Calithera Biosciences, Inc.
Form 10-Q
May 11, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-36644

CALITHERA BIOSCIENCES, INC.

(Exact name of registrant as specified in its charter)

Delaware	27-2366329
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

343 Oyster Point Blvd., Suite 200

South San Francisco, CA 94080

(Address of principal executive offices including zip code)

Registrant's telephone number, including area code: (650) 870-1000

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

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

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 x (do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of April 30, 2015, the registrant had 17,946,393 shares of common stock, $0.0001 par value per share, outstanding.

Calithera Biosciences, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2015

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PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

Calithera Biosciences, Inc.

Condensed Balance Sheets

(In thousands, except per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 73,877	$ 101,969
Short-term investments	14,705	-
Prepaid expenses and other current assets	1,728	1,894
Total current assets	90,310	103,863
Long-term investments	5,693	-
Restricted cash	46	46
Property and equipment, net	824	861
Total assets	$ 96,873	$ 104,770
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 559	$ 693
Accrued liabilities	2,962	3,428
Total current liabilities	3,521	4,121
Deferred rent	235	270
Other non-current liabilities	13	13
Total liabilities	3,769	4,404
Commitments and contingencies (Note 6)		
Stockholders' equity (deficit):		
Common stock, $0.0001 par value, 200,000 shares authorized as of March 31, 2015 (unaudited) and December 31, 2014; 17,946 and 17,943 shares issued and outstanding as of March 31, 2015 (unaudited) and December 31, 2014, respectively	2	2
Additional paid-in capital	152,820	152,218
Accumulated deficit	(59,712)	(51,854)
Accumulated other comprehensive loss	(6)	-
Total stockholders' deficit	93,104	100,366
Total liabilities and stockholders' deficit	$ 96,873	$ 104,770

See accompanying notes.

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Calithera Biosciences, Inc.

Condensed Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Operating expenses:		
Research and development	$5,630	$3,318
General and administrative	2,237	832
Total operating expenses	7,867	4,150
Loss from operations	(7,867)	(4,150)
Other income, net	9	1
Net loss	$(7,858)	$(4,149)
Net loss per share attributable to common stockholders, basic and diluted	$(0.44)	$(22.80)
Weighted average common shares used to compute net loss per share attributable to common stockholders, basic and diluted	17,946	182

See accompanying notes.

Calithera Biosciences, Inc.

Condensed Statements of Comprehensive Loss

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Net loss	$(7,858)	$(4,149)
Other comprehensive loss:		
Net unrealized losses on available-for-sale securities	(6)	-
Total comprehensive loss	$(7,864)	$(4,149)

See accompanying notes.

Calithera Biosciences, Inc.

Condensed Statements of Cash Flows

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Cash Flows From Operating Activities		
Net loss	$(7,858)	$(4,149)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	109	73
Amortization of premium on investments	2	-
Stock-based compensation	595	78
(Gain) loss on disposal of property and equipment	(8)	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	166	(323)
Accounts payable	(134)	24
Accrued liabilities	(466)	(291)
Deferred rent, non-current	(35)	66
Net cash used in operating activities	(7,629)	(4,522)
Cash Flows From Investing Activities		
Purchases of investments	(20,406)	-
Purchase of property and equipment	(64)	(60)
Net cash used in investing activities	(20,470)	(60)
Cash Flows From Financing Activities		
Proceeds from stock option exercises	7	17
Net cash provided by financing activities	7	17
Net decrease in cash and cash equivalents	(28,092)	(4,565)
Cash and cash equivalents at beginning of period	101,969	33,820
Cash and cash equivalents at end of period	$73,877	$29,255

See accompanying notes.

Calithera Biosciences, Inc.

Notes to Condensed Financial Statements

1. Organization and Basis of Presentation

Calithera Biosciences, Inc. (the "Company") was incorporated in the State of Delaware on March 9, 2010. The Company is a clinical-stage biopharmaceutical company focused on discovering and developing novel small molecule drugs directed against tumor metabolism and tumor immunology targets for the treatment of cancer. The Company's principal operations are based in South San Francisco, California, and it operates in one segment.

Initial Public Offering

In October 2014, the Company completed an initial public offering ("IPO") of its common stock. In connection with its IPO, the Company issued and sold 8,000,000 shares of its common stock, at a price to the public of $10.00 per share. As a result of the IPO, the Company received $71.6 million in net proceeds, after deducting underwriting discounts and commissions of $5.6 million and offering expenses of $2.8 million paid by the Company. At the closing of the IPO, 9,592,042 shares of outstanding convertible preferred stock were automatically converted into 9,592,042 shares of common stock. Following the IPO, there were no shares of preferred stock outstanding. In connection with the IPO, the Company amended and restated its Amended and Restated Certificate of Incorporation to change the authorized capital stock to 200,000,000 shares designated as common stock and 10,000,000 shares designated as preferred stock, all with a par value of $0.0001 per share.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The interim condensed balance sheet as of March 31, 2015, and the statements of operations, comprehensive loss, and cash flows for the three months ended March 31, 2015 and 2014 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect, in the opinion of management, all adjustments of a normal and recurring nature that are necessary for the fair presentation of the Company's condensed financial statements included in this report. The financial data and the other information disclosed in these notes to the financial statements related to the three-month periods are also unaudited. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any other future annual or interim period. The balance sheet as of December 31, 2014 included herein was derived from the audited financial statements as of that date. These financial statements should be read in conjunction with the Company's audited financial statements included in the Company's Form 10-K as filed with the Securities and Exchange Commission ("SEC").

