, including paving, caused by such investigation or remediation.

**12.5 Indemnity.** Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord), protect and hold Landlord and Landlord's trustees, directors, officers, agents, employees, contractors, representatives, property managers, students and volunteers and their respective successors and assigns (collectively, "**Landlord's Agents**"), free and harmless from and against any and all claims, liabilities, penalties, forfeitures, losses or expenses (including reasonable attorneys' and consultants' fees and oversight and response costs) to the extent arising from (a) Environmental Activity by Tenant or Tenant's Agents; or (b) failure of Tenant or Tenant's Agents to comply with any Environmental Law with respect to Tenant's Environmental Activity; or (c) Tenant's failure to remove Tenant's Hazardous Materials as required in Section 12.4 or attain full facility closure at the end of the Term as required pursuant to Section 12.10 below. Tenant's obligations hereunder shall include, but not be limited to, the burden and expense of defending all claims, suits and administrative proceedings (with counsel reasonably approved by Landlord), even if such claims, suits or proceedings are groundless, false or fraudulent; conducting all negotiations of any description; and promptly paying and discharging when due any and all judgments, penalties, fines or other sums due against or from Landlord or the Premises. Prior to retaining counsel to defend such claims, suits or proceedings, Tenant shall obtain Landlord's written approval of the identity of such counsel, which approval shall not be unreasonably withheld, conditioned or delayed, in the event Tenant's failure to surrender the Premises at the expiration or earlier termination of this Lease free of Tenant's Hazardous Materials prevents Landlord from reletting the Premises, or reduces the fair market and/or rental value of the Premises or any portion thereof, Tenant's indemnity obligations shall include all losses to Landlord arising therefrom.

**12.6 No Lien.** Tenant shall not suffer any lien to be recorded against the Property as a consequence of any Tenant's Hazardous Materials, including any so-called state,

federal or local “super fund” lien related to (he remediation of any Tenant’s Hazardous Materials in or about the Property.

**12.7 Investigation.** Landlord shall have the right to enter and conduct an inspection of the Premises or the Property, including invasive tests, at any reasonable time and upon reasonable advance notice, to determine whether Tenant is complying with the terms of this Lease, including but not limited to the compliance of the Property and the Premises and the activities thereon with Environmental Laws (the “**Environmental Investigation**”). Landlord shall have the right, but not the obligation, to retain at its expense an independent professional consultant to enter the Property and/or the Premises to conduct such an inspection, and to review any report prepared by or for Tenant concerning such compliance, in the event the Environmental Investigation identifies any deficiencies in the compliance of the Property and/or the Premises with Environmental Laws due to any Environmental Activity by Tenant or Tenant’s Agents, Tenant shall promptly correct any such deficiencies identified in the Environmental investigation, and document to Landlord that corrective action has been taken, In such event, Tenant shall also reimburse Landlord for the reasonable cost of the Environmental Investigation, if the Environmental Investigation identifies any such deficiency in compliance of the Property and/or the Premises with Environmental Laws due to any Environmental Activity by Tenant or Tenant’s Agents, then, within nine (9) months of the date of the Environmental Investigation, Landlord may request a detailed review of the status of such violation by a consultant selected by Landlord (the “**Supplemental Investigation**”). Tenant shall pay for the reasonable cost of any Supplemental investigation. A copy of the Supplemental investigation shall be promptly supplied to Landlord and Tenant when it becomes available.

**12.8 Right to Remediate.** Should Tenant fail to perform or observe any of its obligations or agreements pertaining to Hazardous Materials or Environmental Laws, then Landlord shall have the right, but not the obligation, without limitation of any other rights of Landlord hereunder, to enter the Premises personally or through Landlord’s agents, employees and contractors and perform the same. Tenant agrees to indemnify Landlord for the costs thereof and liabilities therefrom as set forth above in this Article 12.

**12.9 Notices.** Each party (the “**Notifying Party**”) shall immediately notify the other party (the “**Other Party**”) of any inquiry, test, claim, investigation or enforcement proceeding by or against either party or the Premises or the Property known to the Notifying Party concerning any Hazardous Materials. Notifying Party shall immediately notify the Other Party of any release or discharge of Hazardous Materials on, in under or about the Property of which the Notifying Party becomes aware. Tenant acknowledges that Landlord, as the owner of the Property, shall have the sole right at its election and at Tenant’s expense, to negotiate, defend, approve and appeal any action taken or order issued with regard to Tenant’s Hazardous Materials by any applicable governmental authority.

**12.10 Surrender.** Tenant shall surrender the Property and the Premises to Landlord, upon the expiration or earlier termination of the Lease, free of Tenant’s Hazardous Materials in accordance with the provisions of this Article 12. Without limiting the generality of the foregoing, Tenant shall, at Tenant’s sole cost and expense, decommission the Premises, terminate all operating permits for the Premises, attain full facility closure in accordance with Environmental Laws, and provide all associated documentation to Landlord upon the expiration

or earlier termination of this Lease. Furthermore, Tenant acknowledges and agrees that Landlord shall have no liability for the removal of Tenant's Hazardous Materials or decommissioning and obtaining full facility closure for the Existing Improvements or any other improvements, systems or equipment in the Premises used by Tenant (whether during the Term of this Lease or the Prior Lease).

**12.11 Survival; Insurance.** The provisions of this Article 12 shall survive the expiration or earlier termination of this Lease. The provisions of Section 13.2 (Insurance) shall not limit in any way Tenant's obligations under this Article 12.

### **13. INDEMNITY; INSURANCE.**

**13.1 Indemnity.** Tenant shall indemnify, protect, defend and save and hold Landlord and Landlord's Agents harmless from and against any and all losses, costs, liabilities, claims, judgments, liens, damages (including consequential damages) and expenses, including, without limitation, reasonable attorneys' fees and costs (including Landlord's in-house counsel), and reasonable investigation costs (collectively, "**Losses**"), incurred in connection with or arising from: (a) any default by Tenant in the observance or performance of any of the terms, covenants or conditions of this Lease on Tenant's part to be observed or performed, (b) the use or occupancy or manner of use or occupancy of the Property by Tenant and Tenant's Agents, (c) the condition of the Property, and any occurrence on the Property (including injury to or death of any person, or damage to property) from any cause whatsoever, except to the extent caused by the gross negligence or willful misconduct of Landlord or Landlord's breach of this Lease, or (d) any acts or omissions or negligence of Tenant or of Tenant's Agents, in, on or about the Property. In case any action or proceeding be brought, made or initiated against Landlord relating to any matter covered by Tenant's indemnification obligations under this Section or under Section 12.5, Tenant, upon notice from Landlord, shall at its sole cost and expense, resist or defend such claim, action or proceeding by counsel approved by Landlord. Notwithstanding the foregoing, Landlord may retain its own counsel to defend or assist in defending any claim, action or proceeding involving potential liability of Five Million Dollars (\$5,000,000) or more, and Tenant shall pay the reasonable fees and disbursements of such counsel. Tenant's obligations under this Section shall survive the expiration or earlier termination of this Lease.

**13.2 Insurance.** Tenant shall procure at its sole cost and expense and keep in effect during the Term:

(a) commercial general liability insurance covering Tenant's operations in the Premises and the use and occupancy of the Premises and the Property and any part thereof by Tenant. Such insurance shall include broad form contractual liability insurance coverage insuring Tenant's obligations under this Lease. Such coverage shall be written on an "occurrence" form and shall have a minimum combined single limit of liability of not less than three million dollars (\$3,000,000.00). Tenant's policy shall be written to apply to all bodily injury, property damage, personal injury and other covered loss (however occasioned) occurring during the policy term, with at least the following endorsements to the extent such endorsements are generally available: (i) deleting any employee exclusion on personal injury coverage, (ii) including employees as additional insureds, (iii) providing broad form property damage coverage and, if Tenant is conducting any manufacturing in the Premises, products completed operations

coverage (where applicable), and (iv) deleting any liquor liability exclusions. Such insurance shall name Landlord, Landlord's Agents and any other party designated by Landlord as an additional Insured, shall specifically include the liability assumed hereunder by Tenant, shall provide that it is primary insurance, shall provide for severability of interests, shall further provide that an act or omission of one of the named insureds which would void or otherwise reduce coverage shall not reduce or void the coverage as to any insured, shall afford coverage for claims based on acts, omissions, injury or damage which occurred or arose (or the onset of which occurred or arose in whole or in part during the policy period), and shall provide that Landlord will receive thirty (30) days' written notice from the insurer prior to any cancellation or material change of coverage;

(b) commercial property insurance, including sprinkler leakages, vandalism and malicious mischief and plate glass damage covering all the items specified as Tenant's Property and all other property of every description including stock-in-trade, furniture, fittings, installations, alterations, additions, partitions and fixtures or anything in the nature of a leasehold improvement made or installed by or on behalf of the Tenant in the Premises in an amount of not less than one hundred percent (100%) of the full replacement cost thereof as shall from time to time be determined by Tenant in form reasonably satisfactory to Landlord;

(c) Worker's Compensation Insurance in the amounts and coverages required under worker's compensation, disability and similar employee benefit laws applicable to Tenant and/or the Premises from time to time, and Employer's Liability Insurance, with limits of not less than one million dollars (\$1,000,000) or such higher amounts as may be required by law,

(d) business income insurance with extra expense insurance in an amount sufficient to insure payment of Rent for a period of not less than twelve (12) months during any interruption of Tenant's business by reason of the Premises or Tenant's Property being damaged by casualty; and

(e) any other form or forms of insurance as Landlord may reasonably require from time to time in amounts and for insurable risks against which a prudent tenant would protect itself to the extent landlords of comparable buildings in the vicinity of the in the Property require their tenants to carry such other form(s) of insurance.

**13.3 Policies.** All policies of insurance required of Tenant shall be issued by insurance companies with general policyholders' rating of not less than A, as rated in the most current available "Best's Insurance Reports," and not prohibited from doing business in the State of California, and shall, with the exception of Workers Compensation Insurance, include as additional insureds Landlord, Landlord's Agents, and such other persons or entities as Landlord specifies from time to time. Such policies, with the exception of Worker's Compensation insurance and property insurance, shall be for the mutual and joint benefit and protection of Landlord, Tenant and others specified by Landlord. Executed copies of Tenant's policies of insurance or certificates thereof, including additional insureds endorsements, shall be delivered to Landlord within ten (10) days prior to the delivery of possession of the Premises to Tenant and thereafter within thirty (30) days prior to the expiration of the term of each such policy. All commercial general liability and property damage policies shall contain a provision that

Landlord and any other additional insured, although named as additional insureds, shall nevertheless be entitled to recover under said policies for a covered loss occasioned by it, its servants, agents and employees, by reason of Tenant's negligence. As often as any policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent. All such policies of insurance shall provide that the company writing said policy will give to Landlord thirty (30) days notice in writing in advance of any cancellation or lapse or of the effective date of any reduction in the amounts of insurance. All commercial general liability, property damage and other casualty policies shall be written on an occurrence basis. Landlord's coverage shall not be contributory. No policy shall have a deductible in excess of \$5,000 for any one occurrence.

**13.4 Landlord's Rights.** Should Tenant fail to take out and keep in force each insurance policy required under this Article 13, or should such insurance not be approved by Landlord and should the Tenant not rectify the situation within two (2) Business Days after written notice from Landlord to Tenant, Landlord shall have the right, without assuming any obligation in connection therewith, to purchase such insurance at the sole cost of Tenant, and all costs incurred by Landlord shall be payable to Landlord by Tenant within twenty (20) days after demand as Additional Rent and without prejudice to any other rights and remedies of Landlord under this Lease.

**13.5 Waiver of Subrogation.** Notwithstanding anything to the contrary contained herein, to the extent of insurance proceeds received (or which would have been received had the party carried the insurance required by this Lease) with respect to the loss, Landlord and Tenant each hereby waive any right of recovery against the other party and against any other party maintaining a policy of insurance with respect to the Property or any portion thereof or the contents of the Premises or the Building for any loss or damage sustained by such other party with respect to the Premises, the Building or the Property, or any portion thereof, or the contents of the same or any operation therein, whether or not such loss is caused by the fault or negligence of such other party. Either party shall notify the other party if the policy of insurance carried by it does not permit the foregoing waiver.

**13.6 No Liability.** No approval by Landlord of any insurer, or the terms or conditions of any policy, or any coverage or amount of insurance, or any deductible amount shall be construed as a representation by Landlord of the solvency of the insurer or the sufficiency of any policy or any coverage or amount of insurance or deductible and Tenant assumes full risk and responsibility for any inadequacy of insurance coverage or any failure of insurers.

**13.7 Landlord Insurance.** Landlord will obtain and keep in force during the Term of this Lease a policy of all risk property insurance on the Building (including the Premises, but not any Alterations or Tenant's Property), in such amounts and covering such perils as Landlord may reasonably determine. Such policy shall be in the name of Landlord with loss payable to Landlord and Tenant shall have no interest in the proceeds of any insurance carried by Landlord. Landlord shall have the right to satisfy the insurance requirements hereunder through its existing self-insurance program.

## 14. ASSIGNMENT AND SUBLETTING.

**14.1 Consent Required.** Except in connection with any Permitted Transfer (defined in Section 14.7 below), Tenant shall not directly or indirectly, voluntarily or by operation of law, sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or its leasehold estate (collectively, "**Assignment**"), or permit all or any portion of the Premises to be occupied by anyone other than itself or sublet all or any portion of the Premises (collectively, "**Sublease**") without Landlord's prior written consent, such consent not to be unreasonably withheld (subject to Landlord's rights as described in Section 14.5).

**14.2 Notice.** If Tenant desires to enter into a Sublease of all or any portion of the Premises or Assignment of this Lease (other than a Permitted Transfer under Section 14.7), it shall give written notice (the "**Transfer Notice**") to Landlord of its intention to do so, which notice shall contain (a) the name and address of the proposed assignee, subtenant or occupant (the "**Transferee**"), (b) the nature of the proposed Transferee's business to be carried on in the Premises, (c) the terms and provisions of the proposed Assignment or Sublease, and (d) such financial information as Landlord may reasonably request concerning the proposed Transferee. Without limitation of any other provision hereof, it shall not be unreasonable for Landlord to withhold its consent if (i) an Event of Default is then in existence, (ii) the use of the Premises would not comply with the provisions of this Lease, (iii) any complaints or claims (whether by regulators, entities or individuals) have been asserted against the proposed Transferee or its key people, or any civil or administrative judgments involving fraud or dishonesty, or criminal convictions of any kind, have been entered against the proposed Transferee or its key people, or (iv) in Landlord's reasonable judgment, the proposed Transferee does not have the financial capability to perform its obligations under this Lease with respect to the Premises which are the subject of the Assignment or Sublease.

**14.3 Terms of Approval.** Landlord shall respond to Tenant's request for approval within ten (10) Business Days after receipt of the Transfer Notice. If Landlord approves the proposed Assignment or Sublease, Tenant may, not later than thirty (30) days thereafter, enter into the Assignment or Sublease with the proposed Transferee upon the terms and conditions set forth in the Transfer Notice.

**14.4 Excess Rent.** For any Assignment or Sublease (other than a Permitted Transfer under Section 14.7), fifty percent (50%) of the Excess Rent received by Tenant shall be paid to Landlord as and when received by Tenant. "**Excess Rent**" means the gross revenue received from the Transferee during the Sublease term or with respect to the Assignment, less (a) the gross revenue received by Landlord from Tenant during the period of the Sublease term or concurrently with or after the Assignment; (b) any reasonably documented tenant improvement allowance or other economic concession (planning allowance, moving expenses, etc.), paid by Tenant to or on behalf of the Transferee; (c) customary and reasonable external brokers' commissions to the extent paid and documented; (d) reasonable attorneys' fees; and (e) reasonable costs of advertising the space for Sublease or Assignment (collectively, "**Transfer Costs**"). Tenant shall not be required to pay to Landlord any Excess Rent until Tenant has recovered its Transfer Costs.

**14.5 Right of First Refusal.** Except for Permitted Transfers, If Tenant desires to assign Tenant's interest in the Premises or to sublease fifty percent (50%) or more of the Premises for more than three (3) years or for the balance of the Term (collectively, a "**Transfer**"), Tenant's Transfer Notice shall also include a written offer that includes all of the substantial business terms that Tenant has offered to a Transferee and shall offer to Transfer to Landlord, Tenant's interest in the portion of the Premises offered to the Transferee on such terms and conditions (the "**Offer**"). Landlord shall have ten (10) days from Landlord's receipt of the Offer to accept the Offer by written notice to Tenant or to approve or disapprove the Transfer as provided in Section 14.3. If Landlord accepts the Offer, Landlord and Tenant shall consummate the Transfer within fifteen (15) days after Landlord's written notice of acceptance. The Transfer shall be consummated by Tenant's delivery to Landlord of a good and sufficient assignment of lease or sublease. If Landlord does not accept the Offer, but approves the Transfer, then in the event the terms of the Transfer are materially changed during subsequent negotiations to be more favorable to the Transferee, Tenant shall again deliver to Landlord an Offer in accordance with this Section, offering the interest to Landlord on such more favorable terms. Landlord shall then have another period of ten (10) days after receipt of such Offer to accept such Offer.

**14.6 No Release.** No Sublease or Assignment by Tenant nor any consent by Landlord thereto shall relieve Tenant of any obligation to be performed by Tenant under this Lease. Any Sublease or Assignment that is not in compliance with this Article shall be null and void and, at the option of Landlord, shall constitute an Event of Default by Tenant under this Lease, and Landlord shall be entitled to pursue any right or remedy available to Landlord under the terms of this Lease or under the laws of the State of California. The acceptance of any Rent or other payments by Landlord from a proposed Transferee shall not constitute consent to such Sublease or Assignment by Landlord or a recognition of any Transferee, or a waiver by Landlord of any failure of Tenant or other Transferor to comply with this Article.

**14.7 Permitted Transfers.** Notwithstanding anything in this Article 14 to the contrary, but subject to the provisions of Section 14.8 below, Landlord's prior written consent shall not be required for any assignment of this Lease or sublease to any of the following: (a) a successor entity related to Tenant by merger, consolidation, or non-bankruptcy reorganization, or (b) a transferee of substantially all of Tenant's assets or stock or (c) an Affiliate (collectively, "**Permitted Transfers**"); provided that after such assignment or transfer the operation of the business conducted in the Premises shall be in the manner required by this Lease and the Transferee shall have a net worth equal to the greater of the Tenant's net worth at the Commencement Date or the net worth of the Tenant immediately prior to the consummation of the Assignment or Sublease. As used in this Lease, the term "**Affiliate**" shall mean an individual, partnership, corporation, unincorporated association or other entity controlling, controlled by or under common control with Tenant and for the purposes of the foregoing, "control" shall mean ownership of 50% or more of the legal and beneficial interest in such corporation or other entity coupled with the power to direct the management and affairs thereof, in addition, a sale or transfer of the memberships, interests or stock of Tenant shall be deemed a Permitted Transfer if (y) such sale or transfer occurs in connection with any *bona fide* financing by Tenant, or (z) Tenant is, or in connection with the proposed transfer becomes, a publicly traded entity. Landlord shall have no right to terminate the Lease in connection with, and shall have no right to any sums or other economic consideration resulting from, any Permitted Transfer.

**14.8 Assumption of Obligations.** Any Transferee shall, from and after the effective date of the Assignment, assume all obligations of Tenant under this Lease with respect to the Transferred Space and shall be and remain liable jointly and severally with Tenant for the payment of Base Rent and Additional Rent, and for the performance of all of the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the Term. No Assignment shall be binding on Landlord unless Tenant delivers to Landlord a counterpart of the Assignment and an instalment that contains a covenant of assumption reasonably satisfactory in substance and form to Landlord, and consistent with the requirements of this Section.

## **15. DEFAULT.**

**15.1 Event of Default.** The occurrence of any of the following shall be an "*Event of Default*" on the part of Tenant:

(a) Failure to pay any part of the Base Rent or Additional Rent, or any other sums of money that Tenant is required to pay under this Lease where such failure continues for a period of five (5) days after written notice of default from Landlord to Tenant. Landlord's notice to Tenant pursuant to this subsection shall be deemed to be the notice required under California Code of Civil Procedure Section 1161.

(b) Failure to perform any other covenant, condition or requirement of this Lease when such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of the default is such that more than thirty (30) days are reasonably required for its cure, then an Event of Default shall not be deemed to have occurred if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently and continuously prosecute such cure to completion. Landlord's notice to Tenant pursuant to this subsection shall be deemed to be the notice required under California Code of Civil Procedure Section 1161.

(c) The abandonment of the Premises by Tenant.

(d) Tenant shall admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, dissolution or liquidation under any law or statute of any government or any subdivision thereof either now or hereafter in effect, or Tenant shall make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Premises.

(e) A court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of Tenant or of the whole or any substantial part of the Premises and such order, judgment or decree shall not be vacated, set aside or stayed within thirty (30) days after the date of entry of such order, judgment, or decree, or a stay thereof shall be thereafter set aside.

(f) A court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against Tenant under any bankruptcy, insolvency, reorganization, dissolution or liquidation law or statute of the federal or state government or any



subdivision of either now or hereafter in effect, and such order, judgment or decree shall not be vacated, set aside or stayed within thirty (30) days from the date of entry of such order, judgment or decree, or a stay thereof shall be thereafter set aside.

**15.2 Remedies.** Upon the occurrence of an Event of Default, Landlord shall have the following rights and remedies:

(a) The right to terminate this Lease upon written notice to Tenant, in which event Tenant shall immediately surrender possession of the Premises in accordance with Article 20.

(b) The right to bring a summary action for possession of the Premises.

(c) The rights and remedies described in California Civil Code Section 1951.2, pursuant to which Landlord may recover from Tenant upon a termination of the Lease, (i) the worth at the time of award of the unpaid rent which has been earned at the time of termination; (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 the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the 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 that Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom. The "worth at the time of award" of the amounts referred to in (i) and (ii) above is computed by allowing interest at the rate of eighteen percent (18%) per annum or the highest rate permitted by law, whichever is lower. The "worth at the time of award" of the amount referred to in (iii) above shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). The detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom includes, without limitation, (1) the unamortized portion of any brokerage or real estate agent's commissions paid in connection with the execution of this Lease, (2) any direct costs or expenses incurred by Landlord in recovering possession of the Premises, maintaining or preserving the Premises after such default, (3) preparing the Premises for reletting to a new tenant, (4) any repairs or alterations to the Premises for such reletting, (5) leasing commissions, architect's fees and any other costs necessary or appropriate either to relet the Premises or, if reasonably necessary in order to relet the Premises, to adapt them to another beneficial use by Landlord and (6) such amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Law to the extent that such payment would not result in a duplicative recovery.

(d) The rights and remedies described in California Civil Code Section 1951.4 which allow Landlord to continue this Lease in effect and to enforce all of Landlord's rights and remedies under this Lease, including the right to recover Base Rent, Additional Rent and other charges payable hereunder as they become due. Acts of maintenance or preservation,

efforts to relet the Premises or the appointment of a receiver upon Landlord's initiative to protect its interest under this Lease shall not constitute a termination of Tenant's right to possession.

(e) The right and power, as attorney-in-fact for Tenant, to sublet the Premises, to collect rents from all subtenants and to provide or arrange for the provision of all services and fulfill all obligations of Tenant under any permitted subleases. Landlord is hereby authorized on behalf of Tenant, but shall have absolutely no obligation, to provide such services and fulfill such obligations and to incur all such expenses and costs as Landlord deems necessary. Landlord is hereby authorized, but not obligated, to relet the Premises or any part thereof on behalf of Tenant, to incur such expenses as may be necessary to effect a relet and make said relet for such term or terms, upon such conditions and at such rental as Landlord in its reasonable discretion may deem proper. Tenant shall be liable immediately to Landlord for all costs and expenses Landlord incurs in reletting the Premises including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and the cost of collecting rents and fulfilling the obligations of Tenant to any subtenant. If Landlord relets the Premises or any portion thereof, such reletting shall not relieve Tenant of any obligation hereunder, except that Landlord shall apply the rent or other proceeds actually collected by it as a result of such reletting against any amounts due from Tenant hereunder to the extent that such rent or other proceeds compensate Landlord for the nonperformance of any obligation of Tenant hereunder. Such payments by Tenant shall be due at such times as are provided elsewhere in this Lease, and Landlord need not wait until the termination of this Lease, by expiration of the Term or otherwise, to recover them by legal action or in any other manner. Landlord may execute any sublease made pursuant to this Section in its own name, and the tenant thereunder shall be under no obligation to see to the application by Landlord of any rent or other proceeds, nor shall Tenant have any right to collect any such rent or other proceeds. 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 otherwise terminated this Lease, or to have relieved Tenant of any obligation hereunder, unless Landlord shall have given Tenant express written notice of Landlord's election to do so as set forth herein.

(f) The right to enjoin, and any other remedy or right now or hereafter available to a Landlord against a defaulting tenant under the laws of the State of California or the equitable powers of its courts, and not otherwise specifically reserved herein.

(g) if this Lease provides for a postponement of deferral of any Rent, or for commencement of payment of Rent to a date later than the Commencement Date, or for a period of "free" Rent or any other Rent concession (collectively, "**Abated Rent**"), the right upon an Event of Default to demand immediate payment of the value of the Abated Rent.

**15.3 Cumulative Remedies.** The various rights and remedies reserved to Landlord, including those not specifically described herein, shall, to the extent that the exercise of such right and/or remedy does not result in a duplicative recovery, be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or In equity and the exercise of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity shall not preclude the simultaneous or later exercise by Landlord of any or all other rights and remedies.

**15.4 Waiver of Redemption by Tenant.** Tenant hereby waives any right to relief against forfeiture of this Lease pursuant to California Code of Civil Procedure Section 1179.

**15.5 Landlord's Right to Cure.** If Tenant shall fail or neglect to do or perform any covenant or condition required under this Lease and such failure shall not be cured within any applicable grace period, Landlord may, on five (5) days notice to Tenant, but shall not be required to, make any payment payable by Tenant hereunder, discharge any lien, take out, pay for and maintain any insurance required hereunder, or do or perform or cause to be done or performed any such other act or thing (entering upon the Premises for such purposes, if Landlord shall so elect), and Landlord shall not be or be held liable or in any way responsible for any loss, disturbance, inconvenience, annoyance or damage resulting to Tenant on account thereof. Tenant shall repay to Landlord within twenty (20) days after demand the entire out-of-pocket cost and expense incurred by Landlord in connection with the cure, including, without limitation, compensation to the agents, consultants and contractors of Landlord and reasonable attorneys' fees and expenses. Landlord may act upon shorter notice or no notice at all if necessary in Landlord's reasonable judgment to meet an emergency situation or governmental or municipal time limitation or to protect Landlord's interest in the Premises. Landlord shall not be required to inquire into the correctness of the amount of validity or any tax or lien that may be paid by Landlord and Landlord shall be duly protected in paying the amount of any such tax or lien claimed and in such event Landlord also shall have the full authority, in Landlord's sole judgment and discretion and without prior notice to or approval by Tenant, to settle or compromise any such lien or tax. Any act or thing done by Landlord pursuant to the provisions of this Section shall not be or be construed as a waiver of any such failure by Tenant, or as a waiver of any term, covenant, agreement or condition herein contained or of the performance thereof.

**15.6 Landlord's Default.** Landlord shall be in default under this Lease if Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Property whose name and address shall have heretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligations; provided, however, that if the nature of Landlord's obligations is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Tenant shall be entitled to actual (but not consequential) damages in the event of an uncured default by Landlord, but the provisions of Article 17 shall apply to any Landlord default and Tenant shall not have the right to terminate this Lease as a result of a Landlord default.

## **16. LANDLORD'S RESERVED RIGHTS.**

**16.1 Control of Building and Common Area.** Landlord reserves the right, at any time and from time to time, to make alterations, additions, repairs, replacements or improvements to all or any part of the Building (including the Building Structure and Building Systems), the Common Area and the Property; provided that Landlord shall use commercially reasonable efforts to minimize any material interference with Tenant's use of the Premises. Landlord may make changes at any time and from time to time in the size, shape, location, use

and extent of the Common Area, and no such change shall entitle Tenant to any abatement of rent or damages; provided that Landlord shall use commercially reasonable efforts to minimize any material interference with Tenant's use of the Premises and such changes shall not permanently diminish the number of parking spaces available in the Parking Area. Landlord shall at all times during the Term have the sole and exclusive control of the Building Systems, Building Structure and the Common Area, and may at any time and from time to time during the Term restrain any use or occupancy of the Common Area except as authorized by this Lease. Landlord may temporarily close any portion of the Common Area for repairs, maintenance, replacements or alterations, to prevent a dedication or the accrual of prescriptive rights, or for any other reasonable purpose; provided, however, that Landlord shall use commercially reasonable efforts to minimize any materially adverse affect on Tenant's use of the Premises. Tenant's rights in and to the Common Area shall at all times be subject to the rights of Landlord and Tenant shall keep the Common Area free and clear of any obstructions created or permitted by Tenant or resulting from Tenant's operations.

**16.2 Access.** Landlord reserves (for itself and its agents, consultants, contractors and employees) the right to enter the Premises at all reasonable times and, except in cases of emergency, (a) after giving Tenant at least twenty-four (24) hours prior verbal notice, to inspect the Premises (including, without limitation, environmental testing), to show the Premises to prospective purchasers or mortgagees, to show the Premises to prospective tenants during the last year of the Term, and to post notices of nonresponsibility, and (b) after giving Tenant reasonable verbal notice to supply any service to be provided by Landlord hereunder and to repair or maintain the Premises and the Building as required by Section 8.2, without abatement of Rent, and may for that purpose erect, use and maintain necessary structures in and through the Premises and the Building where reasonably required by the character of the work to be performed. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises or any other loss occasioned thereby, except to the extent caused by the gross negligence or willful misconduct of Landlord in the exercise of its rights and provided that Landlord shall use commercially reasonable efforts to minimize any material adverse affect on Tenant's use of the Premises. All locks for all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance in writing by Tenant) shall at all times be keyed to a master system and Landlord shall at all times have and retain a key with which to unlock all of said doors. Landlord shall have the right to use any and all means that Landlord may deem necessary or proper to open said doors in an emergency in order to obtain entry to any portion of the Premises, and any such entry to the Premises or portions thereof obtained by Landlord by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises or any portion thereof,

**16.3 Easements.** Landlord reserves the right to grant or relocate all easements and rights of way which Landlord in its sole discretion may deem necessary or appropriate; provided that Tenant's rights to use the Property is not materially impeded.

**16.4 Use of Additional Areas.** Landlord reserves the exclusive right to use any air space above the Property, and the land beneath the Premises; provided that such use shall not materially impede Tenant's use of and access to the Premises.

**16.5 Subordination.** This Lease shall be subject and subordinate at all times to: (a) all reciprocal easement agreements, and any ground leases or underlying leases which may now exist or hereafter be executed affecting the Property, (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Property, or any ground leases or underlying leases, or Landlord's interest or estate in any of said items, is specified as security, and (c) any access agreements which may now exist or hereafter be executed affecting the Property, including, without limitation, that certain Access Agreement between Landlord and Teledyne MEC dated as of February 28, 1995. Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated to this Lease any of the items referred to in clause (a) or (b) above, subject to compliance with the condition precedent set forth below. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, (i) no person or entity which as a result of the foregoing succeeds to the interest of Landlord under this Lease, (a **"Successor"**) shall be liable for any default by Landlord or any other matter that occurred prior to the date the Successor succeeded to Landlord's interest in this Lease, and (ii) Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the Successor, at the option of the Successor. Tenant covenants and agrees, however, to execute and deliver, upon demand by Landlord and in the form reasonably requested by Landlord, any additional documents evidencing the priority or subordination of this Lease with respect to any such ground leases, underlying leases, reciprocal easement agreements or similar documents or instruments, or with respect to the lien of any such mortgage or deed of trust and Tenant's failure to execute and deliver any such document within ten (10) Business Days after such demand by Landlord shall constitute an Event of Default without further notice. Landlord shall use commercially reasonable efforts to obtain the written agreement of the mortgagee or trustee named in any mortgage, deed of trust or other encumbrance, and any landlord under any ground lease or underlying lease, that so long as an Event of Default by Tenant is not in existence, neither this Lease nor any of Tenant's rights hereunder shall be terminated or modified, nor shall Tenant's possession of the Premises be disturbed or interfered with, by any trustee's sale or by an action or proceeding to foreclose said mortgage, deed of trust or other encumbrance.

#### **17. LIMITATION OF LANDLORD'S LIABILITY.**

**17.1 Limitation.** Landlord shall not be responsible for or liable to Tenant and Tenant hereby releases Landlord, waives all claims against Landlord and assumes the risk for any injury, loss or damage to any person or property in or about the Property by or from any cause whatsoever (other than Landlord's gross negligence or willful misconduct or breach of this Lease) including, without limitation, (a) acts or omissions of persons occupying adjoining premises, (b) theft or vandalism, (c) burst, stopped or leaking water, gas, sewer or steam pipes, (d) loss of utility service, (e) accident, fire or casualty, (f) nuisance, and (g) work done by Landlord in the Property. There shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements to any portion of the Property or to fixtures, appurtenances and equipment in the Property or arising from the provision of any utilities or services to the Premises; provided, however, that in the event Landlord fails to perform its obligations to make repairs, alterations or improvements or provide any utilities or services or performs such obligations in a negligent manner in each case which results in Tenant being unable to operate its

business at the Premises for a period of more than five (5) days, then Tenant shall be entitled to an abatement of Rent commencing on the sixth (6th) business day Tenant is unable to operate and continuing until the Premises are again available for operation of Tenant's business. Such Rent abatement shall be Tenant's only remedy in the event of a negligent interference with Tenant's business and Tenant shall not be entitled to damages or to termination of this Lease arising from Landlord's repairs, alterations, improvements or provision of utilities or services. No interference with Tenant's operations in the Premises shall constitute a constructive or other eviction of Tenant. Tenant hereby waives and releases any right it may have to make repairs at Landlord's expense under Sections 1941 and 1942 of the California Civil Code, or under any similar law, statute or ordinance now or hereafter in effect.

**17.2 Sale of Property.** It is agreed that Landlord may at any time sell, assign or transfer its interest as landlord in and to this Lease, and may at any time sell, assign or transfer its interest in and to the Property. In the event of any transfer of Landlord's interest in this Lease or in the Property, the transferor shall be automatically relieved of any and all of Landlord's obligations and liabilities accruing from and after the date of such transfer; provided that the transferee assumes all of Landlord's obligations under this Lease. Tenant hereby agrees to attorn to Landlord's assignee, transferee, or purchaser from and after the date of notice to Tenant of such assignment and assumption, transfer or sale, in the same manner and with the same force and effect as though this Lease were made in the first instance by and between Tenant and the assignee, transferee or purchaser.

**17.3 No Personal Liability.** In the event of any default by Landlord hereunder, Tenant shall look only to Landlord's interest in the Property and rents therefrom and any available insurance proceeds for the satisfaction of Tenant's remedies, and no other property or assets of Landlord or any trustee, partner, member, officer or director thereof, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease.

## **18. DESTRUCTION.**

**18.1 Landlord's Repair Obligation.** If the Property or any portion thereof is damaged by fire or other casualty and the cost of repairing such damage or destruction is estimated to cost One Hundred Fifty Thousand Dollars (\$150,000) or more (as reasonably determined by Landlord), Landlord shall have the option, exercisable within sixty (60) days after the date of such damage either to: (a) notify Tenant of Landlord's intention to repair such damage, in which event this Lease shall continue in full force and effect (unless terminated by Tenant pursuant to Section 18.2 below), or (b) notify Tenant of Landlord's election to terminate this Lease as of the date of the damage, unless reinstated by Tenant in accordance with this Section 18.1. If such notice to terminate is given by Landlord, this Lease shall terminate as of the date of such damage. If within fifteen (15) days after receipt of a notice from Landlord electing to terminate this Lease, Tenant sends Landlord a notice electing to reimburse Landlord for the entire cost of such repairs, this Lease shall not terminate, Landlord shall complete such repairs and Tenant shall promptly reimburse Landlord for the actual cost of such repair.

**18.2 Termination by Tenant.** If Landlord elects or is required to repair and any such repair (a) is not or cannot practicably be substantially completed by Landlord within

one hundred twenty (120) days after the occurrence of such damage or destruction and (b) the damage materially negatively impacts Tenant's business operations, then Tenant may, at its option, upon written notice to Landlord to be delivered within fifteen (15) days after receipt of Landlord's notice, elect to terminate this Lease as of the date of the occurrence of such damage or destruction.

**18.3 Rent Adjustment.** In case of termination pursuant to Sections 18.1 or above, the Base Rent and Operating Expenses shall be reduced by a proportionate amount based upon the square footage of the Premises rendered unusable, and Tenant shall pay such reduced Base Rent and Operating Expenses up to the date of vacation of the Premises. If Landlord is required or elects to make repairs, and Tenant does not terminate this Lease pursuant to Section 18.2, Landlord shall repair the Property and this Lease shall remain in full force and effect except that Tenant shall be entitled to a proportionate reduction of Base Rent and Operating Expenses from the date of such casualty and during the period such repairs are being made by a proportionate amount based upon the square footage of the Premises rendered unusable. The full amount of Base Rent and Operating Expenses shall again become payable immediately upon the completion of such work of repair, reconstruction or restoration. The repairs to be made by Landlord under this Article shall not include, and Landlord shall not be required to repair, any casualty damage to Tenant's Property or any Alterations.

**18.4 Tenant Obligations.** If Landlord elects or is required to repair, reconstruct or restore the Premises after any damage or destruction, Tenant shall be responsible at its own expense for the repair and replacement of any of Tenant's Property and any Alterations which Tenant elects to replace.

**18.5 No Claim.** Tenant shall have no interest in or claim to any portion of the proceeds of any property insurance or self-insurance maintained by Landlord in connection with the damage. If Landlord is entitled and elects not to rebuild the Premises, Landlord shall relinquish to Tenant such claim as Landlord may have for any part of the proceeds of any insurance maintained by Tenant under Section 13.2 of this Lease.

**18.6 No Damages.** If Landlord is required or elects to make any repairs, reconstruction or restoration of any damage or destruction to the Premises under any of the provisions of this Article 18, Tenant shall not be entitled to any damages by reason of any inconvenience or loss sustained by Tenant as a result thereof. Except as expressly provided in Section 18.3, there shall be no reduction, change or abatement of any rental or other charge payable by Tenant to Landlord hereunder, or in the method of computing, accounting for or paying the same. Tenant hereby waives the provisions of Section 1932(2) and Section 1933(4) of the California Civil Code, or any other statute or law that may be in effect at the time of a casualty under which a lease is automatically terminated or a tenant is given the right to terminate a lease due to a casualty.

**19. EMINENT DOMAIN.**

**19.1 Taking.** If all or any part of the Premises shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, this Lease shall terminate as to the part so taken as of the date of taking or as of the date of final judgment,

whichever is earlier, and, in the case of a partial taking of the Property, either Landlord or Tenant shall have the right to terminate this Lease as to the balance of the Property by written notice to the other within thirty (30) days after such date, provided, however, that a condition to the exercise by Tenant of such right to terminate shall be that the portion of the Premises taken shall be of such extent and nature as substantially handicap, impede or impair Tenant's use of the balance of the Premises. If any material part of the Common Area shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, whether or not the Premises are affected, Landlord shall have the right to terminate this Lease by written notice to Tenant within thirty (30) days of the date of taking. If any material part of the Common Area shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, such that Tenant's access to or use of the Premises is materially adversely affected, Tenant shall have the right to terminate this Lease by written notice to Landlord within thirty (30) days of the date of taking,

**19.2 Award.** In the event of any taking, Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection therewith, and Tenant shall assign to Landlord any right to compensation or damages for the condemnation of its leasehold interest. Nothing contained herein shall be deemed to prohibit Tenant from making a separate claim against the condemning authority for the value of Tenant's Property and moving expenses, provided such claim does not delay or diminish Landlord's claim or award.

**19.3 Partial Taking.** In the event of a partial taking of the Premises which does not result in a termination of this Lease, the Base Rent and Operating Expenses shall be adjusted as follows:

(a) In the event of a partial taking, if this Lease is not terminated pursuant to this Article 19, Landlord shall repair, restore or reconstruct the Premises to a useable state; provided that Landlord shall not be required to expend any sums other than those received pursuant to Section 19.2, and in the event Tenant does not elect to reimburse Landlord for such excess costs within thirty (30) days after notice from Landlord as to the amount of such excess cost, Landlord may elect to terminate this Lease;

(b) During the period between the date of the partial taking and the completion of any necessary repairs, reconstruction or restoration, Tenant shall be entitled to a reduction of Base Rent and Operating Expenses by a proportionate amount based upon the extent of interference with Tenant's operations in the Premises; and

(c) Upon completion of said repairs, reconstruction or restoration, and thereafter throughout the remainder of the Term, the Base Rent and Operating Expenses shall be recalculated based on the remaining total number of square feet of Rentable Area of the Premises.

**19.4 Temporary Taking.** Notwithstanding any other provision of this Article, if a taking occurs with respect to all or any portion of the Premises for a period of twelve (12) months or less, this Lease shall remain unaffected thereby and Tenant shall continue to pay Base Rent and Additional Rent and to perform all of the terms, conditions and covenants of this Lease,



provided that Tenant shall have the right to terminate this Lease if the taking continues beyond twelve (12) months by giving Landlord notice of such termination within twenty (20) days following the expiration of such twelve (12) month period. If Tenant exercises such termination right, this Lease and the estate hereby granted shall terminate as of the thirtieth (30th) day following the giving of such notice. In the event of any such temporary taking, and if this Lease is not terminated, Tenant shall be entitled to receive that portion of any award which represents compensation for the use or occupancy of the Premises during the Term up to the total Base Rent and Additional Rent owing by Tenant for the period of the taking, and Landlord shall be entitled to receive the balance of any award.

**19.5 Sale in Lieu of Condemnation.** A voluntary sale by Landlord of all or any part of the Property to any public or quasi-public body, agency or person, corporate or otherwise, having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed to be a taking under the power of eminent domain for the purposes of this Article.

**19.6 Waiver.** Except as provided in this Article, Tenant hereby waives and releases any right it may have under any Applicable Law to terminate this Lease as a result of a taking, including without limitation Sections 1265.120 and 1265.130 of the California Code of Civil Procedure, or any similar law, statute or ordinance now or hereafter in effect.

## **20. SURRENDER.**

**20.1 Surrender.** On or before the ninetieth (90th) day preceding the Expiration Date, Tenant shall notify Landlord in writing of Tenant's targeted date (the "**Move-Out Date**") upon which Tenant plans to surrender the Premises to Landlord. At least sixty (60) days prior to the Move-Out Date, Landlord and Tenant shall walk through the Premises to identify any repair and removal work to be performed by Tenant, provided that failure by any party to participate in the walk-through shall not relieve Tenant of any of its obligations hereunder. Prior to the Termination Date, Tenant shall repair at Tenant's sole cost, all damage caused by removal of Tenant's Property and any Alterations as required under this Lease, and shall leave the floor broom clean and the walls patched and paint-ready. Upon the Termination Date, Tenant shall surrender the Premises to Landlord in as good order and repair as on the Commencement Date, reasonable wear and tear and damage by casualty excepted, free and clear of all letting and occupancies and free of Tenant's Hazardous Materials as required pursuant to Article 12, with all applicable closure requirements satisfied in accordance with Section 12.10, and with all of Tenant's Property (including all movable equipment, furniture, trade fixtures and other personal property) removed from the Premises. Subject to Article 9, upon any termination of this Lease all improvements, except for Tenant's Property, shall automatically and without further act by Landlord or Tenant, become the property of Landlord, free and clear of any claim or interest therein by Tenant, and without payment therefore by Landlord. Tenant acknowledges that it is aware of Landlord's plans to redevelop the Property upon the termination of this Lease, and, therefore, if the Premises are not surrendered as of the end of the Term in the manner and condition described in this Section 20.1, Landlord may suffer extensive damage. In the event of such failure or delay, Tenant shall indemnify, defend, protect and hold Landlord harmless from and against any and all Losses resulting from or caused by Tenant's delay or failure in so surrendering the Premises, including, without limitation, any lost rents and any claims made by

any succeeding tenant due to such delay or failure and any expense, loss or damage (including consequential and indirect damages) incurred by Landlord as a result of the delay in Landlord's redevelopment plans for the Property.

**20.2 Holding Over.** Any holding over after the expiration of the Term with the consent of Landlord shall be construed to automatically extend the Term on a month-to-month basis at a Base Rent equal one-hundred fifty percent (150%) of the then-current Base Rent and shall otherwise be on the terms and conditions of this Lease to the extent applicable. Any holding over without Landlord's consent shall entitle Landlord to exercise any or all of its remedies provided in Article 15, notwithstanding that Landlord may elect to accept one or more payments of Base Rent and Operating Expenses from Tenant.

**20.3 Quitclaim.** At the expiration or earlier termination of this Lease, Tenant shall execute, acknowledge and deliver to Landlord, within ten (10) days after written demand from Landlord to Tenant, any quitclaim deed or other document required by any reputable title company, licensed to operate in the State of California, to remove the cloud or encumbrance created by this Lease from the Property.

**21. FINANCIAL STATEMENTS.**

Tenant shall tender to Landlord within ten (10) Business Days after receipt of a written request any information reasonably requested by Landlord regarding the financial stability, credit worthiness or ability of Tenant to pay the Rent due under this Lease. Landlord shall be entitled to rely upon the information provided in determining whether or not to enter into this Lease or for the purpose of any financing or other transaction subsequently undertaken by Landlord. Tenant hereby represents and warrants to Landlord the following: (a) that all documents provided by Tenant to Landlord in connection with the negotiation of this Lease are true and correct copies of the originals, (b) Tenant has not withheld any information from Landlord that is material to Tenant's credit worthiness, financial condition or ability to perform its obligations hereunder, (c) all information supplied by Tenant to Landlord is true, correct and accurate, and (d) no part of the information supplied by Tenant to Landlord contains any misleading or fraudulent statements. A default under this Article shall be a non-curable default by Tenant and Landlord shall be entitled to pursue any right or remedy available to Landlord under the terms of this Lease or available to Landlord under the laws of the State of California. Landlord shall a be entitled to disclose Tenant's financial information to (i) its agents, employees and consultants, (ii) potential purchasers of an interest in the Property, and (iii) lenders contemplating making a loan to the Landlord to be secured by the Property, provided that such recipients are advised of the confidential nature of such information and agree to maintain such confidentiality.