Use of Estimates

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates, including those related to clinical trial accrued liabilities, fair value of common stock, income taxes, and stock-based compensation. Management bases its

estimates on historical experience and on various other market-specific and relevant assumptions that management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Investments

All investments have been classified as “available-for-sale” and are carried at estimated fair value as determined based upon quoted market prices or pricing models for similar securities. Management determines the appropriate classification of its investments in at the time of purchase and reevaluates such designation as of each balance sheet date. Unrealized gains and losses are excluded from earnings and are reported as a component of comprehensive loss. Realized gains and losses and declines in fair value judged to be other than temporary, if any, on available-for-sale securities are included in other income, net. The cost of securities sold is based on the specific-identification method. Interest on marketable securities is included in other income, net.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, investments and restricted cash. The Company invests in a variety of financial instruments and, by its policy, limits these financial instruments to high credit quality securities issued by the U.S. government, U.S. government-sponsored agencies and highly rated banks and corporations, subject to certain concentration limits. The Company's cash, cash equivalents, investments and restricted cash are held by financial institutions in the United States that management believes are of high credit quality. Amounts on deposit may at times exceed federally insured limits.

Accrued Research and Development Costs

The Company records accrued liabilities for estimated costs of research and development activities conducted by third-party service providers, which include the conduct of preclinical and clinical studies, and contract manufacturing activities. The Company records the estimated costs of research and development activities based upon the estimated amount of services provided but not yet invoiced, and include these costs in accrued liabilities in the balance sheets and within research and development expense in the statements of operations. These costs are a significant component of the Company's research and development expenses. The Company accrues for these costs based on factors such as estimates of the work completed and in accordance with agreements established with its third-party service providers under the service agreements. The Company makes significant judgments and estimates in determining the accrued liabilities balance in each reporting period. As actual costs become known, the Company adjusts its accrued liabilities. The Company has not experienced any material differences between accrued costs and actual costs incurred. However, the status and timing of actual services performed, number of patients enrolled, and the rate of patient enrollments may vary from the Company's estimates, resulting in adjustments to expense in future periods. Changes in these estimates that result in material changes to the Company's accruals could materially affect the Company's results of operations.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period without consideration of common stock equivalents. Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, companies will have reduced diversity in the timing and content of footnote disclosures than under today's guidance. ASU 2014-15 is effective for the Company in the first quarter of 2016 with early adoption permitted. Management is currently assessing the impact the adoption of ASU 2014-15 will have on the financial statements.

3. Fair Value Measurements

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Financial instruments include cash and cash equivalents, short-term investments, accounts payable and accrued liabilities that approximate fair value due to their relatively short maturities.

Assets and liabilities recorded at fair value on a recurring basis in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset or an exit price that would be paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The authoritative guidance on fair value measurements establishes a three tier fair value hierarchy for disclosure of fair value measurements as follows:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2—Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

Level 3—Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted prices are available in an active market, securities are classified as Level 1. The Company classifies money market funds as Level 1. When quoted market prices are not available for the specific security, then the Company estimates fair value by using quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs obtained from various third party data providers, including but not limited to, benchmark yields, interest rate curves, reported trades, broker/dealer quotes and market reference data. The Company classifies its corporate notes and U.S. government agency securities as Level 2. Level 2 inputs for the valuations are limited to quoted prices for similar assets or liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability. There were no transfers between Level 1 and Level 2 during the periods presented.

The following table sets forth the fair value of our financial assets and liabilities, allocated into Level 1, Level 2 and Level 3, that was measured on a recurring basis (in thousands):

	March 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	$ 70,474	$-	$ -	$ 70,474
Corporate notes	-	13,028	-	13,028
U.S. government agency securities	-	10,819	-	10,819
Total financial assets	$ 70,474	$ 23,847	$ -	$ 94,321

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Money market funds	$ 102,015	$-	$ -	$ 102,015
Total financial assets	$ 102,015	$-	$ -	$ 102,015

As of March 31, 2015 and December 31, 2014, the Company had $46,000 in money market funds that are included in restricted cash on the balance sheets.