**22. TENANT CERTIFICATES.**

Tenant, at any time and from time to time within ten (10) Business Days after receipt of written notice from Landlord, shall execute, acknowledge and deliver to Landlord or to any party designated by Landlord (including prospective lenders, purchasers, ground lessees and others similarly situated), a certificate of Tenant stating, to the best of Tenant's knowledge: (a) that Tenant has accepted the Premises, (b) the Commencement Date and Expiration Date of this

Lease, (c) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that same is in full force and effect as modified and stating the modifications), (d) whether or not there are then existing any defenses against the enforcement of any of the obligations of Tenant under this Lease (and, if so, specifying same), (e) whether or not there are then existing any defaults by Landlord in the performance of its obligations under this Lease (and, if so, specifying same), (f) the dates, if any, to which the Base Rent and Operating Expenses have been paid, and (g) any other factual information relating to the rights and obligations under this Lease that may reasonably be required by any of such persons. Failure to deliver such certificate when due shall constitute an Event of Default, At the request of Tenant, Landlord shall execute, acknowledge and deliver to Tenant a certificate with similar types of information and in the time period set forth above. Failure by either Landlord or Tenant to execute, acknowledge and deliver such certificate shall be conclusive evidence that this Lease is in full force and effect and has not been modified except as may be represented by the requesting party, if any term in any certificate conflicts with the terms of this Lease, the terms of this Lease shall govern.

### 23. RULES AND REGULATIONS; SIGNS.

**23.1 Rules and Regulations.** Tenant shall faithfully observe and comply with all rules and regulations and all reasonable modifications thereof and additions thereto from time to time put into effect by Landlord (the “**Rules and Regulations**”). Landlord shall not enforce such Rules and Regulations in an unreasonable or discriminatory manner. In the event of any conflict between the terms of this Lease and the terms, covenants, agreements and conditions of the Rules and Regulations, this Lease shall control.

**23.2 Signs.** Tenant shall have the right, at Tenant’s sole cost and expense, to install Tenant’s name on one monument sign provided by Landlord located in the Common Area. Tenant shall also have the right to place a sign on the glass of or adjacent to the entrance doors to Tenant’s Premises identifying Tenant. All signage to be installed by Tenant pursuant to the previous sentence shall meet the requirements of Landlord’s signage program for the Property (e.g. aesthetic appearance, size, etc.) and shall be subject to the prior written consent of Landlord, not to be unreasonably withheld, and, if required, the approval of the City of Palo Alto.

### 24. INABILITY TO PERFORM.

If Landlord is unable to fulfill or is delayed in fulfilling any of Landlord’s obligations under this Lease, by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Landlord’s reasonable control, then such inability or delay by Landlord shall excuse the performance of Landlord for a period equal to the duration of such prevention, delay or stoppage, and no such inability or delay by Landlord shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of Base Rent or Additional Rent, or relieve Tenant from any of its obligations under this Lease, or impose any liability upon Landlord or Landlord’s Agents by reason of inconvenience, annoyance, interruption, injury or loss to or interference with Tenant’s business or use and occupancy or quiet enjoyment of the Premises or any loss or damage occasioned thereby. If Tenant is unable to fulfill or is delayed in

fulfilling any of Tenant's obligations under this Lease (other than the payment of Rent), by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Tenant's reasonable control, then such inability or delay by Tenant shall excuse the performance of Tenant for a period equal to the duration of such prevention, delay or stoppage. Tenant hereby waives and releases any right to terminate this Lease under Section 1932(1) of the California Civil Code, or any similar law, statute or ordinance now or hereafter in effect.

## **25. NOTICES.**

Notices or other communications given or required to be given under this Lease shall be effective only if rendered or given in writing, sent by certified mail with a return receipt requested, or delivered in person or by reputable overnight courier (e.g., Federal Express, DHL, etc.): (a) to Tenant at Tenant's applicable address set forth in Article 1 or at the place where Tenant designates in writing subsequent to Tenant's vacating, deserting, abandoning or surrendering the Premises; or (b) to Landlord at Landlord's address set forth in Article 1; or (a) to such other address as either Landlord or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Article. Any such notice or other communication shall be deemed to have been rendered or given five (5) days after the date mailed, if sent by certified mail, or upon the date of delivery in person or by courier, or when delivery is attempted but refused.

## **26. QUIET ENJOYMENT.**

Landlord covenants that so long as an Event of Default by Tenant is not in existence, upon paying the Base Rent and Additional Rent and performing all of its obligations under this Lease, Tenant shall peaceably and quietly enjoy the Premises, subject to the terms and provisions of this Lease.

## **27. AUTHORITY.**

**27.1 Tenant's Authority.** If Tenant is a corporation, limited liability company or a partnership, Tenant represents and warrants as follows: Tenant is an entity as identified in the introductory paragraph, duly formed and validly existing and in good standing under the laws of the state of organization specified in the introductory paragraph and qualified to do business in the State of California. Tenant has the power, legal capacity and authority to enter into and perform its obligations under this Lease and no approval or consent of any person is required in connection with the execution and performance hereof. The execution and performance of Tenant's obligations under this Lease will not result in or constitute any default or event that would be, or with notice or the lapse of time would be, a default, breach or violation of the organizational instruments governing Tenant or any agreement or any order or decree of any court or other governmental authority to which Tenant is a party or to which it is subject. Tenant has taken all necessary action to authorize the execution, delivery and performance of this Lease and this Lease constitutes the legal, valid and binding obligation of Tenant. Upon Landlord's request, Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord confirming the foregoing representations and warranties.

**27.2 Landlord's Authority.** Landlord represents and warrants as follows: Landlord has the power, legal capacity and authority to enter into and perform its obligations under this Lease and no approval or consent of any person is required in connection with the execution and performance hereof. The execution and performance of Landlord's obligations under this Lease will not result in or constitute any default or event that would be, or with notice or the lapse of time would be, a default, breach or violation of the organizational instruments governing Landlord or any agreement or any order or decree of any court or other governmental authority to which Landlord is a party or to which it is subject. Landlord has taken all necessary action to authorize the execution, delivery and performance of this Lease and this Lease constitutes the legal, valid and binding obligation of Landlord.

**28. BROKERS.**

Tenant and Landlord warrant that they have had dealings with only the real estate brokers or agents listed in Article 1 in connection with the negotiation of this Lease and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. The brokerage commission earned by Tenant's Broker in connection with this transaction shall be paid by Landlord, pursuant to a separate agreement. Tenant and Landlord shall each indemnify, defend and hold the other harmless from and against all liabilities arising from any other claims of brokerage commissions or finder's fees based on Tenant's or Landlord's, as applicable, dealings or contacts with brokers or agents other than, as to Tenant, Tenant's Broker.

**29. MISCELLANEOUS.**

**29.1 Entire Agreement.** This Lease, including the exhibits which are incorporated herein and made a part of this Lease, contains the entire agreement between the parties and all prior negotiations and agreements are merged herein. Tenant hereby acknowledges that neither Landlord nor Landlord's Agents have made any representations or warranties with respect to the Premises, the Property, or this Lease except as expressly set forth herein, and no rights, easements or licenses are or shall be acquired by Tenant by implication or otherwise unless expressly set forth herein.

**29.2 No Waiver.** No failure by Landlord or Tenant to insist upon the strict performance of any obligation of Tenant or Landlord under this Lease or to exercise any right, power or remedy consequent upon a breach thereof, no acceptance of full or partial Base Rent or Additional Rent during the continuance of any such breach by Landlord, or payment of Base Rent or Additional Rent by Tenant to Landlord, and no acceptance of the keys to or possession of the Premises prior to the expiration of the Term by any employee or agent of Landlord shall constitute a waiver of any such breach or of such term, covenant or condition or operate as a surrender of this Lease. No waiver of any breach shall affect or alter this Lease, but each and every term, covenant and condition of this Lease shall continue in full force and effect with respect to any other then-existing or subsequent breach thereof. The consent of Landlord or Tenant given in any instance under the terms of this Lease shall not relieve Tenant or Landlord, as applicable, of any obligation to secure the consent of the other in any other or future instance under the terms of this Lease.

**29.3 Modification.** Neither this Lease nor any term or provisions hereof may be changed, waived, discharged or terminated orally, and no breach thereof shall be waived, altered or modified, except by a written instrument signed by the party against which the enforcement of the change, waiver, discharge or termination is sought.

**29.4 Successors and Assigns.** The terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of Landlord and Tenant and, except as otherwise provided or limited herein, their respective personal representatives and successors and assigns.

**29.5 Validity.** If any provision of this Lease or the application thereof to any person, entity or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons, entities or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and be enforced to the full extent permitted by law.

**29.6 Jurisdiction.** This Lease shall be construed and enforced in accordance with the laws of the State of California. Any action that in any way involves the rights, duties and obligations of the parties under this Lease may (and if against Landlord, shall) be brought in the courts of the State of California or the United States District Court for the District of California, and the parties hereto hereby submit to the personal jurisdiction of said courts.

**29.7 Attorneys' Fees.** In the event that either Landlord or Tenant fails to perform any of its obligations under this Lease or in the event a dispute arises concerning the meaning or interpretation of any provision of this Lease, the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs, costs of arbitration and reasonable attorneys' fees.

**29.8 Waiver of Jury Trial.** Landlord and Tenant each hereby voluntarily and knowingly waive and relinquish their right to a trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord with Tenant, or Tenant's use or occupancy of the Premises, including any claim of injury or damage, and any emergency and other statutory remedy with respect thereto.

**29.9 No Counterclaim by Tenant.** In the event Landlord shall commence any proceedings for nonpayment of rent or other charges payable by Tenant under this Lease, Tenant will not interpose any counterclaim of whatever nature or description in any such proceedings. This shall not, however, be construed as a waiver of the Tenant's right to assert such claims in any separate action or actions brought by the Tenant.

**29.10 Light and Air.** Tenant covenants and agrees that no diminution of light, air or view by any structure that may hereafter be erected (whether or not by Landlord) shall entitle Tenant to any reduction of the Base Rent or Additional Rent under this Lease, result in any liability of Landlord to Tenant, or in any other way affect this Lease or Tenant's obligations hereunder.

**29.11 Lease Memorandum.** Neither Landlord nor Tenant shall record this Lease or a short form memorandum hereof without the consent of the other.

**29.12 Confidentiality.** The parties agree that neither of them shall make public the terms and conditions of this Lease to any person other than a party's accountants, attorneys, lenders, brokers, prospective ground lessees, investors, consultants or financial advisors without first obtaining the written permission from the other party, except to the extent otherwise required by Applicable Law.

**29.13 Terms.** The term "Premises" includes the space leased hereby and any improvements now or hereafter installed therein or attached thereto. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. If there is more than one Tenant or Landlord, the obligations under this Lease imposed on Tenant or Landlord shall be joint and several. The captions preceding the articles of this Lease have been inserted solely as a matter of convenience and such captions in no way define or limit the scope or intent of any provision of this Lease.

**29.14 Review and Approval.** The review, approval, inspection or examination by Landlord of any item to be reviewed, approved, inspected or examined by Landlord under the terms of this Lease or the exhibits attached hereto shall not constitute the assumption of any responsibility by Landlord for either the accuracy or sufficiency of any such item or the quality of suitability of such item for its intended use. Any such review, approval, inspection or examination by Landlord is for the sole purpose of protecting Landlord's interests in the Property and under this Lease, and no third parties, including, without limitation, Tenant or any person or entity claiming through or under Tenant, or the contractors, agents, servants, employees, visitors or licensees of Tenant or any such person or entity, shall have any rights hereunder with respect to such review, approval, inspection or examination by Landlord,

**29.15 No Beneficiaries.** This Lease shall not confer or be deemed to confer upon any person or entity other than the parties hereto, any right or interest, including without limitation, any third party status or any right to enforce any provision of this Lease.

**29.16 Time of the Essence.** Time is of the essence in respect of all provisions of this Lease in which a definite time for performance is specified.

**29.17 Modification of Lease.** In the event of any ruling or threat by the Internal Revenue Service, or opinion of counsel, that all or part of the Rent paid or to be paid to Landlord under this Lease will be subject to the income tax or unrelated business taxable income, Tenant agrees to modify this Lease to avoid such tax; provided that such modifications will not result in any increase in Rent, or any increased obligations of Tenant under this Lease. Landlord will pay all Tenant's costs and expenses incurred in reviewing and negotiating any such lease modification, including, without limitation, reasonable attorneys' and accountants' fees.

**29.18 Construction.** This Lease has been negotiated extensively by Landlord and Tenant with and upon the advice of their respective legal counsel, all of whom have participated in the drafting hereof. Consequently, Landlord and Tenant agree that no party shall be deemed to be the drafter of this Lease and in the event this Lease is ever construed by a court

of law, such court shall not construe this Lease or any provision of this Lease against any party as the drafter of the Lease.

**29.19 Use of Name.** Tenant acknowledges and agrees that the names “*The Leland Stanford Junior University,*” “*Stanford*” and “*Stanford University,*” and all variations thereof, are proprietary to Landlord. Tenant shall not use any such name or any variation thereof or identify Landlord in any promotional advertising or other promotional materials to be disseminated to the public or any portion thereof or use any trademark, service mark, trade name or symbol of Landlord or that is associated with it, without Landlord’s prior written consent, which may be given or withheld in Landlord’s sole discretion, Notwithstanding the foregoing, Tenant may use the term “Stanford Research Park” only to identify the location of the Premises.

**29.20 Survival.** The obligations of this Lease shall survive the expiration of the Term to the extent necessary to implement any requirement for the performance of obligations or forbearance of an act by either party hereto which has not been completed prior to the termination of this Lease. Such survival shall be to the extent reasonably necessary to fulfill the intent thereof, or if specified, to the extent of such specification, as same is reasonably necessary to perform the obligations and/or forbearance of an act set forth in such term, covenant or condition. Notwithstanding the foregoing, in the event a specific term, covenant or condition is expressly provided for in such a clear fashion as to indicate that such performance of an obligation or forbearance of an act is no longer required, then the specific shall govern over this general provisions of this Lease.

**29.21 Counterparts.** This Lease may be executed in counterparts, each of which shall be an original, and all of which together shall constitute one original of the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date first above written.

LANDLORD:

TENANT:

THE BOARD OF TRUSTEES OF THE LELAND  
STANFORD JUNIOR UNIVERSITY

CARBYLAN BIOSURGERY, INC.

By: /s/ Tiffany Griego

By:  /s/ George Daniloff

Its: Tiffany Griego  
Director, Stanford Research Park

Its: President and CEO

By: \_\_\_\_\_

Its: \_\_\_\_\_



## GLOSSARY

### DEFINITIONS

As used in this Lease, the following terms shall have the following meanings, applicable, as appropriate, to both the singular and plural form of the terms defined below:

**“Abated Rent”** is defined in Section 15.2(g).

**“ADA”** is defined in Section 11.1.

**“Additional Rent”** is defined in Section 5.2.

**“Affiliate”** is defined in Section 14.7.

**“Alterations”** is as defined in Section 9.2.

**“Applicable Laws”** are defined in Section 11.1.

**“Assignment”** is defined in Section 14.1.

**“Base Rent”** means the amount stated in Article 1, to be adjusted and payable in accordance with Article 5.

**“Building”** is defined in Section 2.1.

**“Building Structure”** is defined in Section 8.2(a).

**“Building Systems”** are defined in Section 7.2(b).

**“Business Days”** means Monday through Friday, excluding federal and state legal holidays.

**“Capital Expenditure”** is defined in Section 8.3.

**“Common Area”** is defined in Section 2.2.

**“Commencement Date”** means the date specified in Article 1.

**“Effective Date”** is defined in the introductory paragraph of this Lease.

**“Environmental Activity”** is defined in Section 12.1(a).

**“Environmental Investigation”** is defined in Section 12.7.

**“Environmental Laws”** are defined in Section 12.1(b).

**“Event of Default”** is defined in Section 15.1.

**“Excess Rent”** is defined in Section 14.4.

**“Existing Improvements”** is defined in Section 9.5.

**“Expiration Date”** means the date specified in Article 1.

**“Ground Lease”** is defined in Recital B.

**“Ground Lessee”** is defined in Recital B.

**“Hazardous Material”** is defined in Section 12.1(c).

**“Interest Rate”** means the prime rate of interest published in the Wall Street Journal as of the first date any applicable interest accrues, plus four percent (4%).

**“Land”** is defined in Recital A.

**“Landlord”** is defined in the introductory paragraph to this Lease.

**“Landlord’s Agents”** is defined in Section 12.5.

**“Landlord’s Expense Statement”** is defined in Section 7.3.

**“Lines”** is defined in Section 9.4.

**“Losses”** is defined in Section 13.1.

**“Move-Out Date”** is defined in Section 20.1.

**“New Space”** is defined in Article 3.

**“Notifying Party”** is defined in Section 12.9.

**“Offer”** is defined in Section 14.5.

**“Operating Expenses”** are defined in Section 7.2.

**“Other Party”** is defined in Section 12.9.

**“Parking Area”** is defined in Section 2.3.

**“Permitted Transfers”** is defined in Section 14.7.

**“Pre-Occupied Space”** is defined in Article 3.

**“Premises”** is defined in Section 2.1.

**“Prior Lease”** is defined in Recital C.

**“Property”** is defined in Section 2.1.

**“Real Estate Taxes”** are defined in Section 7.2(a).

**“Rent”** is defined in Section 5.2.

**“Rentable Area”** means the enclosed areas of the Premises measured to the outside face of the exterior wall or glass line (whichever is greater) and including all second floor vertical shafts and penetrations, but excluding outside balconies, arcades and covered entrances.

**“Rules and Regulations”** Is defined in Section 23.1.

**“Security Deposit”** is defined in Article 1.

**“Sublease”** is defined in Section 14.1.

**“Successor”** is defined in Section 16.5.

**“Supplemental Investigation”** is defined in Section 12.7.

**“Tenant”** is defined in the introductory paragraph to this Lease.

**“Tenant Improvement Allowance”** is specified in Article 1.

**“Tenant Obligations”** is defined in Section 8.4.

**“Tenant Systems”** is defined In Section 8.4.

**“Tenant’s Agents”** is defined in Section 2.2.

**“Tenant’s Broker”** is defined in Article 1.

**“Tenant’s Hazardous Materials”** is defined in Section 12.1(d).

**“Tenant’s Hazardous Materials Plan”** is defined in Section 12.3.

**“Tenant’s Property”** is defined in Section 9.6.

**“Term”** is defined in Article 1 and Section 4.1.

**“Termination Date”** is defined in Section 4.1.

**“Transfer”** is defined in Section 14.5.

**“Transfer Costs”** is defined in Section 14.4.

**“Transfer Notice”** is defined in Section 14.2.

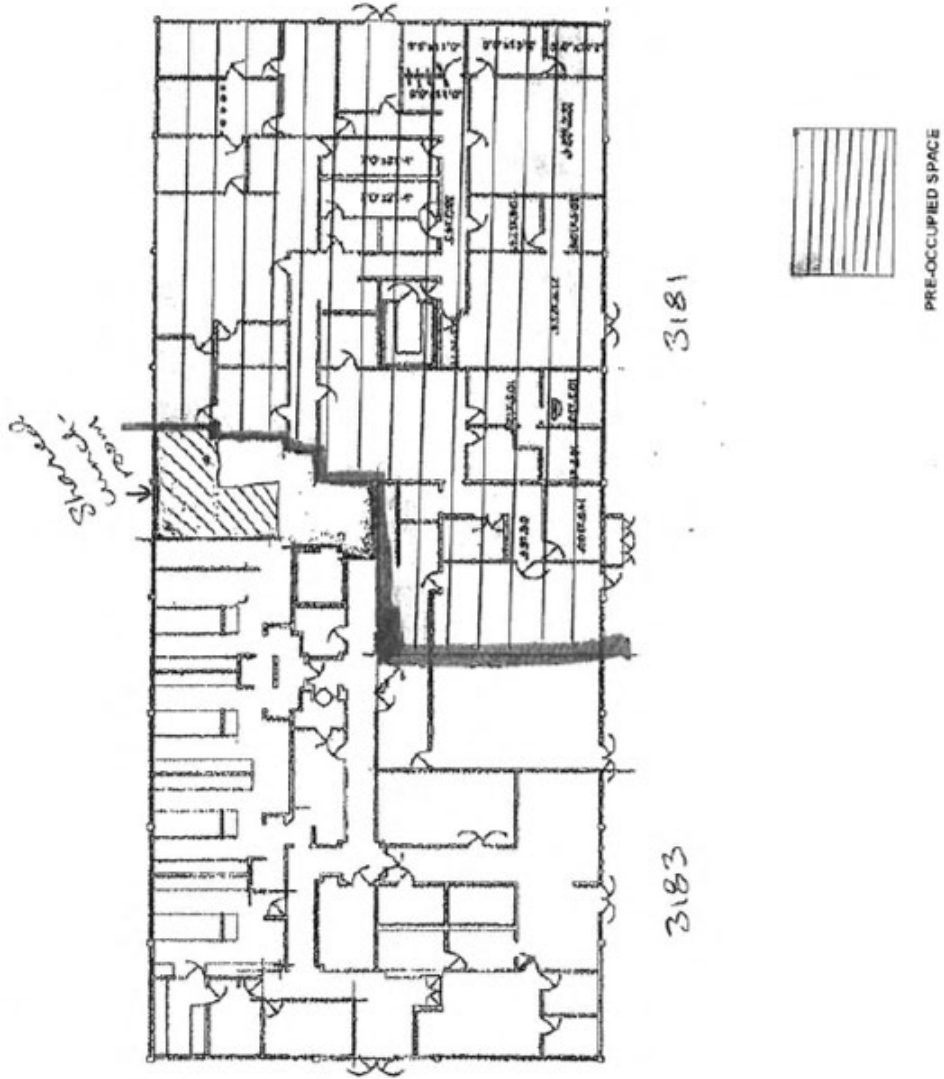
**“Transferee”** is defined in Section 14.2.

**“Transit Fees”** is defined in Section 7.6.



EXHIBIT B

PRE-OCCUPIED SPACE



**EXECUTIVE EMPLOYMENT AGREEMENT**  
**for**  
**David Renzi**

This Executive Employment Agreement (the “**Agreement**”) is made between Carbylan BioSurgery, Inc. (the “**Company**”) and David Renzi (“**Executive**”)(collectively, the “**Parties**”).

**WHEREAS**, the Company desires for Executive to provide services to the Company, and wishes to provide Executive with certain compensation and benefits in return for such employment services; and

**WHEREAS**, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereto agree as follows:

**1. Employment by the Company.**

1.1 **Position.** Executive shall serve as the Company’s Chief Executive Officer and President. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for approved vacation periods and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies. Executive shall begin his employment with the Company on June 3, 2013.