4. Financial Instruments

Cash equivalents and short-term and long-term investments, all of which are classified as available-for-sale securities, consisted of the following (in thousands):

	March 31, 2015				December 31, 2014			
	Cost	Unrealized Gain	Unrealized (Loss)	Estimated Fair Value	Cost	Unrealized Gain	Unrealized (Loss)	Estimated Fair Value
Money market funds	$ 70,474	$ -	$ -	$ 70,474	$ 102,015	$ -	$ -	$ 102,015
Corporate notes	13,034	1	(7)	13,028	-	-	-	-
U.S. government agency securities	10,819	1	(1)	10,819	-	-	-	-
	$ 94,327	$ 2	$ (8)	$ 94,321	$ 102,015	$ -	$ -	$ 102,015
Classified as:								
Cash equivalents				$ 73,923				$ 102,015

Short-term investments	14,705	-
Long-term investments	5,693	-
Total cash equivalents and investments	$ 94,321	$ 102,015

At March 31, 2015, the remaining contractual maturities of available-for-sale securities were less than two years. There have been no significant realized gains or losses on available-for-sale securities for the periods presented.

5. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Accrued bonus and payroll expenses	$911	$ 1,476
Accrued professional and consulting services	169	490
Accrued clinical and manufacturing expenses	1,059	1,029
Accrued licensing fee	600	-
Other	223	433
Total accrued liabilities	$2,962	$ 3,428

6. Commitments and Contingencies

In October 2014, the Company received an invoice of approximately $1.3 million relating to a contingent amount associated with a terminated license agreement, incurred as a result of the closing of its IPO in October 2014. The Company believes that the invoice amount is substantially in excess of the amount actually owed pursuant to the agreement and has initiated discussions with the third party to resolve the matter. The Company does not believe that the ultimate resolution of this matter will be material to the Company's results of operations, financial condition or cash flows.

7. Stock Based Compensation

A summary of stock option activity is as follows (in thousands, except share data and contractual term amounts):

	Options Outstanding			
	Number of Shares Underlying Outstanding Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding — December 31, 2014	1,210,920	$ 3.44		$ 20,292
Options granted	620,099	$ 16.87		
Options exercised	(3,008)	$ 1.95		
Options canceled	(12,287)	$ 5.01		
Outstanding — March 31, 2015	1,815,724	$ 8.02	9.10	$ 15,553

Total stock-based compensation expense related to the Company's 2010 Equity Incentive Plan, 2014 Equity Incentive Plan and the 2014 Employee Stock Purchase Plan was as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Research and development	$270	$ 48
General and administrative	325	30
Total stock-based compensation	$595	$ 78

8. Net Loss per Share Attributable to Common Stockholders

Since the Company was in a loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share attributable to common stockholders for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive.

Potentially dilutive securities that were not included in the diluted per share attributable to common stockholders calculations because they would be anti-dilutive were as follows (in thousands):

	March 31,	
	2015	2014
Convertible preferred stock	-	7,689
Options to purchase common stock	1,816	880
Common stock subject to repurchase	-	1
Total	1,816	8,570

9. Licensing Agreements

TransTech License Agreement

In March 2015, the Company entered into a License and Research agreement with High Point Pharmaceuticals, LLC and TransTech Pharma LLC, or collectively TransTech, under which the Company obtained an exclusive, worldwide license to develop and commercialize TransTech's hexokinase II inhibitors (TransTech License Agreement). Under the terms of the TransTech License Agreement, the Company will pay TransTech an initial license fee of $0.6 million, and potential development and regulatory milestone payments totaling up to $30.5 million for the first licensed product. TransTech is eligible for an additional $77.0 million in potential sales-based milestones, as well as royalty payments, at mid-single digit royalty rates, based on tiered sales of the first commercialized licensed product. If the Company develops additional licensed products, after achieving regulatory approval of the first licensed product, the Company would owe additional regulatory milestone payments and additional royalty payments based on sales of such additional licensed products. The Company will be responsible for the worldwide development and commercialization of the licensed products, at its cost. For the three months ended March 31, 2015, the Company recognized expense related to its licensing arrangement with TransTech of $0.6 million in research and development expense in the statement of operations.

Symbioscience License Agreement

In December 2014, the Company entered into an exclusive license agreement with Mars, Inc., by and through its Mars Symbioscience division, or Symbioscience, under which the Company has been granted the exclusive, worldwide license rights to develop and commercialize Symbioscience's portfolio of arginase inhibitors for use in human healthcare (Symbioscience License Agreement). Under the terms of the Symbioscience License Agreement, the Company paid Symbioscience an upfront license fee of $0.3 million, which was recorded as research and development expense in 2014. The Company may make future payments of up to $24.4 million contingent upon attainment of various development and regulatory milestones and $95.0 million contingent upon attainment of various sales milestones. Additionally, the Company will pay royalty on sales of the licensed product, if such product sales are ever achieved. If the Company develops additional licensed products, after achieving regulatory approval of the first licensed product, the Company would owe additional regulatory milestone payments and additional royalty payments based on sales of such additional licensed products.

10. Related Party Transactions

The spouse of one of the Company's executive officers was a consultant who provided accounting services for the Company in 2014. For the three months ended March 31, 2015 and 2014, the Company recognized expense of $nil and $45,000, respectively, for consulting services within the general and administrative expense in the statements of operations. As of March 31, 2015 and December 31, 2014, the Company had an outstanding liability to the spouse of nil.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed financial statements and related notes included in Part I, Item 1 of this report. This discussion and other parts of this report contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section of this report entitled "Risk factors."

Forward-Looking Statements

This discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are identified by words such as "believe," "will," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "expect," "predict," "could," "potentially" or the negative of these terms or similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other "forward-looking" information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this report in Part II, Item 1A — "Risk Factors," and elsewhere in this report. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

We are a clinical-stage pharmaceutical company focused on discovering and developing novel small molecule drugs directed against tumor metabolism and tumor immunology targets for the treatment of cancer. Tumor metabolism and tumor immunology have emerged as promising new fields for cancer drug discovery, and recent clinical successes with therapeutic agents in each field have demonstrated the potential to create fundamentally new therapies for cancer patients. Our lead product candidate, CB-839, is an internally discovered, first-in-class inhibitor of glutaminase, a critical enzyme in tumor metabolism. We are currently evaluating CB-839 in three Phase 1 clinical trials in solid and hematological tumors. Our lead preclinical program in tumor immunology is directed at developing inhibitors of the enzyme arginase and may provide a first-in-class therapeutic agent for this novel target. We also have a preclinical program in tumor metabolism which seeks to develop inhibitors of the enzyme hexokinase II, the first step in the breakdown of glucose, an essential nutrient in many cancer cells. Our ongoing research efforts are focused on discovering additional product candidates against novel tumor metabolism and immunology targets.

Recent Developments

In April 2015, preclinical findings were presented at the American Association of Cancer Research annual meeting (AACR), for our lead tumor metabolism drug candidate CB-839. This data included: the addition of two biomarkers; further evidence supporting synergies with approved agents; and, a reiteration of preclinical single agent activity. Specifically, we and our collaborators presented six abstracts at AACR highlighting that CB-839 is synergistic with several targeted small molecule inhibitors, and further that we have identified potential biomarkers that may have utility in selecting patients who would most benefit from CB-839 therapy.

The biomarker data presented showed that KRAS and EGFR mutations correlate with enhanced sensitivity of CB-839 in non-small cell lung cancer (NSCLC) cell lines. Of significance, KRAS and EGFR mutational status is determined in NSCLC non-small lung cancer patients at diagnosis and effects treatment choices for the patients. KRAS mutant NSCLC tumors comprise approximately 25% of lung adenocarcinoma and EGFR mutations occur in about 20% of the same population; they are non-overlapping, therefore together they make up close to half of the adenocarcinoma population.

We also presented data expanding on previously noted preclinical synergic activity of CB-839 with other anti-cancer agents. Data presented demonstrated that signaling through mTOR is down regulated by CB-839, highlighting a relationship between signal transduction pathways and cancer metabolism. This relationship supports data on why CB-839 synergizes with the mTOR inhibitor everolimus in renal clear cell carcinoma lines. In addition, we showed CB-839 has synergistic activity with the MEK inhibitor selumetinib in KRAS mutant lung cancer cell lines both in vitro and in vivo, and with the EGFR inhibitor erlotinib in EGFR mutant lung cancer cell lines as well as in erlotinib-resistant EGFR mutant animal models lacking the T790M mutation. Further, our collaborators showed CB-839 induces double stranded breaks in VHL deficient renal cell carcinoma cells and that PARP (Poly ADP-ribose polymerase) inhibitors synergize with CB-839 in these cells.

Demonstrating effective drug combinations without overlapping toxicity is critical in oncology today, as the vast majority of malignancies are currently treated with combo therapy. This preclinical work further directs us towards a rational pathway forward for CB-839.

Critical Accounting Policies and Estimates

There have been no material changes in our critical accounting policies during the three months ended March 31, 2015, as compared to those disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our Form 10-K dated December 31, 2014, filed with the SEC.

Financial Overview

Research and Development Expenses

Research and development expenses represent costs incurred to conduct research, such as the discovery and development of our product candidates. We recognize all research and development costs as they are incurred. Research and development expenses consist primarily of the following:

- employee-related expenses, which include salaries, benefits and stock-based compensation;
- expenses incurred under agreements with clinical trial sites that conduct research and development activities on our behalf;
- laboratory and vendor expenses related to the execution of preclinical studies and clinical trials;
- contract manufacturing expenses, primarily for the production of clinical supplies; and
- facilities and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation and amortization expense and other supplies.