1.2 **Board Position.** Executive shall serve as a director on the Company’s Board of Directors (the “**Board**”) for so long as he remains employed in the position of President and Chief Executive Officer. If Executives ceases to serve in such positions for any reason, then Executive will resign from his position on the Board.

1.3 **Duties and Location.** Executive shall perform such duties as are required by the Board, to whom Executive will report. Executive’s primary office location shall be the Company’s Palo Alto office. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time, and to require reasonable business travel.

1.3 **Policies and Procedures.** The employment relationship between the Parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

**2. Compensation.**

2.1 **Salary.** For services to be rendered hereunder, Executive shall receive a base salary at the rate of Three Hundred Fifty Thousand dollars (\$350,000) per year (the “**Base Salary**”), subject to standard

payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule.

**2.2 Bonus.** Executive will be eligible for an annual discretionary target bonus of Twenty Percent (20%) of Executive's Base Salary (the "**Annual Bonus**"). Whether Executive receives an Annual Bonus for any given year, and the amount of any such Annual Bonus, will be determined by the Board in its sole discretion based upon the Company's and Executive's achievement of objectives and milestones to be determined on an annual basis by the Board in consultation with Executive. Executive must remain an active employee through the end of any given calendar year in order to earn an Annual Bonus for that year and any such bonus will be paid prior to March 15 of the year following the year in which Executive's right to such amount became vested. Executive will not be eligible for, and will not earn, any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the end of the calendar year.

**2.3 Standard Company Benefits.** Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans that may be in effect from time to time and provided by the Company to its employees. The Company reserves the right to cancel or change the benefit plans or programs it offers to its employees at any time.

**2.4 Option Grant.** Subject to approval by the Board, Executive shall be granted an option to purchase 2,103,305 shares of Common Stock in the Company at the fair market value on the date of grant (the "**Option**"). The Option shall be governed in all respects by the terms of the governing plan documents and option agreement between Executive and the Company, which shall provide for the following vesting schedule;  $\frac{1}{4}$  of the shares subject to the Option shall vest one (1) year after grant, with the remaining shares vesting in equal monthly installments over the three (3) years thereafter. The Option Agreement shall also provide, among other things, that all shares shall immediately vest in the event of a Change in Control in which the Option is not assumed by the acquiring company. Future option grants may be offered by the Board to the Executive in its discretion.

### **3. Termination of Employment; Severance.**

**3.1 At-Will Employment.** Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

#### **3.2 Termination Without Cause.**

(i) The Company may terminate Executive's employment with the Company at any time without Cause (as defined below).

(ii) In the event Executive's employment with the Company is terminated by the Company without Cause, then provided such termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h), without regard to any alternative definition thereunder, a

“**Separation from Service**”), and Executive remains in compliance with the terms of this Agreement, the Company shall provide Executive with the following Severance Benefits:

(a) The Company shall pay Executive, as severance, one (1) year of Executive’s base salary in effect as of the date of Executive’s employment termination, subject to standard payroll deductions and withholdings (the “**Severance**”). The Severance will be paid in equal installments on the Company’s regular payroll schedule over the one (1) year period following Executive’s Separation from Service; *provided, however*, that no payments will be made prior to the 60th day following Executive’s Separation from Service. On the 60th day following Executive’s Separation from Service, the Company will pay Executive in a lump sum the Severance that Executive would have received on or prior to such date under the original schedule but for the delay while waiting for the 60th day in compliance with Internal Revenue Code Section 409A and the effectiveness of the Separation Agreement referenced in Section 4 below, with the balance of the Severance being paid as originally scheduled.

(b) Provided Executive timely elects continued coverage under COBRA, the Company shall pay the COBRA premiums to continue Executive’s coverage (including coverage for eligible dependents, if applicable) (“**COBRA Premiums**”) through the period (the “**COBRA Premium Period**”) starting on the Executive’s Separation from Service and ending on the earliest to occur of: (i) one year following Executive’s Separation from Service; (ii) the date Executive becomes eligible for group health insurance coverage through a new employer; or (iii) the date Executive ceases to be eligible for COBRA continuation coverage for any reason. In the event Executive becomes covered under another employer’s group health plan or otherwise cease to be eligible for COBRA during the COBRA Premium Period, Executive must immediately notify the Company of such event. Notwithstanding the foregoing, if the Company determines, in its sole discretion, that it cannot pay the COBRA Premiums without a substantial risk of violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company instead shall pay to Executive, on the first day of each calendar month, a fully taxable cash payment equal to the applicable COBRA Premiums for that month, subject to applicable tax withholdings, for the remainder of the COBRA Premium Period, which Executive may, but is not obligated to, use toward the cost of COBRA Premiums.

(c) The vesting of Executive’s Option and any other options then held by Executive shall be accelerated such that the shares subject thereto that would have vested in the one (1) year period following Executive’s Separation from Service had Executive’s employment not been terminated shall be deemed vested and exercisable as of Executive’s last day of employment (the “**Accelerated Vesting**”); *provided, however*, that if the termination without Cause occurs either three (3) months prior to or within one (1) year after the effective date of a Change in Control (as defined below), then 100% of the shares subject to the Option and any other options then held by Executive shall be deemed vested and exercisable as of Executive’s last day of employment.

### 3.3 Resignation.

(i) Executive may resign from Executive’s employment with the Company at any time, with or without Good Reason (as defined below).



(ii) In the event Executive resigns for Good Reason, then provided such termination constitutes a Separation from Service, and Executive remains in compliance with the terms of this Agreement, the Company shall provide Executive with the Severance set forth in Section 3.2(ii)(a) above, as well as the COBRA Premiums set forth above in Section 3.2(ii)(b) and the accelerated vesting set forth above in Section 3.2(ii)(c).

(iii) In the event Executive resigns without Good Reason, then (i) Executive will no longer vest in the Option, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (c) Executive will not be entitled to any severance benefits, including (without limitation) the Severance, COBRA Premiums, or Accelerated Vesting.

### **3.4 Termination for Cause; Death or Disability.**

(i) The Company may terminate Executive's employment with the Company at any time for Cause. Executive's employment with the Company may also be terminated due to Executive's death or disability.

(ii) If the Company terminates Executive's employment for Cause, or upon Executive's death or disability, then (i) Executive will no longer vest in the Option, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (c) Executive will not be entitled to any severance benefits, including (without limitation) the Severance, COBRA Premiums, or Accelerated Vesting.

**4. Conditions to Receipt of Severance, COBRA Premiums, and Accelerated Vesting.** The receipt of the Severance, COBRA Premiums, and Accelerated Vesting will be subject to Executive signing and not revoking a separation agreement and release of claims in a form reasonably satisfactory to the Company (the "**Separation Agreement**"). No Severance, COBRA Premiums, or Accelerated Vesting will be paid or provided until the Separation Agreement becomes effective. As a further condition to the receipt of any severance benefits set forth in this Agreement, Executive shall also be required to resign from all positions and terminate any relationships as an employee, advisor, officer or director with the Company and any of its affiliates, each effective on the date of termination.

**5. Section 409A.** It is intended that all of the severance benefits and other payments payable under this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A provided under Treasury Regulations 1.409A1(b)(4), 1.409A1(b)(5) and 1.409A1(b)(9), and this Agreement will be construed to the greatest extent possible as consistent with those provisions, and to the extent no so exempt, this Agreement (and any definitions hereunder) will be construed in a manner that complies with Section 409A. For purposes of Code Section 409A (including, without limitation, for purposes of Treasury Regulation Section 1.409A2(b)(2)(iii)), Executive's right to receive any installment payments under this Agreement (whether severance payments, reimbursements or otherwise) shall be treated as a right to receive a series of separate payments and, accordingly, each installment payment hereunder shall at all times be considered a separate and distinct payment.

Notwithstanding any provision to the contrary in this Agreement, if Executive is deemed by the Company at the time of Executive's Separation from Service to be a "specified employee" for purposes of Code Section 409A(a)(2)(B)(i), and if any of the payments upon Separation from Service set forth herein and/or under any other agreement with the Company are deemed to be "deferred compensation", then to the extent delayed commencement of any portion of such payments is required in order to avoid a prohibited distribution under Code Section 409A(a)(2)(B)(i) and the related adverse taxation under Section 409A, such payments shall not be provided to Executive prior to the earliest of (i) the expiration of the six-month period measured from the date of Executive's Separation from Service with the Company, (ii) the date of Executive's death or (iii) such earlier date as permitted under Section 409A without the imposition of adverse taxation. Upon the first business day following the expiration of such applicable Code Section 409A(a)(2)(B)(i) period, all payments deferred pursuant to this Paragraph shall be paid in a lump sum to Executive, and any remaining payments due shall be paid as otherwise provided herein or in the applicable agreement. No interest shall be due on any amounts so deferred.

## 6. Definitions.

(i) **Cause.** For purposes of this Agreement, "**Cause**" for termination will mean: (a) commission of any felony or crime involving dishonesty; (b) participation in any fraud against the Company; (c) material breach of Executive's duties to the Company; (d) persistent and material unsatisfactory performance of job duties after detailed written notice from the Board and a reasonable opportunity to cure; or (e) material misconduct or other violation of Company policy that causes material harm to the Company.

(ii) **Good Reason.** For purposes of this Agreement, Executive shall have "**Good Reason**" for resignation from employment with the Company if any of the following actions are taken by the Company without Executive's prior written consent: (a) a material reduction in Executive's base salary, which the parties agree is a reduction of at least 10% of Executive's base salary; (b) a material reduction in Executive's duties (including responsibilities and/or authorities), *provided, however*, that a change in job position (including a change in title) shall not be deemed a "material reduction" in and of itself unless Executive's new duties are materially reduced from the prior duties; or (c) relocation of Executive's principal place of employment to a place that increases Executive's one-way commute by more than thirty-five (35) miles as compared to Executive's then-current principal place of employment immediately prior to such relocation. In order to resign for Good Reason, Executive must provide written notice to the Company's Chairman within 45 days after he first has knowledge of the occurrence of the event giving rise to Good Reason setting forth the basis for Executive's resignation, allow the Company at least 45 days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, Executive must resign from all positions Executive then holds with the Company not later than 45 days after the expiration of the cure period.

6.2 **Change in Control.** For purposes of this Agreement, "**Change in Control**" shall have the definition set forth in the Carbylan BioSurgery, Inc. Amended and Restated 2004 Stock Option Plan.

## **7. Proprietary Information Obligations.**

**7.1 Confidential Information Agreement.** As a condition of employment, Executive shall execute and abide by the Company's standard form of Employee Proprietary Information and Inventions Agreement (the "**Confidentiality Agreement**").

**7.2 Third-Party Agreements and Information.** Executive represents and warrants that Executive's employment by the Company does not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, that would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

## **8. Outside Activities During Employment.**

**8.1 Non-Company Business.** Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder. Executive may also serve on the Board of Directors of one (1) for-profit company (and be compensated in equity and cash for such service), provided such company is determined by the Board to not be directly competitive with the Company.

**8.2 No Adverse Interests.** Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known to be materially adverse to the Company, its business or prospects, financial or otherwise.

**9. Non-Solicitation.** Executive agree that during the period of employment with the Company and for twelve (12) months after the date Executive's employment is terminated for any reason, Executive will not, either directly or through others, solicit or encourage or attempt to solicit or encourage any employee, independent contractor, or consultant of the Company to terminate his or her relationship with the Company in order to become an employee, consultant or independent contractor to or for any other person or entity.

**10. Dispute Resolution.** To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, including but not limited to statutory claims, shall be

resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Santa Clara County, California, conducted by JAMS, Inc. (“JAMS”) under the then applicable JAMS rules. By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding. The Company acknowledges that Executive will have the right to be represented by legal counsel at any arbitration proceeding. The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator’s essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS’ arbitration fees in excess of the amount of court fees that would be required of the Executive if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Any awards or orders in such arbitrations may be entered and enforced as judgments in the federal and state courts of any competent jurisdiction.

## **11. General Provisions.**

**11.1 Notices.** Any notices provided must be in writing and will be deemed effective upon the earlier of personal delivery (including personal delivery by fax or email) or the next day after sending by overnight carrier, to the Company at its primary office location, fax number or email address of an officer or Chairman of the Board of the Company, and to Executive at the address, fax number or personal email address as listed on the Company payroll or HR records.

**11.2 Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

**11.3 Waiver.** Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

**11.4 Complete Agreement.** This Agreement, together with the Confidentiality Agreement and Option Agreement, constitutes the entire agreement between Executive and the Company with regard to this subject matter and is the complete, final, and exclusive embodiment of the Parties’ agreement with regard to this subject matter. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. It is entered into without reliance on any promise or representation other than those expressly

contained herein, and it cannot be modified or amended except in a writing signed by a duly authorized officer of the Company.

11.5 **Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

11.6 **Headings.** The headings of the paragraphs hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

11.7 **Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably.

11.8 **Tax Withholding and Indemnification.** All payments and awards contemplated or made pursuant to this Agreement will be subject to withholdings of applicable taxes in compliance with all relevant laws and regulations of all appropriate government authorities. Executive acknowledges and agrees that the Company has neither made any assurances nor any guarantees concerning the tax treatment of any payments or awards contemplated by or made pursuant to this Agreement. Executive has had the opportunity to retain a tax and financial advisor and fully understands the tax and economic consequences of all payments and awards made pursuant to the Agreement.

11.9 **Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the laws of the State of California.

**IN WITNESS WHEREOF**, the Parties have executed this Agreement on the day and year written below.

**CARBYLAN BIOSURGERY, INC.**

By: /s/ Albert Cha  
Albert Cha, Director

Date: May 30, 2013

**EXECUTIVE**

**David Renzi**

/s/ David Renzi

Date: May 30, 2013



June 26, 2014

Mr. Thomas Michael White  
[Home Address]

**Re: Employment Agreement**

Dear Michael:

We are pleased to extend you this offer of employment with Carbylan Therapeutics, Inc. (the "Company"), contingent upon the conditions outlined in Section 8 below. This letter (the "**Agreement**") contains the terms of our employment offer.

1. **Position.**

- a. You will fill the position of Vice President of Finance and Chief Financial Officer, with an assigned work location of the Company's corporate headquarters. You will report to the Company's President and Chief Executive Officer. This is a full-time position, and you agree to the best of your ability and experience that you will at all times loyally and conscientiously perform all of the duties and obligations required of and from you pursuant to the express and implicit terms hereof, and to the satisfaction of the Company. During the term of your employment, you further agree that you will devote your full business time and best professional efforts exclusively to the performance of your duties and responsibilities for the Company, and you will not directly or indirectly engage or participate in any business that is competitive in any manner with the business of the Company. The Company retains the discretion to modify your position, duties, reporting relationship, and work location from time to time.
- b. Subject to your fulfillment of the conditions outlined in Section 8 below, your employment with the Company will commence on July 7, 2014 (your "Start Date"), or on such other date as mutually agreed by you and the Company.

2. **Proof of Right to Work.**

- a. To comply with the Immigration Reform and Control Act, you will be required to provide to the



Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within three business days of your date of hire, or the Company will not be able to employ you.

3. **Compensation.**

- a. **Base Salary.** You will be paid a base salary at the annual rate of \$275,000, subject to payroll withholdings and deductions. Your base salary will be paid in two equal payments per month in accordance with the Company's regular payroll practices. As an exempt salaried employee, you will be expected to work the Company's standard business hours, and such additional hours as required by the nature of your work assignments and job responsibilities, and you will not be eligible for overtime compensation. The Company retains the discretion to modify your compensation terms (including the bonus program) from time to time.
- b. **Bonus.** You will be eligible for consideration by the Company's Board of Directors (the "**Board**") for an annual bonus of up to twenty-five percent (25%) of your annual base salary, with the bonus determination to be made by the Board within its sole discretion. Payment of the bonus will be based on the level of achievement of the applicable objectives and milestones, as such objectives and milestones are set by the Board in its sole discretion, and as such achievement is evaluated by the Board in its sole discretion, and the bonus is not guaranteed. As a condition precedent to earning and receiving any bonus, you must remain an active employee with the Company through the date the bonus otherwise is scheduled to be paid; and if your employment has been terminated for any reason, regardless of whether the termination is by you or the Company, you will not earn or be entitled to receive any bonus which has not been paid prior to the termination date.

4. **Stock Options.**

In connection with the commencement of your employment, the Company will recommend that the Company's Board of Directors grant you an option to purchase 422,026 shares of the Company's Common Stock ("Option Shares") with an exercise price equal to the fair market value on the date of the grant. One quarter (12/48) of these option shares will vest on the 12-month anniversary of your Vesting Commencement Date (as defined in your Stock Option Agreement, which date will be your Start Date, as defined above) and the remaining Option Shares will vest one-forty-eighth (1/48) per month thereafter until all such remaining Option Shares have become fully vested (approximately four years from your Start Date). Vesting will, of course, depend on your continued employment with the Company. The option will be subject to the terms of the Company's 2004 Stock Plan and a stock option agreement between you and the Company in the form reasonably determined by the Company.

5. **Benefits.**

- a. **Insurance Benefits.** You will be eligible to participate in the Company's standard medical and dental



insurance benefits, subject to the terms and conditions of these benefit plans, as in effect from time to time.

- b. Paid Time Off. You will be eligible to accrue paid vacation, and be eligible for paid sick time and paid holidays, under the terms of the Company's applicable policies, as in effect from time to time.

You will be eligible to participate in any other benefits offered by the Company generally to its employees from time to time, subject to the terms and conditions of these benefit plans and the Company's policies, as in effect from time to time. The Company reserves the right to add to, change, or terminate any or all of its benefit programs and related policies in its sole discretion.

6. **Compliance with Company Policies and Confidential Information and Invention Assignment Agreement.**

As a condition of your employment with the Company, you will be required to abide by the Company's policies and procedures, including but not limited to the policies contained in the Company's Employee Handbook, as may be in effect from time to time. In addition, your acceptance of this offer and commencement of employment with the Company is contingent upon your execution and delivery to an officer of the Company the Company's Employee Proprietary Information and Invention Agreement, a copy of which is enclosed for your review and execution (the "**Confidentiality Agreement**"), on or prior to your Start Date.

7. **Prior Confidentiality Obligations.**

In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You agree that you will not bring onto Company premises, any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality. You hereby represent that you have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

8. **Conditional Offer.**

This offer is contingent upon:

- a. your producing documents required under the Immigration Reform and Control Act verifying your identity and eligibility for employment in the United States as outlined in Section 3 above;
- b. [favorable pre-employment reference checks, criminal background check, education verification, and drug screening results (with necessary services to be provided by and at the Company's cost);] and





- c. your execution of the Confidentiality Agreement, as well as other necessary employment documents that will be provided to you.

9. **At-Will Employment.**

Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. In addition, the Company may also change any term or condition of your employment with or without cause. This "at will" relationship can only be changed by an agreement in writing signed by an expressly authorized officer of the Company.

10. **Severance Benefits for Qualifying Terminations.**

- a. **General Severance Benefits.** You shall be entitled to receive the General Severance Benefits (as defined below), as your sole severance benefits, if your employment is terminated by the Company without Cause (as defined below) and if: (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company a general release of all known and unknown claims (the "**Release**") substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For purposes of this Section 10(a), the "**General Severance Benefits**" shall consist of the following: (i) continued payment of your final base monthly salary for a period of six (6) months following the termination date; (ii) accelerated vesting of any outstanding stock options such that the additional number of shares that would have vested if your employment had continued for six (6) additional months following the termination date will become vested and exercisable effective as of the termination date; and (iii) if you timely elect continued group health insurance coverage pursuant to federal COBRA law or, if applicable, state insurance laws (collectively, "**COBRA**"), the Company will pay your COBRA premiums to continue your group health insurance coverage (including the cost of dependent coverage) through the earliest of (A) six (6) months following the termination date, (B) the date that you become eligible for group health insurance coverage through a new employer, or (C) the date you cease to be eligible for COBRA coverage. Notwithstanding the foregoing, the General Severance Benefits will immediately expire in the event that you obtain new full-time employment (or full-time consulting or similar arrangement) within six (6) months after the termination date, *provided, however*, that the Company will thereafter continue to pay you, through the six-month severance payment period, the excess, if any, of your Company base salary on the date of termination over the base salary for your new employment relationship. You agree to notify the Company of your acceptance of any employment within the six-month severance payment period. In the event of your death during the six (6) month severance period, the remaining General

Severance Benefits shall be paid to your estate. Any severance payments made under this Agreement will be made in the form of salary continuation, and will begin on the next regular Company payday which is at least five (5) business days following the later of the effective date of the Release or the date on which the Release, signed by you, is received by the Company. The first payment, however, will be retroactive to the next business day following the termination date.

- b. Change of Control Severance Benefits. You shall be entitled to receive the Change of Control Severance Benefits (as defined below), as your sole severance benefits, if, on or within twelve (12) months after a Change of Control (as defined below), your employment is terminated by the Company without Cause or you terminate your employment for Good Reason (as defined below) and if; (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.609A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For the purposes of Section 10(b), the "**Change of Control Severance Benefits**" shall consist of the following: (i) you shall receive the General Severance Benefits as provided above, except that the continued salary payments will not be terminated or reduced in the event that you obtain new employment during the six-month severance payment period; (ii) you will also be eligible to receive a prorated bonus payment for the year in which your employment terminates (notwithstanding that you otherwise would not be eligible for payment of such bonus due to termination of employment prior to the bonus payment date), with such prorated bonus amount to be based on the achievement of the bonus objectives prior to such termination or resignation (provided that, no prorated bonus will be owed if the Board determines that there has been no achievement of such bonus objectives), and (iii) you will be eligible for the Full Acceleration as provided in Section 11 hereof.

- c. For purposes of this Agreement, "**Cause**" for termination of employment shall mean: (i) your failure to substantially perform the principal duties and obligations of your position with the Company; (ii) any act of personal dishonesty, fraud or misrepresentation by you which was intended to or does result in your substantial gain or personal enrichment at the expense of the Company; (iii) your violation of a federal or state law or regulation applicable to the Company's business or any of the Company's policies, which violation was or is reasonably likely to be injurious to the Company or its business or reputation; (iv) your conviction of a felony or a plea of nolo contendere under the laws of the United States or any State; or (v) your material breach of the terms of any agreement or contract between you and the Company. The determination that a termination is for Cause shall be made in good faith by the Board in its sole discretion.

- d. You may voluntarily terminate your employment for “**Good Reason**” under Section 10(b) of this Agreement by notifying the Company in writing, within thirty (30) days after the first occurrence of one of the following events taken without your consent, that you intend to terminate your employment for Good Reason on a date not later than the ninetieth (90<sup>th</sup>) day following such event, if the Company has not cured that event within thirty (30) days after its receipt of your written notice. The events that may give rise to a Good Reason termination are: (i) a material and substantial reduction in the scope of your duties and responsibilities (provided, however, that a change in job position (including a change in title) shall not be deemed a “material reduction” unless your new duties are substantially reduced from your prior duties); (ii) relocation of your principal office that results in a one-way increase in your commute distance of more than 30 miles; or (iii) a reduction in your base salary by more than twenty (20%) percent (provided that an across-the-board reduction in the salary level of all Vice Presidents of the Company by the same (or a greater) percentage amount shall not constitute Good Reason).

#### 11. **Change of Control.**

For purposes of this Agreement, “**Change of Control**” shall mean the consummation of a transaction or series of transactions that results in: (i) any sale or other disposition of all or substantially all of the assets of the Company, that occurs over a period of not more than twelve (12) months; or (ii) any person, or more than one person acting as a group, acquiring ownership of stock of the Company, that together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, a Change of Control shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. This definition of Change of Control is intended to conform to the definitions of “change in ownership of a corporation” and “change in ownership of a substantial portion of a corporations assets” provided in Treasury Regulation Sections 1.409A-3(i)(5)(v) and (vii).

In the event that, on or within twelve (12) months after the consummation of a Change of Control of the Company, your employment with the Company (or its successor, as applicable) is terminated by the Company (or its successor, as applicable) without Cause or you terminate your employment for Good Reason, 100% of the shares subject to any outstanding stock options held by you will be immediately vested and exercisable in full effect as of the employment termination date (the “**Full Acceleration**”). Notwithstanding the foregoing, as a pre-condition of the Full Acceleration, within the timing required by the Company, you must sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

#### 12. **Deferred Compensation.**



It is intended that (i) each installment of any amounts or benefits payable under Section 10 of this Agreement be regarded as a separate "payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i) (and each such installment is hereby designated as separate for such purpose), (ii) all payments of any such amounts or benefits satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") and the regulations and other guidance thereunder and any state law of similar effect (collectively "**Section 409A**"), as provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii); and (iii) any such amounts or benefits consisting of premiums payable under COBRA also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if any such amounts or benefits constitute "deferred compensation" under Section 409A and if you are a "specified employee" of the Company, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, the timing of any such benefit payments as to which you are entitled shall be delayed as follows: on the earlier to occur of (a) the date that is six (6) months and one (1) day after your separation from service and (b) the date of your death (such applicable date, the "**Delayed Initial Payment Date**"), the Company shall (1) pay you a lump sum amount equal to the sum of the benefit payments that you would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this Section 12 and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

This Agreement, together with the Confidentiality Agreement, sets for the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions between you and the Company. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company, although the Company reserves the right to modify unilaterally your compensation, benefits, job title and duties, reporting relationships and other terms of your employment.

Michael, we are pleased to offer you these employment terms and would appreciate your acceptance by signing and returning this document to me no later than the end of day Monday June 30, 2014.

Sincerely,

/s/ David M. Renzi  
David M. Renzi  
President and CEO



**UNDERSTOOD, ACCEPTED AND AGREED:**  
**T. Michael White**

/s/ Michael White  
\_\_\_\_\_  
Signature

6/27/2014  
\_\_\_\_\_  
Date



## EXHIBIT A

### RELEASE AGREEMENT

In exchange for the General Severance Benefits, the Change of Control Severance Benefits, and/or the Full Acceleration, as applicable, to be provided to me pursuant to the Employment Agreement dated June 27, 2014 (the "**Agreement**") between me and Carbylan Therapeutics, Inc. (the "**Company**"), I hereby provide the following release of claims (the "**Release**").

In exchange for the severance pay and benefits provided to me under the Agreement, to which I acknowledge I would not otherwise be entitled, and for other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I hereby generally and completely release the Company, its parent and subsidiary entities, and their respective directors, officers, employees, shareholders, stockholders, partners, agents, attorneys, predecessors, successors, insurers, employee benefit plans, affiliates, and assigns (collectively, the "**Released Parties**") of and from any and all claims, liabilities and obligations, both known and unknown, arising out of or in any way related to events, acts, conduct, or omissions occurring at any time prior to or at the time that I sign this Release (collectively, the "**Released Claims**"). The Released Claims include, but are not limited to: (1) all claims arising out of or in any way related to my employment with the Company (or its successor) or the termination of that employment; (2) all claims related to my compensation or benefits, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing (including, but not limited to, any claims based on or arising from the Agreement); (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended) ("**ADEA**"), the federal Family and Medical Leave Act (as amended) ("**FMLA**"), the California Family Rights Act ("**CFRA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (1) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company to which I am a party, the charter, bylaws, or operating agreements of the Company, applicable law, or applicable directors and officers liability insurance; (2) any rights or claims which are not waivable as a matter of law; and (3) any claims for breach of the Agreement arising after the date that I sign this Release. In addition, nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other government agency, except that I acknowledge and agree that I am hereby waiving my right to any monetary benefits in connection with any such claim, charge or proceeding. I represent that I have no lawsuits, claims or actions pending in my name, or on behalf of any other person or entity, against any of the Released Parties.



**The following paragraph shall apply to me only if I am forty (40) years old or older as of the date that I sign this Release:** I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised by this writing that: (1) my waiver and release do not apply to any rights or claims that may arise after the date I sign this Release; (2) I have been advised to consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so) and I have had sufficient opportunity to do so; (3) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign it earlier); (4) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of revocation to the Company's Board of Directors; and (5) this Release will not be effective until the date upon which the revocation period has expired, which will be the eighth calendar day after the date I sign it if I do not revoke it (such date, the "**Effective Date**").

**The following paragraph shall apply to me only if I am less than forty (40) years old as of the date that I sign this Release:** I understand that I have fourteen (14) days to consider this Release (although I may choose voluntarily to sign it earlier), the Release will become effective as of the date that I sign it (such date, the "**Effective Date**"), and I do not have the right to revoke this Release after signing it.

I UNDERSTAND THAT THIS RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of claims herein, including but not limited to the release of unknown and unsuspected claims.

I hereby represent that I have been paid all compensation owed and for all time worked, I have received all the leave and leave benefits and protections for which I am eligible, pursuant to FMLA, CFRA, any Company policy or applicable law, and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I further agree: (1) not to disparage the Company, or any of the other Released Parties, in any manner likely to be harmful to its or their business, business reputation, or personal reputation (although I may respond accurately and fully to any question, inquiry or request for information as required by legal process); (2) not to voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents; and (3) to cooperate fully with the Company, by voluntarily (without legal compulsion) providing accurate and complete information, in connection with the Company's actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters, arising from events, acts, or failures to act that occurred during the period of my employment by the Company or any successor thereto.



I understand that, upon the Effective Date, this Release will take effect as a legally binding agreement between me and the Company. This Release sets for the entire agreement and understanding between the Company and me relating to the matters set forth herein and supersedes all prior and contemporaneous agreements, understandings and discussions concerning such matters, whether express or implied. This Release may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company and me.

By: /s/ Michael White  
[Name]

Date: 6/27/14





July 21, 2014

Mr. David Gravett  
[Home Address]

**Re: Amended and Restated Employment Agreement**

Dear David:

As discussed, this letter agreement ("**Agreement**") amends and restates the terms of your continued employment with Carbylan Therapeutics, Inc. (the "**Company**"). This Agreement will be effective as of its date, provided that you sign, date and return this fully signed Agreement within five (5) business days after you receive it.

1. **Position.**

- a. You will continue to fill the position of Vice President of Research and Development, with an assigned work location of the Company's corporate headquarters. You will report to the Company's President and Chief Executive Officer. This is a full-time position, and you agree to the best of your ability and experience that you will at all times loyally and conscientiously perform all of the duties and obligations required of and from you pursuant to the express and implicit terms hereof, and to the satisfaction of the Company. During the term of your employment, you further agree that you will devote your full business time and best professional efforts exclusively to the performance of your duties and responsibilities for the Company, and you will not directly or indirectly engage or participate in any business that is competitive in any manner with the business of the Company. The Company retains the discretion to modify your position, duties, reporting relationship, and work location from time to time.

2. **Compensation.**

- a. Base Salary. You will be paid a base salary at the annual rate of \$267,500 subject to payroll withholdings and deductions. Your base salary will be paid in two equal payments per month in accordance with the Company's regular payroll practices. As an exempt salaried employee, you will be expected to work the Company's standard business hours, and such additional hours as required by the nature of your work assignments and job responsibilities, and you will not be eligible for overtime compensation. The Company retains the discretion to modify your compensation terms (including the bonus program) from time to time.

1.

- b. **Bonus.** You will be eligible for consideration by the Company's Board of Directors (the "**Board**") for an annual bonus of up to twenty five percent (25%) of your annual base salary, with the bonus determination to be made by the Board within its sole discretion. Payment of the bonus will be based on the level of achievement of the applicable objectives and milestones, as such objectives and milestones are set by the Board in its sole discretion, and as such achievement is evaluated by the Board in its sole discretion, and the bonus is not guaranteed. As a condition precedent to earning and receiving any bonus, you must remain an active employee with the Company through the date the bonus otherwise is scheduled to be paid; and if your employment has been terminated for any reason, regardless of whether the termination is by you or the Company, you will not earn or be entitled to receive any bonus which has not been paid prior to the termination date.

3. **Stock Options.**

Except as specifically provided in Sections 8 and 9 hereof, this Agreement does not alter or affect any stock options previously granted to you by the Company, which shall continue to be governed in all respects by the terms of the applicable stock option agreements, grant notice, and equity incentive plan documents.

4. **Benefits.**

- a. **Insurance Benefits.** You will continue to be eligible to participate in the Company's standard medical and dental insurance benefits, subject to the terms and conditions of these benefit plans, as in effect from time to time.
- b. **Paid Time Off.** You will continue to accrue paid vacation, and be eligible for paid sick time and paid holidays, under the terms of the Company's applicable policies, as in effect from time to time.

You will continue to be eligible to participate in any other benefits offered by the Company generally to its employees from time to time, subject to the terms and conditions of these benefit plans and the Company's policies, as in effect from time to time. The Company reserves the right to add to, change, or terminate any or all of its benefit programs and related policies in its sole discretion.

5. **Compliance with Company Policies and Confidential Information and Invention Assignment Agreement.**

As a condition of your continued employment with the Company, you will be required to continue to abide by the Company's policies and procedures, including but not limited to the policies contained in the Company's Employee Handbook, as may be in effect from time to time. In addition, this Agreement does not alter or affect your obligations under the Confidential Information and Invention Assignment Agreement that you signed for the benefit of the Company (the "**Confidentiality Agreement**"), and you must continue to comply with the Confidentiality Agreement as a condition of your continued employment.

6. **Prior Confidentiality Obligations.**

In your work for the Company, you will continue to be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You agree that you will not bring onto Company premises (and have not done so in the past), any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality. You hereby represent that you have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

7. **At-Will Employment.**

Your employment with the Company will continue to be on an “at will” basis meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. In addition, the Company may also change any term or condition of your employment with or without cause. This “at will” relationship can only be changed by an agreement in writing signed by an expressly authorized officer of the Company.

8. **Severance Benefits for Qualifying Terminations.**

a. **General Severance Benefits.** You shall be entitled to receive the General Severance Benefits (as defined below), as your sole severance benefits, if your employment is terminated by the Company without Cause (as defined below) and if: (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a “separation from service” (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company a general release of all known and unknown claims (the “**Release**”) substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For purposes of this Section 8(a), the “**General Severance Benefits**” shall consist of the following: (i) continued payment of your final base monthly salary for a period of six (6) months following the termination date; (ii) accelerated vesting of any outstanding stock options such that the additional number of shares that would have vested if your employment had continued for six (6) additional months following the termination date will become vested and exercisable effective as of the termination date; and (iii) if you timely elect continued group health insurance coverage pursuant to federal COBRA law or, if applicable, state insurance laws (collectively, “**COBRA**”), the Company will pay your COBRA premiums to continue your group health insurance coverage (including the cost of dependent coverage) through the earliest of (A) six (6) months following the termination date, (B) the date that you become eligible for group health insurance coverage through a new employer, or (C) the date you cease to be eligible for COBRA coverage. Notwithstanding the foregoing, the General Severance Benefits will immediately expire in the event that you obtain

new full-time employment (or full-time consulting or similar arrangement) within six (6) months after the termination date, *provided, however*, that the Company will thereafter continue to pay you, through the six-month severance payment period, the excess, if any, of your Company base salary on the date of termination over the base salary for your new employment relationship. You agree to notify the Company of your acceptance of any employment within the six-month severance payment period. In the event of your death during the six (6) month severance period, the remaining General Severance Benefits shall be paid to your estate. Any severance payments made under this Agreement will be made in the form of salary continuation, and will begin on the next regular Company payday which is at least five (5) business days following the later of the effective date of the Release or the date on which the Release, signed by you, is received by the Company. The first payment, however, will be retroactive to the next business day following the termination date.

- b. Change of Control Severance Benefits. You shall be entitled to receive the Change of Control Severance Benefits (as defined below), as your sole severance benefits, if, on or within twelve (12) months after a Change of Control (as defined below), your employment is terminated by the Company without Cause or you terminate your employment for Good Reason (as defined below) and if; (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For the purposes of Section 8(b), the "**Change of Control Severance Benefits**" shall consist of the following: (i) you shall receive the General Severance Benefits as provided above, except that the continued salary payments will not be terminated or reduced in the event that you obtain new employment during the six-month severance payment period; (ii) you will also be eligible to receive a prorated bonus payment for the year in which your employment terminates (notwithstanding that you otherwise would not be eligible for payment of such bonus due to termination of employment prior to the bonus payment date), with such prorated bonus amount to be based on the achievement of the bonus objectives prior to such termination or resignation (provided that, no prorated bonus will be owed if the Board determines that there has been no achievement of such bonus objectives), and (iii) you will be eligible for the Full Acceleration as provided in Section 9 hereof.

- c. For purposes of this Agreement, "**Cause**" for termination of employment shall mean: (i) your failure to substantially perform the principal duties and obligations of your position with the Company; (ii) any act of personal dishonesty, fraud or misrepresentation by you which was intended to or does result in your substantial gain or personal enrichment at the expense of the Company; (iii) your violation of a federal or state law or regulation applicable to the Company's business or any of the Company's policies, which violation was or is reasonably likely to be injurious to the Company or its business or reputation; (iv) your conviction of a felony or a plea of nolo contendere under the laws of the United States or any

State; or (v) your material breach of the terms of any agreement or contract between you and the Company. The determination that a termination is for Cause shall be made in good faith by the Board in its sole discretion.

- d. You may voluntarily terminate your employment for “**Good Reason**” under Section 8(b) of this Agreement by notifying the Company in writing, within thirty (30) days after the first occurrence of one of the following events taken without your consent, that you intend to terminate your employment for Good Reason on a date not later than the ninetieth (90<sup>th</sup>) day following such event, if the Company has not cured that event within thirty (30) days after its receipt of your written notice. The events that may give rise to a Good Reason termination are: (i) a material and substantial reduction in the scope of your duties and responsibilities (provided, however, that a change in job position (including a change in title) shall not be deemed a “material reduction” unless your new duties are substantially reduced from your prior duties); (ii) relocation of your principal office that results in a one-way increase in your commute distance of more than 30 miles; or (iii) a reduction in your base salary by more than twenty (20%) percent (provided that an across-the-board reduction in the salary level of all Vice Presidents of the Company by the same (or a greater) percentage amount shall not constitute Good Reason).

## 9. **Change of Control.**

For purposes of this Agreement, “**Change of Control**” shall mean the consummation of a transaction or series of transactions that results in: (i) any sale or other disposition of all or substantially all of the assets of the Company, that occurs over a period of not more than twelve (12) months; or (ii) any person, or more than one person acting as a group, acquiring ownership of stock of the Company, that together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, a Change of Control shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. This definition of Change of Control is intended to conform to the definitions of “change in ownership of a corporation” and “change in ownership of a substantial portion of a corporations assets” provided in Treasury Regulation Sections 1.409A-3(i)(5)(v) and (vii).

In the event that, on or within twelve (12) months after the consummation of a Change of Control of the Company, your employment with the Company (or its successor, as applicable) is terminated by the Company (or its successor, as applicable) without Cause or you terminate your employment for Good Reason, 100% of the shares subject to any outstanding stock options held by you will be immediately vested and exercisable in full effect as of the employment termination date (the “**Full Acceleration**”). Notwithstanding the foregoing, as a pre-condition of the Full Acceleration, within the timing required by the Company, you must sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

10. Deferred Compensation.

It is intended that (i) each installment of any amounts or benefits payable under Section 8 of this Agreement be regarded as a separate "payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i) (and each such installment is hereby designated as separate for such purpose), (ii) all payments of any such amounts or benefits satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") and the regulations and other guidance thereunder and any state law of similar effect (collectively "**Section 409A**"), as provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii); and (iii) any such amounts or benefits consisting of premiums payable under COBRA also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if any such amounts or benefits constitute "deferred compensation" under Section 409A and if you are a "specified employee" of the Company, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, the timing of any such benefit payments as to which you are entitled shall be delayed as follows: on the earlier to occur of (a) the date that is six (6) months and one (1) day after your separation from service and (b) the date of your death (such applicable date, the "**Delayed Initial Payment Date**"), the Company shall (1) pay you a lump sum amount equal to the sum of the benefit payments that you would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this Section 10 and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

This Agreement, together with the Confidentiality Agreement, sets for the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions between you and the Company, including without limitation the Employment Agreement between you and the Company dated February 9, 2007. For the avoidance of doubt, the Confidentiality Agreement remains in full force and effect, in accordance with its terms. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company, although the Company reserves the right to modify unilaterally your compensation, benefits, job title and duties, reporting relationships and other terms of your employment.

We are pleased to offer you these employment terms.

Sincerely,

/s/ David M. Renzi  
David M. Renzi  
President and CEO

UNDERSTOOD, ACCEPTED AND AGREED:  
[NAME]

/s/ David Gravett  
\_\_\_\_\_  
Signature

14 AUG 2014  
\_\_\_\_\_  
Date

7.

EXHIBIT A

RELEASE AGREEMENT

In exchange for the General Severance Benefits, the Change of Control Severance Benefits, and/or the Full Acceleration, as applicable, to be provided to me pursuant to the Amended and Restated Employment Agreement dated \_\_\_\_\_, 2014 (the "**Agreement**") between me and Carbylan Therapeutics, Inc. (the "**Company**"), I hereby provide the following release of claims (the "**Release**").

In exchange for the severance pay and benefits provided to me under the Agreement, to which I acknowledge I would not otherwise be entitled, and for other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I hereby generally and completely release the Company, its parent and subsidiary entities, and their respective directors, officers, employees, shareholders, stockholders, partners, agents, attorneys, predecessors, successors, insurers, employee benefit plans, affiliates, and assigns (collectively, the "**Released Parties**") of and from any and all claims, liabilities and obligations, both known and unknown, arising out of or in any way related to events, acts, conduct, or omissions occurring at any time prior to or at the time that I sign this Release (collectively, the "**Released Claims**"). The Released Claims include, but are not limited to: (1) all claims arising out of or in any way related to my employment with the Company (or its successor) or the termination of that employment; (2) all claims related to my compensation or benefits, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing (including, but not limited to, any claims based on or arising from the Agreement); (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended) ("**ADEA**"), the federal Family and Medical Leave Act (as amended) ("**FMLA**"), the California Family Rights Act ("**CFRA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (1) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company to which I am a party, the charter, bylaws, or operating agreements of the Company, applicable law, or applicable directors and officers liability insurance; (2) any rights or claims which are not waivable as a matter of law; and (3) any claims for breach of the Agreement arising after the date that I sign this Release. In addition, nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other government agency, except that I acknowledge and agree that I am hereby waiving my right to any monetary benefits in connection with any such claim, charge or proceeding. I represent that I have no lawsuits, claims or actions pending in my name, or on behalf of any other person or entity, against any of the Released Parties.



**The following paragraph shall apply to me only if I am forty (40) years old or older as of the date that I sign this Release:** I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised by this writing that: (1) my waiver and release do not apply to any rights or claims that may arise after the date I sign this Release; (2) I have been advised to consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so) and I have had sufficient opportunity to do so; (3) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign it earlier); (4) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of revocation to the Company's Board of Directors; and (5) this Release will not be effective until the date upon which the revocation period has expired, which will be the eighth calendar day after the date I sign it if I do not revoke it (such date, the "**Effective Date**").

**The following paragraph shall apply to me only if I am less than forty (40) years old as of the date that I sign this Release:** I understand that I have fourteen (14) days to consider this Release (although I may choose voluntarily to sign it earlier), the Release will become effective as of the date that I sign it (such date, the "**Effective Date**"), and I do not have the right to revoke this Release after signing it.

I UNDERSTAND THAT THIS RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of claims herein, including but not limited to the release of unknown and unsuspected claims.

I hereby represent that I have been paid all compensation owed and for all time worked, I have received all the leave and leave benefits and protections for which I am eligible, pursuant to FMLA, CFRA, any Company policy or applicable law, and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I further agree: (1) not to disparage the Company, or any of the other Released Parties, in any manner likely to be harmful to its or their business, business reputation, or personal reputation (although I may respond accurately and fully to any question, inquiry or request for information as required by legal process); (2) not to voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents; and (3) to cooperate fully with the Company, by voluntarily (without legal compulsion) providing accurate and complete information, in connection with the Company's actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters, arising from events, acts, or failures to act that occurred during the period of my employment by the Company or any successor thereto.

I understand that, upon the Effective Date, this Release will take effect as a legally binding agreement between me and the Company. This Release sets for the entire agreement and understanding between the Company and me relating to the matters set forth herein and supersedes all prior and contemporaneous agreements, understandings and discussions concerning such matters, whether express or implied. This Release may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company and me.

By: \_\_\_\_\_  
[Name]

Date: \_\_\_\_\_



July 21, 2014

Ms. Marcee M. Maroney  
[Home Address]

**Re: Amended and Restated Employment Agreement**

Dear Marcee:

As discussed, this letter agreement ("**Agreement**") amends and restates the terms of your continued employment with Carbylan Therapeutics, Inc. (the "**Company**"). This Agreement will be effective as of its date, provided that you sign, date and return this fully signed Agreement within five (5) business days after you receive it.

1. **Position.**

- a. You will continue to fill the position of Vice President of Clinical Affairs and Marketing with an assigned work location of the Company's corporate headquarters. You will report to the Company's President and Chief Executive Officer. This is a full-time position, and you agree to the best of your ability and experience that you will at all times loyally and conscientiously perform all of the duties and obligations required of and from you pursuant to the express and implicit terms hereof, and to the satisfaction of the Company. During the term of your employment, you further agree that you will devote your full business time and best professional efforts exclusively to the performance of your duties and responsibilities for the Company, and you will not directly or indirectly engage or participate in any business that is competitive in any manner with the business of the Company. The Company retains the discretion to modify your position, duties, reporting relationship, and work location from time to time.

2. **Compensation.**

- a. **Base Salary.** You will be paid a base salary at the annual rate of \$267,500 subject to payroll withholdings and deductions. Your base salary will be paid in two equal payments per month in accordance with the Company's regular payroll practices. As an exempt salaried employee, you will be expected to work the Company's standard business hours, and such additional hours as required by the nature of your work assignments and job responsibilities, and you will not be eligible for overtime compensation. The Company retains the discretion to modify your compensation terms (including the bonus program) from time to time.

1.