The largest component of our total operating expenses has historically been our investment in research and development activities including the clinical development of our product candidates. We allocate to research and development expenses the salaries, benefits, stock-based compensation expense, and indirect costs of our clinical and preclinical programs on a program-specific basis, and we include these costs in the program-specific expenses. The following table shows our research and development expenses for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	

Development candidate:		
CB-839	$3,493	$2,797
Preclinical and research:		
Arginase Inhibitors	1,419	87
Other preclinical and research	718	434
Total preclinical and research	2,137	521
Total Research and Development	$5,630	$3,318

We expect our research and development expenses will increase in the future as we advance our product candidates into and through clinical trials, pursue regulatory approval of our product candidates, which will require a significant investment in contract manufacturing and inventory build-up related costs. We continue to evaluate opportunities to acquire or in-license other product candidates and technologies, which may result in higher research and development expenses due to license fee payments.

The process of conducting clinical trials necessary to obtain regulatory approval is costly and time consuming. We may never succeed in achieving marketing approval for our product candidates. The probability of success of our product candidates may be affected by numerous factors, including clinical data, competition, manufacturing capability and commercial viability. As a result, we are unable to determine the duration and completion costs of our research and development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

General and Administrative Expenses

General and administrative expenses consist of personnel costs, allocated expenses and other expenses for outside professional services, including legal, audit and accounting services. Personnel costs consist of salaries, benefits and stock-based compensation. Allocated expenses consist of facilities and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation and amortization expense and other supplies. We expect to incur additional expenses as a public company, including expenses related to compliance with the rules and regulations of the SEC, and those of the NASDAQ Global Market on which our securities are traded, additional insurance expenses, investor relations activities and other administration and professional services.

Results of Operations

Comparison of the Three Months Ended March 31, 2015 and 2014

	Three Months Ended March 31,		Change	
	2015	2014	$	%
	(in thousands, except percentages)			
Operating expenses:				
Research and development	$5,630	$3,318	$2,312	70 %
General and administrative	2,237	832	1,405	169%
Total operating expenses	7,867	4,150	3,717	90 %
Loss from operations	(7,867)	(4,150)	(3,717)	90 %
Other income	9	1	8	800%
Net loss	$(7,858)	$(4,149)	$(3,709)	89 %

Research and Development. Research and development expenses increased $2.3 million, or 70%, from $3.3 million for the three months ended March 31, 2014 to $5.6 million for the three months ended March 31, 2015. The increase of $2.3 million was due to an increase of $0.8 million in personnel-related costs primarily due to higher headcount, salary increases and stock-based compensation expense, an increase of $0.6 million related to our licensing arrangement for the hexokinase II inhibitor program, and an increase of $0.9 million primarily related to clinical and manufacturing expenses for our CB-839 Phase I clinical trial.

General and Administrative. General and administrative expenses increased $1.4 million, or 169%, from $0.8 million for the three months ended March 31, 2014 to $2.2 million for the three months ended March 31, 2015. The increase of $1.4 million was due to an increase of $0.7 million in personnel-related costs as a result of higher

headcount, salary increases and stock-based compensation expense and an increase of $0.7 million in professional services, primarily related to audit, legal and insurance costs associated with operating as a public company.

Liquidity and Capital Resources

As of March 31, 2015, we had cash, cash equivalents and investments totaling $94.3 million. Our operations have been financed by net proceeds from the sale of shares of our preferred stock and our initial public offering in October 2014.

Our primary uses of cash are to fund operating expenses, primarily research and development expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

We plan to continue to fund our operations and capital funding needs through equity and/or debt financing. We may also consider collaborations or selectively partnering for clinical development and commercialization. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. If we are not able to secure adequate additional funding we may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. Any of these actions could harm our business, results of operations and future prospects.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Three Months Ended March 31,	
	2015	2014
	(in thousands)	
Cash used in operating activities	$(7,629)	$(4,522)
Cash used in investing activities	$(20,470)	$(60)
Cash provided by financing activities	$7	$17

Cash Flows from Operating Activities

Cash used in operating activities for the three months ended March 31, 2015 was $7.6 million. Our net loss of $7.9 million was offset in part by non-cash charges of $0.1 million for depreciation and amortization and $0.6 million of stock-based compensation. The change in operating assets and liabilities of $0.5 million was primarily due to a $0.6 million decrease in accounts payable and accrued liabilities, partially offset by a decrease of $0.2 million in prepaid expenses and other current assets, primarily related to the timing of payments for our clinical trials and manufacturing activities.

Cash used in operating activities for the three months ended March 31, 2014 was $4.5 million. Our net loss of $4.1 million was offset in part by non-cash charges of $0.1 million for depreciation and amortization and $0.1 million of stock-based compensation. The change in operating assets and liabilities was primarily due to $0.3 million increase in prepaid and expenses and other current assets related to an advance payment for clinical trial activities and a $0.3 million decrease in accounts payable and accrued liabilities.

Cash Flows from Investing Activities

Cash used in investing activities was $20.5 million for the three months ended March 31, 2015 and was related to the purchase of short- and long-term investments of $20.4 million and purchase of property and equipment of $0.1 million.

Cash used in investing activities was $60,000 for the three months ended March 31, 2014 and was related to the purchase of property and equipment.