- b. **Bonus.** You will be eligible for consideration by the Company's Board of Directors (the "**Board**") for an annual bonus of up to twenty five percent (25%) of your annual base salary, with the bonus determination to be made by the Board within its sole discretion. Payment of the bonus will be based on the level of achievement of the applicable objectives and milestones, as such objectives and milestones are set by the Board in its sole discretion, and as such achievement is evaluated by the Board in its sole discretion, and the bonus is not guaranteed. As a condition precedent to earning and receiving any bonus, you must remain an active employee with the Company through the date the bonus otherwise is scheduled to be paid; and if your employment has been terminated for any reason, regardless of whether the termination is by you or the Company, you will not earn or be entitled to receive any bonus which has not been paid prior to the termination date.

3. **Stock Options.**

Except as specifically provided in Sections 8 and 9 hereof, this Agreement does not alter or affect any stock options previously granted to you by the Company, which shall continue to be governed in all respects by the terms of the applicable stock option agreements, grant notice, and equity incentive plan documents.

4. **Benefits.**

- a. **Insurance Benefits.** You will continue to be eligible to participate in the Company's standard medical and dental insurance benefits, subject to the terms and conditions of these benefit plans, as in effect from time to time.
- b. **Paid Time Off.** You will continue to accrue paid vacation, and be eligible for paid sick time and paid holidays, under the terms of the Company's applicable policies, as in effect from time to time.

You will continue to be eligible to participate in any other benefits offered by the Company generally to its employees from time to time, subject to the terms and conditions of these benefit plans and the Company's policies, as in effect from time to time. The Company reserves the right to add to, change, or terminate any or all of its benefit programs and related policies in its sole discretion.

5. **Compliance with Company Policies and Confidential Information and Invention Assignment Agreement.**

As a condition of your continued employment with the Company, you will be required to continue to abide by the Company's policies and procedures, including but not limited to the policies contained in the Company's Employee Handbook, as may be in effect from time to time. In addition, this Agreement does not alter or affect your obligations under the Confidential Information and Invention Assignment Agreement that you signed for the benefit of the Company (the "**Confidentiality Agreement**"), and you must continue to comply with the Confidentiality Agreement as a condition of your continued employment.

6. **Prior Confidentiality Obligations.**

In your work for the Company, you will continue to be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You agree that you will not bring onto Company premises (and have not done so in the past), any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality. You hereby represent that you have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

7. **At-Will Employment.**

Your employment with the Company will continue to be on an "at will" basis meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. In addition, the Company may also change any term or condition of your employment with or without cause. This "at will" relationship can only be changed by an agreement in writing signed by an expressly authorized officer of the Company.

8. **Severance Benefits for Qualifying Terminations.**

a. **General Severance Benefits.** You shall be entitled to receive the General Severance Benefits (as defined below), as your sole severance benefits, if your employment is terminated by the Company without Cause (as defined below) and if: (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company a general release of all known and unknown claims (the "**Release**") substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For purposes of this Section 8(a), the "**General Severance Benefits**" shall consist of the following: (i) continued payment of your final base monthly salary for a period of six (6) months following the termination date; (ii) accelerated vesting of any outstanding stock options such that the additional number of shares that would have vested if your employment had continued for six (6) additional months following the termination date will become vested and exercisable effective as of the termination date; and (iii) if you timely elect continued group health insurance coverage pursuant to federal COBRA law or, if applicable, state insurance laws (collectively, "**COBRA**"), the Company will pay your COBRA premiums to continue your group health insurance coverage (including the cost of dependent coverage) through the earliest of (A) six (6) months following the termination date, (B) the date that you become eligible for group health insurance coverage through a new employer, or (C) the date you cease to be eligible for COBRA coverage. Notwithstanding the foregoing, the General Severance Benefits will immediately expire in the event that you obtain

new full-time employment (or full-time consulting or similar arrangement) within six (6) months after the termination date, *provided, however*, that the Company will thereafter continue to pay you, through the six-month severance payment period, the excess, if any, of your Company base salary on the date of termination over the base salary for your new employment relationship. You agree to notify the Company of your acceptance of any employment within the six-month severance payment period. In the event of your death during the six (6) month severance period, the remaining General Severance Benefits shall be paid to your estate. Any severance payments made under this Agreement will be made in the form of salary continuation, and will begin on the next regular Company payday which is at least five (5) business days following the later of the effective date of the Release or the date on which the Release, signed by you, is received by the Company. The first payment, however, will be retroactive to the next business day following the termination date.

- b. Change of Control Severance Benefits. You shall be entitled to receive the Change of Control Severance Benefits (as defined below), as your sole severance benefits, if, on or within twelve (12) months after a Change of Control (as defined below), your employment is terminated by the Company without Cause or you terminate your employment for Good Reason (as defined below) and if; (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For the purposes of Section 8(b), the "**Change of Control Severance Benefits**" shall consist of the following: (i) you shall receive the General Severance Benefits as provided above, except that the continued salary payments will not be terminated or reduced in the event that you obtain new employment during the six-month severance payment period; (ii) you will also be eligible to receive a prorated bonus payment for the year in which your employment terminates (notwithstanding that you otherwise would not be eligible for payment of such bonus due to termination of employment prior to the bonus payment date), with such prorated bonus amount to be based on the achievement of the bonus objectives prior to such termination or resignation (provided that, no prorated bonus will be owed if the Board determines that there has been no achievement of such bonus objectives), and (iii) you will be eligible for the Full Acceleration as provided in Section 9 hereof.

- c. For purposes of this Agreement, "**Cause**" for termination of employment shall mean: (i) your failure to substantially perform the principal duties and obligations of your position with the Company; (ii) any act of personal dishonesty, fraud or misrepresentation by you which was intended to or does result in your substantial gain or personal enrichment at the expense of the Company; (iii) your violation of a federal or state law or regulation applicable to the Company's business or any of the Company's policies, which violation was or is reasonably likely to be injurious to the Company or its business or reputation; (iv) your conviction of a felony or a plea of nolo contendere under the laws of the United States or any

State; or (v) your material breach of the terms of any agreement or contract between you and the Company. The determination that a termination is for Cause shall be made in good faith by the Board in its sole discretion.

- d. You may voluntarily terminate your employment for “**Good Reason**” under Section 8(b) of this Agreement by notifying the Company in writing, within thirty (30) days after the first occurrence of one of the following events taken without your consent, that you intend to terminate your employment for Good Reason on a date not later than the ninetieth (90<sup>th</sup>) day following such event, if the Company has not cured that event within thirty (30) days after its receipt of your written notice. The events that may give rise to a Good Reason termination are: (i) a material and substantial reduction in the scope of your duties and responsibilities (provided, however, that a change in job position (including a change in title) shall not be deemed a “material reduction” unless your new duties are substantially reduced from your prior duties); (ii) relocation of your principal office that results in a one-way increase in your commute distance of more than 30 miles; or (iii) a reduction in your base salary by more than twenty (20%) percent (provided that an across-the-board reduction in the salary level of all Vice Presidents of the Company by the same (or a greater) percentage amount shall not constitute Good Reason).

## 9. **Change of Control.**

For purposes of this Agreement, “**Change of Control**” shall mean the consummation of a transaction or series of transactions that results in: (i) any sale or other disposition of all or substantially all of the assets of the Company that occurs over a period of not more than twelve (12) months; or (ii) any person, or more than one person acting as a group, acquiring ownership of stock of the Company, that together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, a Change of Control shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. This definition of Change of Control is intended to conform to the definitions of “change in ownership of a corporation” and “change in ownership of a substantial portion of a corporations assets” provided in Treasury Regulation Sections 1.409A-3(i)(5)(v) and (vii).

In the event that, on or within twelve (12) months after the consummation of a Change of Control of the Company, your employment with the Company (or its successor, as applicable) is terminated by the Company (or its successor, as applicable) without Cause or you terminate your employment for Good Reason, 100% of the shares subject to any outstanding stock options held by you will be immediately vested and exercisable in full effect as of the employment termination date (the “**Full Acceleration**”). Notwithstanding the foregoing, as a pre-condition of the Full Acceleration, within the timing required by the Company, you must sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

10. Deferred Compensation.

It is intended that (i) each installment of any amounts or benefits payable under Section 8 of this Agreement be regarded as a separate "payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i) (and each such installment is hereby designated as separate for such purpose), (ii) all payments of any such amounts or benefits satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") and the regulations and other guidance thereunder and any state law of similar effect (collectively "**Section 409A**"), as provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii); and (iii) any such amounts or benefits consisting of premiums payable under COBRA also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if any such amounts or benefits constitute "deferred compensation" under Section 409A and if you are a "specified employee" of the Company, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, the timing of any such benefit payments as to which you are entitled shall be delayed as follows: on the earlier to occur of (a) the date that is six (6) months and one (1) day after your separation from service and (b) the date of your death (such applicable date, the "**Delayed Initial Payment Date**"), the Company shall (1) pay you a lump sum amount equal to the sum of the benefit payments that you would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this Section 10 and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

This Agreement, together with the Confidentiality Agreement, sets for the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions between you and the Company, including without limitation the Employment Agreement between you and the Company dated January 3, 2006. For the avoidance of doubt, the Confidentiality Agreement remains in full force and effect, in accordance with its terms. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company, although the Company reserves the right to modify unilaterally your compensation, benefits, job title and duties, reporting relationships and other terms of your employment.

We are pleased to offer you these employment terms.

Sincerely,

/s/ David M. Renzi  
David M. Renzi  
President and CEO



**UNDERSTOOD, ACCEPTED AND AGREED:**  
**Marcee Maroney**

/s/ Marcee Maroney  
Signature

8/14/2014  
Date

7.

## RELEASE AGREEMENT

In exchange for the General Severance Benefits, the Change of Control Severance Benefits, and/or the Full Acceleration, as applicable, to be provided to me pursuant to the Amended and Restated Employment Agreement dated August 14, 2014 (the "**Agreement**") between me and Carbylan Therapeutics, Inc. (the "**Company**"), I hereby provide the following release of claims (the "**Release**").

In exchange for the severance pay and benefits provided to me under the Agreement, to which I acknowledge I would not otherwise be entitled, and for other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I hereby generally and completely release the Company, its parent and subsidiary entities, and their respective directors, officers, employees, shareholders, stockholders, partners, agents, attorneys, predecessors, successors, insurers, employee benefit plans, affiliates, and assigns (collectively, the "**Released Parties**") of and from any and all claims, liabilities and obligations, both known and unknown, arising out of or in any way related to events, acts, conduct, or omissions occurring at any time prior to or at the time that I sign this Release (collectively, the "**Released Claims**"). The Released Claims include, but are not limited to: (1) all claims arising out of or in any way related to my employment with the Company (or its successor) or the termination of that employment; (2) all claims related to my compensation or benefits, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing (including, but not limited to, any claims based on or arising from the Agreement); (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended) ("**ADEA**"), the federal Family and Medical Leave Act (as amended) ("**FMLA**"), the California Family Rights Act ("**CFRA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (1) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company to which I am a party, the charter, bylaws, or operating agreements of the Company, applicable law, or applicable directors and officers liability insurance; (2) any rights or claims which are not waivable as a matter of law; and (3) any claims for breach of the Agreement arising after the date that I sign this Release. In addition, nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other government agency, except that I acknowledge and agree that I am hereby waiving my right to any monetary benefits in connection with any such claim, charge or proceeding. I represent that I have no lawsuits, claims or actions pending in my name, or on behalf of any other person or entity, against any of the Released Parties.

**The following paragraph shall apply to me only if I am forty (40) years old or older as of the date that I sign this Release:** I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised by this writing that: (1) my waiver and release do not apply to any rights or claims that may arise after the date I sign this Release; (2) I have been advised to consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so) and I have had sufficient opportunity to do so; (3) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign it earlier); (4) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of revocation to the Company's Board of Directors; and (5) this Release will not be effective until the date upon which the revocation period has expired, which will be the eighth calendar day after the date I sign it if I do not revoke it (such date, the "**Effective Date**").

**The following paragraph shall apply to me only if I am less than forty (40) years old as of the date that I sign this Release:** I understand that I have fourteen (14) days to consider this Release (although I may choose voluntarily to sign it earlier), the Release will become effective as of the date that I sign it (such date, the "**Effective Date**"), and I do not have the right to revoke this Release after signing it.

I UNDERSTAND THAT THIS RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of claims herein, including but not limited to the release of unknown and unsuspected claims.

I hereby represent that I have been paid all compensation owed and for all time worked, I have received all the leave and leave benefits and protections for which I am eligible, pursuant to FMLA, CFRA, any Company policy or applicable law, and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I further agree: (1) not to disparage the Company, or any of the other Released Parties, in any manner likely to be harmful to its or their business, business reputation, or personal reputation (although I may respond accurately and fully to any question, inquiry or request for information as required by legal process); (2) not to voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents; and (3) to cooperate fully with the Company, by voluntarily (without legal compulsion) providing accurate and complete information, in connection with the Company's actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters, arising from events, acts, or failures to act that occurred during the period of my employment by the Company or any successor thereto.

I understand that, upon the Effective Date, this Release will take effect as a legally binding agreement between me and the Company. This Release sets for the entire agreement and understanding between the Company and me relating to the matters set forth herein and supersedes all prior and contemporaneous agreements, understandings and discussions concerning such matters, whether express or implied. This Release may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company and me.

By: /s/ Marcee Maroney  
[Name]

Date: 8/14/2014

## CARBYLAN BIOSURGERY, INC.

## GEORGE Y. DANILOFF EMPLOYMENT AGREEMENT

This Agreement is entered into effective as of December 16, 2005 (the "**Effective Date**") by and between Carbylan Biosurgery, Inc., a Delaware corporation, (*f.k.a.* Sentrax Surgical, Inc.) (the "**Company**"), and George Y. Daniloff ("**Executive**").

1. Duties and Scone of Employment.

(a) Positions and Duties. As of the Effective Date, Executive will serve as the President and Chief Executive Officer of the Company. Executive will render such business and professional services in the performance of his duties, consistent with Executive's position within the Company, as will reasonably be assigned to him by the Company's Board of Directors (the "**Board**"). The period of Executive's employment pursuant to this Agreement is referred to herein as the "**Employment Term**" which Employment Term shall commence as of the Effective Date and shall end on the date Executive resigns or is otherwise terminated pursuant to the provisions of this Agreement.

(b) Obligations. During the Employment Term, Executive will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time to the Company and for the duration of the Employment Term, Executive agrees not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the Board; provided, however, that Executive (i) may serve as a member of the Board of Directors of up to three (3) other companies at any time during the term of this Agreement and (ii) Executive may provide services as a paid consultant to other parties, not in excess of eight (8) hours per week, provided such consulting services are not in the area of the Company's current or contemplated business at the time such services are provided.

2. At-Will Employment. The parties agree that Executive's employment with the Company will be "at-will" employment and may be terminated at any time with or without cause or notice. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment with the Company.

3. Compensation and Benefits.

(a) Base Salary and Bonus. During the Employment Term, the Company will pay Executive an annual base salary of \$300,000 as compensation for his services (the "**Base Salary**"). The Base Salary will be paid periodically in accordance with the Company's normal payroll practices and be subject to the usual, required withholding. Executive's salary will be subject to review and adjustments may be made based upon the Company's normal performance review practices. Starting with calendar year 2006, Executive will be eligible for an annual bonus as follows: for the calendar year 2006 Executive will be eligible for a minimum guaranteed annual bonus in an amount equal to ten percent (10%) of his Base Salary provided that Executive's bonus

may be up to twenty percent (20%) of his Base Salary provided that mutually agreed-upon objectives determined in advance by the Board are met; and, for the year 2007 and thereafter, Executive will be eligible for an annual bonus ranging from zero percent (0%) to twenty percent (20%) of his Base Salary based upon the achievement of mutually agreed-upon objectives determined in advance by the Board. The Board will prepare a written schedule of performance objectives underlying this bonus program. Each annual bonus will be paid promptly after the close of the calendar year (beginning with the close of 2006), but no later than March 15 of the following year. At the end of the first full regularly scheduled pay period following the Effective Date, Company will pay to Executive a one-time bonus payment in an amount equal to that portion of Executive's Base Salary calculated as if Executive had been an employee for the period from December 1, 2005 to the Effective Date, which payment will be subject to the usual, required withholding.

(b) Stock Option. Upon or promptly following the Effective Date, Executive will be granted a stock option, which will be, to the extent possible under the \$100,000 rule of Section 422(d) of the Internal Revenue Code of 1986, as amended (the "**Code**"), an "incentive stock option" (as defined in Section 422 of the Code), to purchase shares of the Company's Common Stock in an amount equal to 5.5% of the Company's capitalization of the Company as of the date of grant (calculated on a Fully Diluted Basis) at a per share exercise price equal to the then fair market value per share on the date of grant (the "**Option**"). The Option will be able to be exercised before it is vested, subject to the Company's repurchase rights. The Option will remain exercisable (limited by the expiration date of the Option) to the extent then vested for three (3) months following Executive's termination. Subject to the accelerated vesting provisions set forth herein, the Option will vest as to three forty-eighths (3/48) of the total number of shares subject to the Option as of December 1, 2005, and as to one forty-eighth (1/48) of the total number of shares subject to the Option on each monthly anniversary thereafter so that the Option will be fully vested on September 1, 2009, subject to Executive's continued service to the Company as an employee, director or consultant through the relevant vesting dates. The Option will be subject to the terms, definitions and provisions of the Company's 2004 Stock Plan (the "**Plan**") and the stock option agreement to be entered into by and between Executive and the Company (the "**Option Agreement**") in the form reasonably determined by the Company, both of which documents are incorporated herein by reference. Executive's exercise of any shares under the Option will be conditioned upon Executive executing any stockholders' agreement or other agreement relating to stock to be issued upon exercise of the Option as the Company may reasonably require. For the purposes of this Agreement, "**Fully-Diluted Basis**" shall include (i) the total number of shares of Common Stock outstanding plus (ii) the total number of shares of Common Stock that would be issued upon conversion of any securities, rights, commitments, or other items described in the remainder of this paragraph, that are convertible into Common Stock, including all preferred stock, stock options, warrants and other stock purchase rights then outstanding, plus (iii) the total number of shares of Common Stock that would be issued upon fulfillment of any binding commitments to issue shares of Company's capital stock in existence as of the date of calculation and the conversion of such shares to Common Stock, plus (iv) any reserved but unallocated shares under any stock plan or other plan, agreement or commitment, plus (v) any commitment to increase the number of shares under any stock plan or other plan, agreement or commitment. As a precondition to receiving a stock option grant from the Company, Executive will be required to execute and deliver the Company's Stockholders' Agreement to which certain significant securityholders of the Company are required to enter into in connection with their holding of Company securities.

4. Employee Benefits Generally. During the Employment Term, Executive will be entitled to participate in the Employee Benefit Plans currently and hereafter maintained by the Company of general applicability to other senior executives of the Company. The Company reserves the right to cancel or change the Employee Benefit Plans (as defined below) and programs it offers to its employees at any time. Company will pay applicable premiums under Employee Benefit Plans to cover Executive and Executive's spouse and dependants eligible for coverage under such Employee Benefit Plans. In case the Company does not have its own health benefits plan as of the Effective Date, the Company will reimburse Executive for the cost of his then current health care coverage for Executive and his family until such time as Company does have such a plan for which Executive is eligible.

5. Vacation. Executive will be entitled to fifteen (15) days of vacation time ("**PTO**") per year in accordance with the Company's vacation policy, with the timing and duration of specific vacations mutually and reasonably agreed to by the parties hereto. Such PTO will accrue at the rate of 1.25 days per month commencing at the end of each calendar month following December 1, 2005. In addition, Executive will be entitled to certain paid holidays in accordance with any holiday schedule as may be adopted by the Company.

6. Expenses. The Company will reimburse Executive for reasonable travel, entertainment or other expenses incurred by Executive in the furtherance of or in connection with the performance of Executive's duties hereunder, in accordance with the Company's expense reimbursement policy as in effect from time to time.

7. Severance.

(a) Involuntary Termination. Whether prior to, in connection with or following a Change of Control, if Executive's employment with the Company (A) is terminated by the Company other than (i) for "**Cause**" (as defined herein), (ii) by death or (iii) due to Disability, or (B) is terminated by the Executive pursuant to a Constructive Termination, and, in either case, Executive signs and does not revoke a standard separation agreement and release of claims in a form acceptable to the Company, then Executive will be entitled to:

(i) receive continuing payments of severance pay (less applicable withholding taxes) at a rate equal to his Base Salary rate, as then in effect, for a period of twelve (12) months from the date of such termination, to be paid periodically in accordance with the Company's normal payroll policies if Executive's termination is in connection with or following a Change of Control; or, receive continuing payments of severance pay (less applicable withholding taxes) at a rate equal to his Base Salary rate, as then in effect, for a period of six (6) months from the date of such termination, to be paid periodically in accordance with the Company's normal payroll policies, if Executive's termination is prior to and not in connection with a Change of Control;

(ii) a lump sum payment equal to 20% of the Base Salary within ten (10) days of the termination date if Executive's termination is in connection with or following a Change of Control; or a lump sum payment equal to one-half of the average annual bonus Executive received for the previous two years of employment with the Company (or, if Executive has not yet received two years of bonuses, one half of the first year bonus if the relevant termination is after the

time Executive has received his first year bonus and prior to the time Executive would receive his second year bonus or 5% of his Base Salary if the relevant termination is prior to the time Executive would receive his first year bonus) within ten (10) days of the termination date if Executive's termination is prior to and not in connection with a Change of Control;

(iii) acceleration of any unvested portion of the Option (and any options to purchase Company common stock granted to Executive other than the Option) as to the number of shares that would have otherwise vested during the twelve (12)-month period following such termination had Executive remained employed with the Company through such period; and

(iv) continued participation in all Employee Benefit Plans maintained by the Company as if the Executive were still an employee of the Company to the extent allowable under the terms of such plans, or alternatively the Company may reimburse Executive's premiums under Title X of the Consolidated Budget Reconciliation Act of 1985, as amended ("**COBRA**"), after Executive has properly elected continuation coverage under COBRA through the date twelve (12) months following the date of such termination. Where applicable, the Executive's salary for purposes of such plans shall be deemed to be equal to the Executive's Base Salary, and to the extent that the Company finds it impossible to cover the Executive under its Employee Benefit Plans or to provide Company-paid COBRA continuation during the period set out above, the Company shall provide the Executive with individual policies which offer at least the same level of coverage and which impose not more than the same costs on the Executive. In the event the Executive becomes eligible for comparable coverage to that set out in the Employee Benefit Plans during the period set out above, the coverage provided under this **Section 7(a)(iv)** shall terminate immediately.

Notwithstanding anything to the contrary in this Agreement, if the Company's stock is publicly-traded on an established securities market on the date of Executive's termination, any cash severance payments otherwise due to Executive pursuant to this **Section 7(a)** on or within the six-month period following Executive's termination will accrue during such six-month period and will become payable in a lump sum payment on the date six (6) months and one (1) day following the date of Executive's termination if the Company reasonably determines that the imposition of additional tax under Section 409A of the Code will apply to an earlier payment of such cash severance payments. All subsequent payments will be payable as provided in this section.