Cash Flows from Financing Activities

Cash provided by financing activities for the three months ended March 31, 2015 and 2014 was $7,000 and $17,000, respectively, related to the issuance of common stock upon the exercise of stock options.

We expect that our existing cash, cash equivalents and investments will be sufficient to enable us to meet our operating plan for at least the next 12 months. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect and we may use all of our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the timing and costs of our planned clinical trials for our product candidates;
- the timing and costs of our planned preclinical studies of our product candidates;
- our success in establishing and scaling commercial manufacturing capabilities;
- the number and characteristics of product candidates that we pursue;
- the outcome, timing and costs of seeking regulatory approvals;
- subject to receipt of regulatory approval, revenue received from commercial sales of our product candidates;
- the terms and timing of any future collaborations, licensing, consulting or other arrangements that we may establish;
- the amount and timing of any payments we may be required to make in connection with the licensing, filing, prosecution, maintenance, defense and enforcement of any patents or patent applications or other intellectual property rights; and
- the extent to which we in-license or acquire other products and technologies.

Contractual Obligations and Other Commitments

There have been no material changes outside the ordinary course of our business to the contractual obligations during the three months ended March 31, 2015, as compared to those disclosed in our Form 10-K.

Off-Balance Sheet Arrangements

During 2014 and the three months ended March 31, 2015, we did not have any off balance sheet arrangements.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, companies will have reduced diversity in the timing and content of footnote disclosures than under today's guidance. ASU 2014-15 is effective for the Company in the first quarter of 2016 with early adoption permitted. Management is currently assessing the impact the adoption of ASU 2014-15 will have on the financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities. Our investment policy allows us to maintain a portfolio of cash equivalents and investments in a variety of high credit quality securities issued by the U.S. government, U.S. government-sponsored agencies and highly rated banks and corporations, subject to certain concentration limits. Our investment policy prohibits us from holding auction rate securities or derivative financial instruments. As of March 31, 2015, we had cash, cash equivalents and investments of $94.3 million. A portion of our investments may be subject to interest rate risk and could fall in value if market interest rates increase. However, we believe that our exposure to interest rate risk is not significant as the majority of our investments are short-term in duration and a 1% change in interest rates would not have a significant impact on the total value of our portfolio. We actively monitor changes in interest rates. We had no outstanding debt as of March 31, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our President and Chief Executive Officer and our Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this quarterly report. Based on that evaluation, our President and Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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

PART II. – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings relating to claims arising from the ordinary course of business. Our management believes that there are currently no claims or actions pending against us, the ultimate disposition of which could have a material adverse effect on our results of operations, financial condition or cash flows.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this report on Form 10-Q, including the section of this report titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes. If any of the events described in the following risk factors and the risks described elsewhere in this report occurs, our business, operating results and financial condition could be seriously harmed. This report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report. The risks relating to our business set forth in our Annual Report on Form 10-K, filed with the SEC, are set forth below and are unchanged substantively as of March 31, 2015, except for those risks designated by an asterisk (*).

Risks Related to Our Financial Position and Need For Additional Capital

We have incurred significant operating losses since our inception and anticipate that we will continue to incur substantial operating losses for the foreseeable future. We may never achieve or maintain profitability.*

Since our inception, we have incurred significant operating losses. Our net loss was $21.7 million and $7.9 million for 2014 and the three months ended March 31, 2015, respectively. As of March 31, 2015, we had an accumulated deficit of $59.7 million. To date, we have financed our operations primarily through private placements of our preferred stock and our initial public offering in October 2014. We have devoted substantially all of our financial resources and efforts to research and development. We began Phase 1 clinical trials on our lead product candidate, CB-839, in early 2014 and expect that it will be many years, if ever, before we receive regulatory approval and have a product candidate ready for commercialization. We expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will increase substantially if and as we:

- advance further into clinical trials our existing clinical product candidate, CB-839, a glutaminase inhibitor for the treatment of solid and hematological tumors;
- continue the preclinical development of our arginase and hexokinase II inhibitor programs and advance candidates into clinical trials;
- identify additional product candidates and advance them into preclinical development;
- seek marketing approvals for our product candidates that successfully complete clinical trials;
- establish a sales, marketing and distribution infrastructure to commercialize any product candidates for which we obtain marketing approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, regulatory and scientific personnel;

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add operational, financial and management information systems and personnel, including personnel to support product development; and

- acquire or in-license other product candidates and technologies.

To become and remain profitable, we must develop and eventually commercialize one or more products with significant market potential. This will require us to be successful in a range of challenging activities, including completing preclinical studies and clinical trials of our product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those product candidates for which we may obtain marketing approval, and satisfying any post-marketing requirements. We may never succeed in these activities and, even if we do, may never generate revenue that is significant or large enough to achieve profitability. We are currently only in Phase 1 clinical trials for CB-839 and in preclinical studies for our arginase and hexokinase II inhibitor programs. Our failure to become and remain profitable would decrease the value of the company and could impair our ability to raise capital, maintain our research and development efforts, expand our business or 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 need substantial additional funding. If we are unable to raise capital when needed, we would be forced to delay, reduce or eliminate our product development programs or commercialization efforts.*

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development of, continue and initiate clinical trials of and seek marketing approval for our product candidates, specifically CB-839 and as we become obligated to make milestone payments pursuant to our outstanding license agreements. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution of the approved product.