(b) Voluntary Termination; Termination for Cause. Whether prior to, in connection with or following a Change of Control, if Executive's employment with the Company terminates voluntarily by Executive (other than pursuant to a Constructive Termination) or for Cause by the Company, then (i) all vesting of the Option will terminate immediately, (ii) all payments of compensation by the Company to Executive hereunder will terminate immediately (except as to amounts already earned), and (iii) Executive will only be eligible for severance benefits in accordance with the Company's established policies as then in effect and as required by law.

(c) Termination by Death. If Executive's employment with the Company is terminated due to Executive's death, the unvested portion of the Option (and any options granted to Executive other than the Option) shall immediately vest.



(d) Termination Due to Disability. The Company may terminate Executive at any time if Executive becomes Disabled (as defined below), upon written notice by the Company to the Executive. For the purposes of this Agreement, Executive is “**Disabled**” (and thereby subject to “**Disability**”) if, at the time the notice of termination is given, Executive has been unable to perform his duties under this Agreement for a period of not less than ninety (90) days during any one hundred and eighty (180) day period as a result of Executive’s incapacity due to physical or mental illness. If Executive is terminated because Executive is Disabled within the meaning hereof, the unvested portion of the Option (and any options granted to Executive other than the Option) shall immediately vest.

8. Change of Control Benefits. In the event of a Change of Control (as defined below) that occurs prior to Executive’s termination of employment, 75% of the shares subject to the Option that are otherwise unvested as of the date of the Change of Control will immediately vest. Thereafter, the Option and any other outstanding options will continue to be subject to the terms, definitions and provisions of the plan under which they were granted and applicable option agreement relating thereto. In addition, in the event that Executive’s continuous status as an employee is terminated by the Company without Cause, or in the event of a Constructive Termination of Executive, within 12 months after a Change of Control, 100% of the total number of Shares that are otherwise unvested on the termination date will immediately vest.

9. Definitions.

(a) Cause. For purposes of this Agreement, “**Cause**” is defined as:

(i) Executive’s repeated failure, in the reasonable judgment of the Board, to substantially perform his assigned duties or responsibilities as an employee as directed or assigned by the Board (other than a failure resulting from the Executive’s Disability) after written notice thereof from the Board to Executive describing in reasonable detail Executive’s failure to perform such duties or responsibilities and Executive having had the opportunity to address the Board, with counsel, regarding such alleged failures and his or her failure to remedy same within 20 days of receiving written notice;

(ii) Executive engagement in knowing and intentional illegal conduct that was or is materially injurious to the Company or its affiliates;

(iii) Executive’s violation of a federal or state law or regulation directly or indirectly applicable to the business of the Company or its affiliates, which violation was or is reasonably likely to be injurious to the Company or its affiliates;

(iv) Executive’s material breach of the terms of any confidentiality agreement or invention assignment agreement between Executive and the Company (or any affiliate of the Company); or

(v) Executive’s conviction of, or entry of a plea of *nolo contendere* to, a felony or committing any act of moral turpitude, dishonesty or fraud against, or the misappropriation of material property belonging to, the Company or its affiliates.

(b) Change of Control. For purposes of this Agreement, “**Change of Control**” of the Company is defined as:

(i) the consummation of a merger, reorganization or other transaction or series of related transactions (other than a financing transaction involving the sale by the Company of its equity securities, the purpose of which is to raise working capital) following which the stockholders of the Company immediately prior to the transaction own less than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity (or its parent) outstanding immediately after the transaction, and the directors serving on the Board immediately prior to such transaction fail to constitute a majority of the Board of Directors of the surviving entity (or its parent) immediately after such transaction; or (ii) the consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets.

(c) Constructive Termination. For purposes of this Agreement, “**Constructive Termination**” will mean, without Executive’s express written consent, and other than in connection with the termination of Executive for Cause or as the result of Executive’s death or Disability, (i) a material reduction of Executive’s duties, position or responsibilities, provided, however, that upon and following a Change of Control Executive’s duties, position and responsibilities will be deemed to not be materially reduced if Executive retains reasonably comparable duties, position and responsibilities with respect to the Company’s pre-Change of Control business within such post-Change of Control Company; (ii) a reduction by the Company in the Base Salary of the Executive, as in effect immediately prior to such reduction, by more than 5%; (iii) a material reduction by the Company in the kind or level of employee benefits to which the Executive is entitled immediately prior to such reduction with the result that the Executive’s overall benefits package is significantly reduced; (iv) relocation of Executive’s principal place of work to a location thirty (30) driving miles or more farther from the Executive’s principal residence immediately before such move; or (v) the failure of the Company to obtain an assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company, all provided that Executive terminates his employment with the Company within ninety (90) days of any such event and gives written notice to the Company that he is terminating his employment with the Company pursuant to a Constructive Termination under this paragraph.

(d) Employee Benefit Plans. For purposes of this Agreement, “**Employee Benefit Plans**” means such medical, dental, eye care and other health insurance benefit plans maintained, in whole or in part, by the Company on behalf of employees generally.

10. Confidential Information. Executive agrees to enter into the Company’s standard At Will Employment, Confidential Information, Invention Assignment, and Arbitration Agreement (the “**Confidential Information Agreement**”) upon commencing employment hereunder.

11. Assignment. This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors and legal representatives of Executive upon Executive’s death and (b) any successor of the Company. Any such successor of the Company will be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, “**successor**” means any person, firm, corporation or other business entity which at any time, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company. None of the rights of Executive to receive any form of compensation payable

pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance or other disposition of Executive's right to compensation or other benefits will be null and void.

12. Notices. All notices, requests, demands and other communications called for hereunder will be in writing and will be deemed given (i) on the date of delivery if delivered personally, (ii) one (1) day after being sent by a well established commercial overnight service, or (iii) four (4) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Company:

Carbylan Biosurgery, Inc.  
c/o InterWest Partners  
2710 Sand Hill Road  
Second Floor  
Menlo Park, CA 94025  
Attn: President of Carbylan Biosurgery, Inc.

If to Executive:

at the last residential address known by the Company.

13. Severability. In the event that any provision hereof becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement will continue in full force and effect without said provision.

14. Arbitration.

(a) General. In consideration of Executive's service to the Company, its promise to arbitrate all employment related disputes and Executive's receipt of the compensation, pay raises and other benefits paid to Executive by the Company, at present and in the future, Executive agrees that any and all controversies, claims, or disputes with anyone (including the Company and any employee, officer, director, shareholder or benefit plan of the Company in their capacity as such or otherwise) arising out of, relating to, or resulting from Executive's service to the Company under this Agreement or otherwise or the termination of Executive's service with the Company, including any breach of this Agreement, will be subject to binding arbitration under the Arbitration Rules set forth in California Code of Civil Procedure Section 1280 through 1294.2, including Section 1283.05 (the "**Rules**") and pursuant to California law. Disputes which Executive agrees to arbitrate, and thereby agrees to waive any right to a trial by jury, include any statutory claims under state or federal law, including, but not limited to, claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the California Fair Employment and Housing Act, the California Labor Code, claims of harassment, discrimination or wrongful termination and any statutory claims. Executive further understands that this Agreement to arbitrate also applies to any disputes that the Company may have with Executive.

(b) Procedure. Executive agrees that any arbitration will be administered by the American Arbitration Association (“AAA”) and that a neutral arbitrator will be selected in a manner consistent with its National Rules for the Resolution of Employment Disputes. The arbitration proceedings will allow for discovery according to the rules set forth in the *National Rules for the Resolution of Employment Disputes* or *California Code of Civil Procedure*. Executive agrees that the arbitrator will have the power to decide any motions brought by any party to the arbitration, including motions for summary judgment and/or adjudication and motions to dismiss and demurrers, prior to any arbitration hearing. Executive agrees that the arbitrator will issue a written decision on the merits. Executive also agrees that the arbitrator will have the power to award any remedies, including attorneys’ fees and costs, available under applicable law. Executive understands the Company will pay for any administrative or hearing fees charged by the arbitrator or AAA except that Executive will pay the first \$125.00 of any filing fees associated with any arbitration Executive initiates. Executive agrees that the arbitrator will administer and conduct any arbitration in a manner consistent with the Rules and that to the extent that the AAA’s National Rules for the Resolution of Employment Disputes conflict with the Rules, the Rules will take precedence.

(c) Remedy. Except as provided by the Rules, this Agreement and the Confidential Information Agreement, arbitration will be the sole, exclusive and final remedy for any dispute between Executive and the Company. Accordingly, except as provided for by the Rules, this Agreement and the Confidential Information Agreement neither Executive nor the Company will be permitted to pursue court action regarding claims that are subject to arbitration. Notwithstanding, the arbitrator will not have the authority to disregard or refuse to enforce any lawful Company policy, and the arbitrator will not order or require the Company to adopt a policy not otherwise required by law which the Company has not adopted.

(d) Availability of Injunctive Relief. In addition to the right under the Rules to petition the court for provisional relief, Executive agrees that any party may also petition the court for injunctive relief where either party alleges or claims a violation of this Agreement or the Confidential Information Agreement or any other agreement regarding trade secrets, confidential information, non-solicitation or Labor Code §2870. In the event either party seeks injunctive relief, the prevailing party will be entitled to recover reasonable costs and attorneys fees.

(e) Administrative Relief. Executive understands that this Agreement does not prohibit Executive from pursuing an administrative claim with a local, state or federal administrative body such as the Department of Fair Employment and Housing, the Equal Employment Opportunity Commission or the workers’ compensation board. This Agreement does, however, preclude Executive from pursuing court action regarding any such claim.

(f) Voluntary Nature of Agreement. Executive acknowledges and agrees that Executive is executing this Agreement voluntarily and without any duress or undue influence by the Company or anyone else. Executive further acknowledges and agrees that Executive has carefully read this Agreement and that Executive has asked any questions needed for Executive to understand the terms, consequences and binding effect of this Agreement and fully understand it, including that Executive is waiving Executive’s right to a jury trial. Finally, Executive agrees that Executive has been provided an opportunity to seek the advice of an attorney of Executive’s choice before signing this Agreement.

15. Code Section 409A. This Agreement will be deemed amended to the extent necessary to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Code Section 409A and any temporary, proposed or final Treasury Regulations and guidance promulgated thereunder and the parties agree to cooperate with each other and to take reasonably necessary steps in this regard.

16. Integration. This Agreement, together with the Stock Plan, Option Agreement and the Confidential Information Agreement represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto.

17. Waiver of Breach. The waiver of a breach of any term or provision of this Agreement, which must be in writing, will not operate as or be construed to be a waiver of any other previous or subsequent breach of this Agreement.

18. Headings. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement.

19. Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes.

20. Governing Law. This Agreement will be governed by the laws of the State of California (with the exception of its conflict of laws provisions).

21. Acknowledgment. Executive acknowledges that he has had the opportunity to discuss this matter with and obtain advice from his private attorney, has had sufficient time to, and has carefully read and fully understands all the provisions of this Agreement, and is knowingly and voluntarily entering into this Agreement.

22. Counterparts. This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

*(Remainder of Page Intentionally Left Blank)*

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year first above written.

COMPANY:

**CARBYLAN BIOSURGERY, INC.**

By:  /s/ Gary H. Stroy

Date:  12-16-05

Title:  Chairman

EXECUTIVE:

/s/ George Daniloff  
George Daniloff

Date:  December 16th, 2005

**[SIGNATURE PAGE TO GEORGE DANILOFF EMPLOYMENT AGREEMENT]**



April 18, 2014

Ms. Hayley Lewis  
[Home Address]

**Re: Employment Agreement**

Dear Hayley:

We are pleased to extend you this offer of employment with Carbylan Therapeutics, Inc. (the "Company"), contingent upon the conditions outlined in Section 8 below. This letter (the "**Agreement**") contains the terms of our employment offer.

1. **Position.**

- a. You will fill the position of Vice President of Regulatory Affairs and Quality Assurance, with an assigned work location of the Company's corporate headquarters. You will report to the Company's President and Chief Executive Officer. This is a full-time position, and you agree to the best of your ability and experience that you will at all times loyally and conscientiously perform all of the duties and obligations required of and from you pursuant to the express and implicit terms hereof, and to the satisfaction of the Company. During the term of your employment, you further agree that you will devote your full business time and best professional efforts exclusively to the performance of your duties and responsibilities for the Company, and you will not directly or indirectly engage or participate in any business that is competitive in any manner with the business of the Company. The Company retains the discretion to modify your position, duties, reporting relationship, and work location from time to time.
- b. Subject to your fulfillment of the conditions outlined in Section 8 below, your employment with the Company will commence on May 12, 2014 (your "Start Date"), or on such other date as mutually agreed by you and the Company.

2. **Proof of Right to Work.**

- a. To comply with the Immigration Reform and Control Act, you will be required to



provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within three business days of your date of hire, or the Company will not be able to employ you.

3. **Compensation.**

- a. **Base Salary.** You will be paid a base salary at the annual rate of \$245,000, subject to payroll withholdings and deductions. Your base salary will be paid in two equal payments per month in accordance with the Company's regular payroll practices. As an exempt salaried employee, you will be expected to work the Company's standard business hours, and such additional hours as required by the nature of your work assignments and job responsibilities, and you will not be eligible for overtime compensation. The Company retains the discretion to modify your compensation terms (including the bonus program) from time to time.
- b. **Bonus.** You will be eligible for consideration by the Company's Board of Directors (the "**Board**") for an annual bonus of up to twenty-five percent (25%) of your annual base salary, with the bonus determination to be made by the Board within its sole discretion. Payment of the bonus will be based on the level of achievement of the applicable objectives and milestones, as such objectives and milestones are set by the Board in its sole discretion, and as such achievement is evaluated by the Board in its sole discretion, and the bonus is not guaranteed. As a condition precedent to earning and receiving any bonus, you must remain an active employee with the Company through the date the bonus otherwise is scheduled to be paid; and if your employment has been terminated for any reason, regardless of whether the termination is by you or the Company, you will not earn or be entitled to receive any bonus which has not been paid prior to the termination date.

4. **Stock Options.**

In connection with the commencement of your employment, the Company will recommend that the Company's Board of Directors grant you an option to purchase 274,317 shares of the Company's Common Stock ("Option Shares") with an exercise price equal to the fair market value on the date of the grant. One quarter (12/48) of these option shares will vest on the 12-month anniversary of your Vesting Commencement Date (as defined in your Stock Option Agreement, which date will be your Start Date, as defined above) and the remaining Option Shares will vest one-forty-eighth (1/48) per month thereafter until all such remaining Option Shares have become fully vested (approximately four years from your Start Date). Vesting will, of course, depend on your continued employment with the Company. The option will be subject to the terms of the Company's 2004 Stock Plan and a stock option agreement between you and the Company in the form reasonably determined by the Company.

5. **Benefits.**

- a. **Insurance Benefits.** You will be eligible to participate in the Company's standard





medical and dental insurance benefits, subject to the terms and conditions of these benefit plans, as in effect from time to time.

- b. Paid Time Off. You will be eligible to accrue paid vacation, and be eligible for paid sick time and paid holidays, under the terms of the Company's applicable policies, as in effect from time to time.

You will be eligible to participate in any other benefits offered by the Company generally to its employees from time to time, subject to the terms and conditions of these benefit plans and the Company's policies, as in effect from time to time. The Company reserves the right to add to, change, or terminate any or all of its benefit programs and related policies in its sole discretion.

6. **Compliance with Company Policies and Confidential Information and Invention Assignment Agreement.**

As a condition of your employment with the Company, you will be required to abide by the Company's policies and procedures, including but not limited to the policies contained in the Company's Employee Handbook, as may be in effect from time to time. In addition, your acceptance of this offer and commencement of employment with the Company is contingent upon your execution and delivery to an officer of the Company the Company's Employee Proprietary Information and Invention Agreement, a copy of which is enclosed for your review and execution (the "**Confidentiality Agreement**"), on or prior to your Start Date.

7. **Prior Confidentiality Obligations.**

In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You agree that you will not bring onto Company premises, any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality. You hereby represent that you have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

8. **Conditional Offer.**

This offer is contingent upon:

- a. your producing documents required under the Immigration Reform and Control Act verifying your identity and eligibility for employment in the United States as outlined in Section 3 above;
- b. [favorable pre-employment reference checks, criminal background check, education verification, and drug screening results (with necessary services to be provided by and at the Company's cost);] and



- c. your execution of the Confidentiality Agreement, as well as other necessary employment documents that will be provided to you.

9. **At-Will Employment.**

Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. In addition, the Company may also change any term or condition of your employment with or without cause. This "at will" relationship can only be changed by an agreement in writing signed by an expressly authorized officer of the Company.

10. **Severance Benefits for Qualifying Terminations.**

- a. **General Severance Benefits.** You shall be entitled to receive the General Severance Benefits (as defined below), as your sole severance benefits, if your employment is terminated by the Company without Cause (as defined below) and if: (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company a general release of all known and unknown claims (the "**Release**") substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For purposes of this Section 10(a), the "**General Severance Benefits**" shall consist of the following: (i) continued payment of your final base monthly salary for a period of six (6) months following the termination date; (ii) accelerated vesting of any outstanding stock options such that the additional number of shares that would have vested if your employment had continued for six (6) additional months following the termination date will become vested and exercisable effective as of the termination date; and (iii) if you timely elect continued group health insurance coverage pursuant to federal COBRA law or, if applicable, state insurance laws (collectively, "**COBRA**"), the Company will pay your COBRA premiums to continue your group health insurance coverage (including the cost of dependent coverage) through the earliest of (A) six (6) months following the termination date, (B) the date that you become eligible for group health insurance coverage through a new employer, or (C) the date you cease to be eligible for COBRA coverage. Notwithstanding the foregoing, the General Severance Benefits will immediately expire in the event that you obtain new full-time employment (or full-time consulting or similar arrangement) within six (6) months after the termination date, *provided, however*, that the Company will thereafter continue to pay you, through the six-month severance payment period, the excess, if any, of your Company base salary on the date of termination over the base salary for your new employment relationship. You agree to notify the Company of your acceptance of any employment within the six-month severance payment period. In the event of your death during the six (6) month severance period, the remaining General

Severance Benefits shall be paid to your estate. Any severance payments made under this Agreement will be made in the form of salary continuation, and will begin on the next regular Company payday which is at least five (5) business days following the later of the effective date of the Release or the date on which the Release, signed by you, is received by the Company. The first payment, however, will be retroactive to the next business day following the termination date.

- b. Change Of Control Severance Benefits. You shall be entitled to receive the Change of Control Severance Benefits (as defined below), as your sole severance benefits, if, on or within twelve (12) months after a Change of Control (as defined below), your employment is terminated by the Company without Cause or you terminate your employment for Good Reason (as defined below) and if; (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a "separation from service" (as defined under Treasury Regulation Section 1.609A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For the purposes of Section 10(b), the "**Change of Control Severance Benefits**" shall consist of the following: (i) you shall receive the General Severance Benefits as provided above, except that the continued salary payments will not be terminated or reduced in the event that you obtain new employment during the six-month severance payment period; (ii) you will also be eligible to receive a prorated bonus payment for the year in which your employment terminates (notwithstanding that you otherwise would not be eligible for payment of such bonus due to termination of employment prior to the bonus payment date), with such prorated bonus amount to be based on the achievement of the bonus objectives prior to such termination or resignation (provided that, no prorated bonus will be owed if the Board determines that there has been no achievement of such bonus objectives), and (iii) you will be eligible for the Full Acceleration as provided in Section 11 hereof.

- c. For purposes of this Agreement, "**Cause**" for termination of employment shall mean: (i) your failure to substantially perform the principal duties and obligations of your position with the Company; (ii) any act of personal dishonesty, fraud or misrepresentation by you which was intended to or does result in your substantial gain or personal enrichment at the expense of the Company; (iii) your violation of a federal or state law or regulation applicable to the Company's business or any of the Company's policies, which violation was or is reasonably likely to be injurious to the Company or its business or reputation; (iv) your conviction of a felony or a plea of nolo contendere under the laws of the United States or any State; or (v) your material breach of the terms of any agreement or contract between you and the Company. The determination that a termination is for Cause shall be made in good faith by the Board in its sole discretion.

- d. You may voluntarily terminate your employment for “**Good Reason**” under Section 10(b) of this Agreement by notifying the Company in writing, within thirty (30) days after the first occurrence of one of the following events taken without your consent, that you intend to terminate your employment for Good Reason on a date not later than the ninetieth (90<sup>th</sup>) day following such event, if the Company has not cured that event within thirty (30) days after its receipt of your written notice. The events that may give rise to a Good Reason termination are: (i) a material and substantial reduction in the scope of your duties and responsibilities (provided, however, that a change in job position (including a change in title) shall not be deemed a “material reduction” unless your new duties are substantially reduced from your prior duties); (ii) relocation of your principal office that results in a one-way increase in your commute distance of more than 30 miles; or (iii) a reduction in your base salary by more than twenty (20%) percent (provided that an across-the-board reduction in the salary level of all Vice Presidents of the Company by the same (or a greater) percentage amount shall not constitute Good Reason).

#### 11. **Change of Control.**

For purposes of this Agreement, “**Change of Control**” shall mean the consummation of a transaction or series of transactions that results in: (i) any sale or other disposition of all or substantially all of the assets of the Company, that occurs over a period of not more than twelve (12) months; or (ii) any person, or more than one person acting as a group, acquiring ownership of stock of the Company, that together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, a Change of Control shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. This definition of Change of Control is intended to conform to the definitions of “change in ownership of a corporation” and “change in ownership of a substantial portion of a corporations assets” provided in Treasury Regulation Sections 1.409A-3(i)(5)(v) and (vii).

In the event that, on or within twelve (12) months after the consummation of a Change of Control of the Company, your employment with the Company (or its successor, as applicable) is terminated by the Company (or its successor, as applicable) without Cause or you terminate your employment for Good Reason, 100% of the shares subject to any outstanding stock options held by you will be immediately vested and exercisable in full effect as of the employment termination date (the “**Full Acceleration**”). Notwithstanding the foregoing, as a pre-condition of the Full Acceleration, within the timing required by the Company, you must sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

#### 12. **Deferred Compensation.**



It is intended that (i) each installment of any amounts or benefits payable under Section 10 of this Agreement be regarded as a separate "payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i) (and each such installment is hereby designated as separate for such purpose), (ii) all payments of any such amounts or benefits satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") and the regulations and other guidance thereunder and any state law of similar effect (collectively "**Section 409A**"), as provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii); and (iii) any such amounts or benefits consisting of premiums payable under COBRA also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if any such amounts or benefits constitute "deferred compensation" under Section 409A and if you are a "specified employee" of the Company, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, the timing of any such benefit payments as to which you are entitled shall be delayed as follows: on the earlier to occur of (a) the date that is six (6) months and one (1) day after your separation from service and (b) the date of your death (such applicable date, the "**Delayed Initial Payment Date**"), the Company shall (1) pay you a lump sum amount equal to the sum of the benefit payments that you would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this Section 12 and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

This Agreement, together with the Confidentiality Agreement, sets for the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions between you and the Company. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company, although the Company reserves the right to modify unilaterally your compensation, benefits, job title and duties, reporting relationships and other terms of your employment.