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

- the scope, progress, results and costs of drug discovery, preclinical development, laboratory testing and clinical trials for our product candidates, in particular CB-839;
- the costs, timing and outcome of any regulatory review of our product candidate, CB-839;
- the cost of our arginase and hexokinase II inhibitor programs, and any other product programs we pursue;
- the costs and timing of commercialization activities, including manufacturing, marketing, sales and distribution, for any product candidates that receive marketing approval;
- the costs of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending intellectual property-related claims;
- our ability to establish and maintain collaborations on favorable terms, if at all; and
- the extent to which we acquire or in-license other product candidates and technologies.

Identifying potential product candidates and conducting preclinical studies and clinical trials are time consuming, expensive and uncertain processes that take years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales for any of our current or future product candidates. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenue, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all.

Accordingly, we will need substantial additional funding in connection with our continuing operations and to achieve our goals. As of March 31, 2015, we had cash, cash equivalents and investments of $94.3 million. We expect that our existing cash and cash equivalents will be sufficient to enable us to meet our current operating plan for at least the next 12 months. However, our existing cash, cash equivalents and investments may prove to be insufficient for these activities. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts. Adequate additional financing may not be available to us on acceptable terms, or at all. In addition, we may seek additional financing due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our operating plans.

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

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity and debt financings, as well as entering into collaborations, strategic alliances and licensing arrangements. We do not currently have any committed external source of funds. 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 of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. 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, and may be secured by all or a portion of our assets. If we raise funds by entering into collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies,

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

Our short operating history may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

We were founded in March 2010 and our operations to date have been limited to organizing and staffing our company, business planning, raising capital, developing our technology, identifying potential product candidates, undertaking preclinical studies and commencing Phase 1 clinical trials of our product candidate. We have one product candidate in Phase 1 clinical trials, and all of our other programs are in research and preclinical development. We have not yet demonstrated our ability to successfully complete any clinical trials, including large-scale, pivotal clinical trials required for regulatory approval of our product candidates, obtain marketing approvals, manufacture a commercial scale product, or arrange for a third party to do so on our behalf, or conduct sales and marketing activities necessary for successful commercialization. Typically, it takes many years to develop one new product from the time it is discovered to when it is commercially available. Consequently, any predictions made about our future success or viability may not be as accurate as they could be if we had a longer operating history or if we had product candidates in advanced clinical trials.

In addition, as a new business, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors that may alter or delay our plans. We will need to transition from a company with a research focus to a company capable of supporting development activities and, if a product candidate is approved, a company with commercial activities. We may not be successful in any step in such a transition.

Risks Related to Drug Discovery, Development and Commercialization

Our approach to the discovery and development of product candidates that target tumor metabolism and tumor immunology is unproven and may never lead to marketable products.

Our scientific approach focuses on using our understanding of cellular metabolic pathways and the role of glutaminase and hexokinase in these pathways, as well as the role of arginase in the anti-tumor immune response, to identify molecules that are potentially promising as therapies for cancer indications. Any product candidates we develop may not effectively modulate metabolic or immunology pathways. The scientific evidence to support the feasibility of developing product candidates based on inhibiting tumor metabolism or impacting the anti-tumor immune response are both preliminary and limited. Although preclinical studies suggest that inhibiting glutaminase and hexokinase can suppress the growth of certain cancer cells, to date no company has translated this mechanism into a drug that has received marketing approval. Even if we are able to develop a product candidate in preclinical studies, we may not succeed in demonstrating the safety and efficacy of the product candidate in human clinical trials. Our expertise in cellular metabolic pathways, the role of glutaminase and hexokinase in these pathways, and the role of arginase in the anti-tumor immune response may not result in the discovery and development of commercially viable products to treat cancer.

We are very early in our development efforts, which may not be successful.

We have invested a significant portion of our efforts and financial resources in the identification of our most advanced product candidate, CB-839, which is being evaluated in three Phase 1 clinical trials. Our arginase inhibitor and hexokinase II inhibitor programs are in preclinical development. Because of the early stage of our development efforts and our unproven and novel approach to discovery and development of product candidates, we do not have a clearly defined clinical development path. It is also too early in our development efforts to determine whether our product candidates will demonstrate single-agent activity or will be developed for use in combination with other approved therapies, or both. As a result, the timing and costs of the regulatory paths we will follow and marketing approvals remain uncertain. Our ability to generate product revenue, which we do not expect will occur for many years, if ever, will depend heavily on the successful development and eventual commercialization of CB-839. The success of CB-839, our arginase and hexokinase II inhibitor programs and any other product candidates we may develop will depend on many factors, including the following:

- successful enrollment in, and completion of, clinical trials;
- demonstrating safety and efficacy;
- receipt of marketing approvals from applicable regulatory authorities;
- establishing commercial manufacturing capabilities or making arrangements with third-party manufacturers;
- obtaining and maintaining patent and trade secret protection and non-patent exclusivity for our product candidates;
- launching commercial sales of the product candidates, if and when approved, whether alone or selectively in collaboration with others;
- acceptance of the product candidates, if and when approved, by patients, the medical community and third-party payors;
- effectively competing with other therapies;
- a continued acceptable safety profile of the products following approval; and
- enforcing and defending intellectual property rights and claims.