We are pleased to offer you these employment terms.

Sincerely,

/s/ David M. Renzi  
David M. Renzi  
President and CEO



**UNDERSTOOD, ACCEPTED AND AGREED:**  
**Hayley Lewis**

/s/ Hayley Lewis  
Signature

April 21, 2014  
Date



## EXHIBIT A

### RELEASE AGREEMENT

In exchange for the General Severance Benefits, the Change of Control Severance Benefits, and/or the Full Acceleration, as applicable, to be provided to me pursuant to the Employment Agreement dated April 21, 2014 (the "**Agreement**") between me and Carbylan Therapeutics, Inc. (the "**Company**"), I hereby provide the following release of claims (the "**Release**").

In exchange for the severance pay and benefits provided to me under the Agreement, to which I acknowledge I would not otherwise be entitled, and for other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I hereby generally and completely release the Company, its parent and subsidiary entities, and their respective directors, officers, employees, shareholders, stockholders, partners, agents, attorneys, predecessors, successors, insurers, employee benefit plans, affiliates, and assigns (collectively, the "**Released Parties**") of and from any and all claims, liabilities and obligations, both known and unknown, arising out of or in any way related to events, acts, conduct, or omissions occurring at any time prior to or at the time that I sign this Release (collectively, the "**Released Claims**"). The Released Claims include, but are not limited to: (1) all claims arising out of or in any way related to my employment with the Company (or its successor) or the termination of that employment; (2) all claims related to my compensation or benefits, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing (including, but not limited to, any claims based on or arising from the Agreement); (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended) ("**ADEA**"), the federal Family and Medical Leave Act (as amended) ("**FMLA**"), the California Family Rights Act ("**CFRA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (1) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company to which I am a party, the charter, bylaws, or operating agreements of the Company, applicable law, or applicable directors and officers liability insurance; (2) any rights or claims which are not waivable as a matter of law; and (3) any claims for breach of the Agreement arising after the date that I sign this Release. In addition, nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other government agency, except that I acknowledge and agree that I am hereby waiving my right to any monetary benefits in connection with any such claim, charge or proceeding. I represent that I have no lawsuits, claims or actions pending in my name, or on behalf of any other person or entity, against any of the Released Parties.



**The following paragraph shall apply to me only if I am forty (40) years old or older as of the date that I sign this Release:** I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised by this writing that: (1) my waiver and release do not apply to any rights or claims that may arise after the date I sign this Release; (2) I have been advised to consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so) and I have had sufficient opportunity to do so; (3) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign it earlier); (4) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of revocation to the Company's Board of Directors; and (5) this Release will not be effective until the date upon which the revocation period has expired, which will be the eighth calendar day after the date I sign it if I do not revoke it (such date, the "**Effective Date**").

**The following paragraph shall apply to me only if I am less than forty (40) years old as of the date that I sign this Release:** I understand that I have fourteen (14) days to consider this Release (although I may choose voluntarily to sign it earlier), the Release will become effective as of the date that I sign it (such date, the "**Effective Date**"), and I do not have the right to revoke this Release after signing it.

I UNDERSTAND THAT THIS RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of claims herein, including but not limited to the release of unknown and unsuspected claims.

I hereby represent that I have been paid all compensation owed and for all time worked, I have received all the leave and leave benefits and protections for which I am eligible, pursuant to FMLA, CFRA, any Company policy or applicable law, and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I further agree: (1) not to disparage the Company, or any of the other Released Parties, in any manner likely to be harmful to its or their business, business reputation, or personal reputation (although I may respond accurately and fully to any question, inquiry or request for information as required by legal process); (2) not to voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents; and (3) to cooperate fully with the Company, by voluntarily (without legal compulsion) providing accurate and complete information, in connection with the Company's actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters, arising from events, acts, or failures to act that occurred during the period of my employment by the Company or any successor thereto.





I understand that, upon the Effective Date, this Release will take effect as a legally binding agreement between me and the Company. This Release sets for the entire agreement and understanding between the Company and me relating to the matters set forth herein and supersedes all prior and contemporaneous agreements, understandings and discussions concerning such matters, whether express or implied. This Release may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company and me.

By: /s/ Hayley Lewis  
[Name]

Date: 21 April 2014



April 18, 2014

Mr. Timothy I. Trapp  
[Home Address]

**Re: Employment Agreement**

Dear Tim:

We are pleased to extend you this offer of employment with Carbylan Therapeutics, Inc. (the "Company"), contingent upon the conditions outlined in Section 8 below. This letter (the "**Agreement**") contains the terms of our employment offer.

1. **Position.**

- a. You will fill the position of Vice President of Manufacturing, with an assigned work location of the Company's corporate headquarters. You will report to the Company's President and Chief Executive Officer. This is a full-time position, and you agree to the best of your ability and experience that you will at all times loyally and conscientiously perform all of the duties and obligations required of and from you pursuant to the express and implicit terms hereof, and to the satisfaction of the Company. During the term of your employment, you further agree that you will devote your full business time and best professional efforts exclusively to the performance of your duties and responsibilities for the Company, and you will not directly or indirectly engage or participate in any business that is competitive in any manner with the business of the Company. The Company retains the discretion to modify your position, duties, reporting relationship, and work location from time to time.
- b. Subject to your fulfillment of the conditions outlined in Section 8 below, your employment with the Company will commence on May 12, 2014 (your "Start Date"), or on such other date as mutually agreed by you and the Company.

2. **Proof of Right to Work.**

- a. To comply with the Immigration Reform and Control Act, you will be required to



provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided within three business days of your date of hire, or the Company will not be able to employ you.

3. **Compensation.**

- a. **Base Salary.** You will be paid a base salary at the annual rate of \$225,000, subject to payroll withholdings and deductions. Your base salary will be paid in two equal payments per month in accordance with the Company's regular payroll practices. As an exempt salaried employee, you will be expected to work the Company's standard business hours, and such additional hours as required by the nature of your work assignments and job responsibilities, and you will not be eligible for overtime compensation. The Company retains the discretion to modify your compensation terms (including the bonus program) from time to time.
- b. **Bonus.** You will be eligible for consideration by the Company's Board of Directors (the "**Board**") for an annual bonus of up to twenty-five percent (25%) of your annual base salary, with the bonus determination to be made by the Board within its sole discretion. Payment of the bonus will be based on the level of achievement of the applicable objectives and milestones, as such objectives and milestones are set by the Board in its sole discretion, and as such achievement is evaluated by the Board in its sole discretion, and the bonus is not guaranteed. As a condition precedent to earning and receiving any bonus, you must remain an active employee with the Company through the date the bonus otherwise is scheduled to be paid; and if your employment has been terminated for any reason, regardless of whether the termination is by you or the Company, you will not earn or be entitled to receive any bonus which has not been paid prior to the termination date.

4. **Stock Options.**

In connection with the commencement of your employment, the Company will recommend that the Company's Board of Directors grant you an option to purchase 274,317 shares of the Company's Common Stock ("Option Shares") with an exercise price equal to the fair market value on the date of the grant. One quarter (12/48) of these option shares will vest on the 12-month anniversary of your Vesting Commencement Date (as defined in your Stock Option Agreement, which date will be your Start Date, as defined above) and the remaining Option Shares will vest one-forty-eighth (1/48) per month thereafter until all such remaining Option Shares have become fully vested (approximately four years from your Start Date). Vesting will, of course, depend on your continued employment with the Company. The option will be subject to the terms of the Company's 2004 Stock Plan and a stock option agreement between you and the Company in the form reasonably determined by the Company.

5. **Benefits.**

- a. **Insurance Benefits.** You will be eligible to participate in the Company's standard medical and dental insurance benefits, subject to the terms and conditions of these benefit plans, as in effect from time to time.



- b. **Paid Time Off.** You will be eligible to accrue paid vacation, and be eligible for paid sick time and paid holidays, under the terms of the Company's applicable policies, as in effect from time to time.

You will be eligible to participate in any other benefits offered by the Company generally to its employees from time to time, subject to the terms and conditions of these benefit plans and the Company's policies, as in effect from time to time. The Company reserves the right to add to, change, or terminate any or all of its benefit programs and related policies in its sole discretion.

6. **Compliance with Company Policies and Confidential Information and Invention Assignment Agreement.**

As a condition of your employment with the Company, you will be required to abide by the Company's policies and procedures, including but not limited to the policies contained in the Company's Employee Handbook, as may be in effect from time to time. In addition, your acceptance of this offer and commencement of employment with the Company is contingent upon your execution and delivery to an officer of the Company the Company's Employee Proprietary Information and Invention Agreement, a copy of which is enclosed for your review and execution (the "**Confidentiality Agreement**"), on or prior to your Start Date.

7. **Prior Confidentiality Obligations.**

In your work for the Company, you will be expected not to use or disclose any confidential information, including trade secrets, of any former employer or other person to whom you have an obligation of confidentiality. Rather, you will be expected to use only that information which is generally known and used by persons with training and experience comparable to your own, which is common knowledge in the industry or otherwise legally in the public domain, or which is otherwise provided or developed by the Company. You agree that you will not bring onto Company premises, any unpublished documents or property belonging to any former employer or other person to whom you have an obligation of confidentiality. You hereby represent that you have disclosed to the Company any contract you have signed that may restrict your activities on behalf of the Company.

8. **Conditional Offer.**

This offer is contingent upon:

- a. your producing documents required under the Immigration Reform and Control Act verifying your identity and eligibility for employment in the United States as outlined in Section 3 above;
- b. [favorable pre-employment reference checks, criminal background check, education verification, and drug screening results (with necessary services to be provided by and at the Company's cost);] and

- c. your execution of the Confidentiality Agreement, as well as other necessary employment documents that will be provided to you.

9. **At-Will Employment.**

Your employment with the Company will be on an “at will” basis, meaning that either you or the Company may terminate your employment at any time, with or without cause, and with or without advance notice. In addition, the Company may also change any term or condition of your employment with or without cause. This “at will” relationship can only be changed by an agreement in writing signed by an expressly authorized officer of the Company.

10. **Severance Benefits for Qualifying Terminations.**

- a. **General Severance Benefits.** You shall be entitled to receive the General Severance Benefits (as defined below), as your sole severance benefits, if your employment is terminated by the Company without Cause (as defined below) and if: (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a “separation from service” (as defined under Treasury Regulation Section 1.409A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company a general release of all known and unknown claims (the “**Release**”) substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For purposes of this Section 10(a), the “**General Severance Benefits**” shall consist of the following: (i) continued payment of your final base monthly salary for a period of six (6) months following the termination date; (ii) accelerated vesting of any outstanding stock options such that the additional number of shares that would have vested if your employment had continued for six (6) additional months following the termination date will become vested and exercisable effective as of the termination date; and (iii) if you timely elect continued group health insurance coverage pursuant to federal COBRA law or, if applicable, state insurance laws (collectively, “**COBRA**”), the Company will pay your COBRA premiums to continue your group health insurance coverage (including the cost of dependent coverage) through the earliest of (A) six (6) months following the termination date, (B) the date that you become eligible for group health insurance coverage through a new employer, or (C) the date you cease to be eligible for COBRA coverage. Notwithstanding the foregoing, the General Severance Benefits will immediately expire in the event that you obtain new full-time employment (or full-time consulting or similar arrangement) within six (6) months after the termination date, *provided, however*, that the Company will thereafter continue to pay you, through the six-month severance payment period, the excess, if any, of your Company base salary on the date of termination over the base salary for your new employment relationship. You agree to notify the Company of your acceptance of any employment within the six-month severance payment period. In the event of your death during the six (6) month severance period, the remaining General

Severance Benefits shall be paid to your estate. Any severance payments made under this Agreement will be made in the form of salary continuation, and will begin on the next regular Company payday which is at least five (5) business days following the later of the effective date of the Release or the date on which the Release, signed by you, is received by the Company. The first payment, however, will be retroactive to the next business day following the termination date.

- b. Change Of Control Severance Benefits. You shall be entitled to receive the Change of Control Severance Benefits (as defined below), as your sole severance benefits, if, on or within twelve (12) months after a Change of Control (as defined below), your employment is terminated by the Company without Cause or you terminate your employment for Good Reason (as defined below) and if; (i) such termination of employment is not due to your death or disability; (ii) your termination constitutes a “separation from service” (as defined under Treasury Regulation Section 1.609A-1(h)); and (iii) within the timing required by the Company, you sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

For the purposes of Section 10(b), the “**Change of Control Severance Benefits**” shall consist of the following: (i) you shall receive the General Severance Benefits as provided above, except that the continued salary payments will not be terminated or reduced in the event that you obtain new employment during the six-month severance payment period; (ii) you will also be eligible to receive a prorated bonus payment for the year in which your employment terminates (notwithstanding that you otherwise would not be eligible for payment of such bonus due to termination of employment prior to the bonus payment date), with such prorated bonus amount to be based on the achievement of the bonus objectives prior to such termination or resignation (provided that, no prorated bonus will be owed if the Board determines that there has been no achievement of such bonus objectives), and (iii) you will be eligible for the Full Acceleration as provided in Section 11 hereof.

- c. For purposes of this Agreement, “**Cause**” for termination of employment shall mean: (i) your failure to substantially perform the principal duties and obligations of your position with the Company; (ii) any act of personal dishonesty, fraud or misrepresentation by you which was intended to or does result in your substantial gain or personal enrichment at the expense of the Company; (iii) your violation of a federal or state law or regulation applicable to the Company's business or any of the Company's policies, which violation was or is reasonably likely to be injurious to the Company or its business or reputation; (iv) your conviction of a felony or a plea of nolo contendere under the laws of the United States or any State; or (v) your material breach of the terms of any agreement or contract between you and the Company. The determination that a termination is for Cause shall be made in good faith by the Board in its sole discretion.

- d. You may voluntarily terminate your employment for “**Good Reason**” under Section 10(b) of this Agreement by notifying the Company in writing, within thirty (30) days after the first occurrence of one of the following events taken without your consent, that you intend to terminate your employment for Good Reason on a date not later than the ninetieth (90<sup>th</sup>) day following such event, if the Company has not cured that event within thirty (30) days after its receipt of your written notice. The events that may give rise to a Good Reason termination are: (i) a material and substantial reduction in the scope of your duties and responsibilities (provided, however, that a change in job position (including a change in title) shall not be deemed a “material reduction” unless your new duties are substantially reduced from your prior duties); (ii) relocation of your principal office that results in a one-way increase in your commute distance of more than 30 miles; or (iii) a reduction in your base salary by more than twenty (20%) percent (provided that an across-the-board reduction in the salary level of all Vice Presidents of the Company by the same (or a greater) percentage amount shall not constitute Good Reason).

#### 11. **Change of Control.**

For purposes of this Agreement, “**Change of Control**” shall mean the consummation of a transaction or series of transactions that results in: (i) any sale or other disposition of all or substantially all of the assets of the Company, that occurs over a period of not more than twelve (12) months; or (ii) any person, or more than one person acting as a group, acquiring ownership of stock of the Company, that together with the stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. However, a Change of Control shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. This definition of Change of Control is intended to conform to the definitions of “change in ownership of a corporation” and “change in ownership of a substantial portion of a corporations assets” provided in Treasury Regulation Sections 1.409A-3(i)(5)(v) and (vii).

In the event that, on or within twelve (12) months after the consummation of a Change of Control of the Company, your employment with the Company (or its successor, as applicable) is terminated by the Company (or its successor, as applicable) without Cause or you terminate your employment for Good Reason, 100% of the shares subject to any outstanding stock options held by you will be immediately vested and exercisable in full effect as of the employment termination date (the “**Full Acceleration**”). Notwithstanding the foregoing, as a pre-condition of the Full Acceleration, within the timing required by the Company, you must sign, date and return to the Company the Release substantially in the form attached hereto as **Exhibit A**, and such Release becomes effective in accordance with its terms, including through the expiration of any applicable revocation period.

#### 12. **Deferred Compensation.**



It is intended that (i) each installment of any amounts or benefits payable under Section 10 of this Agreement be regarded as a separate "payment" for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i) (and each such installment is hereby designated as separate for such purpose), (ii) all payments of any such amounts or benefits satisfy, to the greatest extent possible, the exemptions from the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") and the regulations and other guidance thereunder and any state law of similar effect (collectively "**Section 409A**"), as provided under Treasury Regulations Sections 1.409A-1(b)(4) and 1.409A-1(b)(9)(iii); and (iii) any such amounts or benefits consisting of premiums payable under COBRA also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if any such amounts or benefits constitute "deferred compensation" under Section 409A and if you are a "specified employee" of the Company, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, the timing of any such benefit payments as to which you are entitled shall be delayed as follows: on the earlier to occur of (a) the date that is six (6) months and one (1) day after your separation from service and (b) the date of your death (such applicable date, the "**Delayed Initial Payment Date**"), the Company shall (1) pay you a lump sum amount equal to the sum of the benefit payments that you would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this Section 12 and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

This Agreement, together with the Confidentiality Agreement, sets for the entire agreement and understanding between you and the Company relating to your employment and supersedes all prior agreements, understandings and discussions between you and the Company. This letter may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company, although the Company reserves the right to modify unilaterally your compensation, benefits, job title and duties, reporting relationships and other terms of your employment.

We are pleased to offer you these employment terms.

Sincerely,

/s/ David M. Renzi  
David M. Renzi  
President and CEO





**UNDERSTOOD, ACCEPTED AND AGREED:**  
**Timothy Trapp**

/s/ Timothy Trapp  
\_\_\_\_\_  
Signature

4/21/2014  
\_\_\_\_\_  
Date



## EXHIBIT A

### RELEASE AGREEMENT

In exchange for the General Severance Benefits, the Change of Control Severance Benefits, and/or the Full Acceleration, as applicable, to be provided to me pursuant to the Employment Agreement dated April 21, 2014 (the "**Agreement**") between me and Carbylan Therapeutics, Inc. (the "**Company**"), I hereby provide the following release of claims (the "**Release**").

In exchange for the severance pay and benefits provided to me under the Agreement, to which I acknowledge I would not otherwise be entitled, and for other good and valuable consideration, the receipt and sufficiency of which I hereby acknowledge, I hereby generally and completely release the Company, its parent and subsidiary entities, and their respective directors, officers, employees, shareholders, stockholders, partners, agents, attorneys, predecessors, successors, insurers, employee benefit plans, affiliates, and assigns (collectively, the "**Released Parties**") of and from any and all claims, liabilities and obligations, both known and unknown, arising out of or in any way related to events, acts, conduct, or omissions occurring at any time prior to or at the time that I sign this Release (collectively, the "**Released Claims**"). The Released Claims include, but are not limited to: (1) all claims arising out of or in any way related to my employment with the Company (or its successor) or the termination of that employment; (2) all claims related to my compensation or benefits, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing (including, but not limited to, any claims based on or arising from the Agreement); (4) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act (as amended) ("**ADEA**"), the federal Family and Medical Leave Act (as amended) ("**FMLA**"), the California Family Rights Act ("**CFRA**"), the California Labor Code (as amended), and the California Fair Employment and Housing Act (as amended).

Notwithstanding the foregoing, the following are not included in the Released Claims (the "**Excluded Claims**"): (1) any rights or claims for indemnification I may have pursuant to any written indemnification agreement with the Company to which I am a party, the charter, bylaws, or operating agreements of the Company, applicable law, or applicable directors and officers liability insurance; (2) any rights or claims which are not waivable as a matter of law; and (3) any claims for breach of the Agreement arising after the date that I sign this Release. In addition, nothing in this Release prevents me from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, the California Department of Fair Employment and Housing, or any other government agency, except that I acknowledge and agree that I am hereby waiving my right to any monetary benefits in connection with any such claim, charge or proceeding. I represent that I have no lawsuits, claims or actions pending in my name, or on behalf of any other person or entity, against any of the Released Parties.



**The following paragraph shall apply to me only if I am forty (40) years old or older as of the date that I sign this Release:** I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the ADEA, and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which I am already entitled. I further acknowledge that I have been advised by this writing that: (1) my waiver and release do not apply to any rights or claims that may arise after the date I sign this Release; (2) I have been advised to consult with an attorney prior to signing this Release (although I may choose voluntarily not to do so) and I have had sufficient opportunity to do so; (3) I have twenty-one (21) days to consider this Release (although I may choose voluntarily to sign it earlier); (4) I have seven (7) days following the date I sign this Release to revoke it by providing written notice of revocation to the Company's Board of Directors; and (5) this Release will not be effective until the date upon which the revocation period has expired, which will be the eighth calendar day after the date I sign it if I do not revoke it (such date, the "**Effective Date**").

**The following paragraph shall apply to me only if I am less than forty (40) years old as of the date that I sign this Release:** I understand that I have fourteen (14) days to consider this Release (although I may choose voluntarily to sign it earlier), the Release will become effective as of the date that I sign it (such date, the "**Effective Date**"), and I do not have the right to revoke this Release after signing it.

I UNDERSTAND THAT THIS RELEASE AGREEMENT INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to my release of claims herein, including but not limited to the release of unknown and unsuspected claims.

I hereby represent that I have been paid all compensation owed and for all time worked, I have received all the leave and leave benefits and protections for which I am eligible, pursuant to FMLA, CFRA, any Company policy or applicable law, and I have not suffered any on-the-job injury or illness for which I have not already filed a workers' compensation claim.

I further agree: (1) not to disparage the Company, or any of the other Released Parties, in any manner likely to be harmful to its or their business, business reputation, or personal reputation (although I may respond accurately and fully to any question, inquiry or request for information as required by legal process); (2) not to voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents; and (3) to cooperate fully with the Company, by voluntarily (without legal compulsion) providing accurate and complete information, in connection with the Company's actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters, arising from events, acts, or failures to act that occurred during the period of my employment by the Company or any successor thereto.



I understand that, upon the Effective Date, this Release will take effect as a legally binding agreement between me and the Company. This Release sets for the entire agreement and understanding between the Company and me relating to the matters set forth herein and supersedes all prior and contemporaneous agreements, understandings and discussions concerning such matters, whether express or implied. This Release may not be modified or amended except by a written agreement, signed by the Chief Executive Officer of the Company and me.

By: /s/ Timothy Trapp  
[Name]

Date: 4/21/2014



ROPES & GRAY LLP  
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September 19, 2014

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CONFIDENTIAL SUBMISSION

VIA EDGAR

U.S. Securities and Exchange Commission  
Division of Corporate Finance  
100 F Street, NE Washington, DC 20549

**RE: Confidential Submission of Carbylan Therapeutics, Inc. Registration Statement on Form S-1**

Ladies and Gentlemen:

On behalf of Carbylan Therapeutics, Inc., a Delaware corporation (the "Company"), we hereby confidentially submit a draft Registration Statement on Form S-1 (the "Registration Statement") of the Company pursuant to Title I, Section 106 under the Jumpstart Our Business Startups Act of 2012 and Section 24(b)(2) of the Securities Exchange Act of 1934 for non-public review by the Staff of the U.S. Securities and Exchange Commission prior to the public filing of the Registration Statement.

If you have any questions with respect to this confidential submission, please call me at (650) 617-4085.

Sincerely,

/s/ David J. Saul

David J. Saul