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If we do not accomplish one or more of these goals in a timely manner, or at all, we could experience significant delays or an inability to successfully commercialize our product candidates, which would harm our business.

We may not be successful in our efforts to identify or discover potential product candidates.

Our drug discovery efforts may not be successful in identifying compounds that are useful in treating cancer. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for a number of reasons. In particular, our research methodology used may not be successful in identifying compounds with sufficient potency or bioavailability to be potential product candidates. In addition, our potential product candidates may, on further study, be shown to have harmful side effects or other negative characteristics.

Research programs to identify new product candidates require substantial technical, financial and human resources. We may choose to focus our efforts and resources on potential product candidates that ultimately prove to be unsuccessful. If we are unable to identify suitable compounds for preclinical and clinical development, we will not be able to generate product revenue, which would harm our financial position and adversely impact our stock price.

If clinical trials of our product candidates fail to demonstrate safety and efficacy to the satisfaction of regulatory authorities or do not otherwise produce positive results, we may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of our product candidates.

Before obtaining marketing approval from regulatory authorities for the sale of our product candidates, we must complete preclinical development and then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. A failure of one or more clinical trials could occur at any stage of testing. The outcome of preclinical testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a particular clinical trial do not necessarily predict final results of that trial.

Moreover, preclinical and clinical data are often susceptible to multiple interpretations and analyses. Many companies that have believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their products.

We may experience numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent our ability to receive marketing approval or commercialize our product candidates, including that:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- we may have delays in reaching or fail to reach agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites;
- clinical trials of our product candidates may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon product development programs;
- the number of patients required for clinical trials of our product candidates may be larger than we anticipate; enrollment in these clinical trials may be slower than we anticipate, or participants may drop out of these clinical trials at a higher rate than we anticipate;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks;
- the cost of clinical trials of our product candidates may be greater than we anticipate; and

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the supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete clinical trials of our product candidates or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

·be delayed in obtaining marketing approval for our product candidates;

- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or safety warnings, including boxed warnings;
- be subject to additional post-marketing testing requirements; or
- have the product removed from the market after obtaining marketing approval.

Product development costs will also increase if we experience delays in testing or in receiving marketing approvals. We do not know whether any clinical trials will begin as planned, will need to be restructured or will be completed on schedule, or at all. Significant clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates, could allow our competitors to bring products to market before we do, and could impair our ability to successfully commercialize our product candidates, any of which may harm our business and results of operations.

If we experience delays or difficulties in enrolling patients in clinical trials, our receipt of necessary regulatory approvals could be delayed or prevented.

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to identify and enroll a sufficient number of eligible patients to participate in these trials as required by the U.S. Food and Drug Administration, or FDA, or analogous regulatory authorities outside the United States. In addition, some of our competitors may have ongoing clinical trials for product candidates that would treat the same indications as our product candidates, and patients who would otherwise be eligible for our clinical trials may instead enroll in clinical trials of our competitors' product candidates. Patient enrollment is also affected by other factors, including:

- severity of the disease under investigation;
- availability and efficacy of approved medications for the disease under investigation;
- eligibility criteria for the trial in question;
- perceived risks and benefits of the product candidate under study;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians;
- the ability to monitor patients adequately during and after treatment; and
- proximity and availability of clinical trial sites for prospective patients.

Our inability to enroll a sufficient number of patients for our clinical trials would result in significant delays or may require us to abandon one or more clinical trials altogether. Enrollment delays in our clinical trials may result in increased development costs for our product candidates, which would cause the value of our company to decline and limit our ability to obtain additional financing.

If serious adverse effects or unexpected characteristics of our product candidates are identified during development, we may need to abandon or limit our development of some or all of our product candidates.

CB-839 is our only product candidate in Phase 1 clinical trials, all our other programs are in preclinical development and their risk of failure is high. It is impossible to predict when or if any of our product candidates will prove effective or safe in humans or will receive marketing approval. If our product candidates are associated with undesirable side effects or have characteristics that are unexpected, we may need to abandon their development or limit development to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Many agents that initially showed promise in early stage testing for treating cancer or other diseases have later been found to cause side effects that prevented further development of the agent.

We are in early clinical trials with CB-839 and we have seen several adverse events deemed possibly or probably related to CB-839. As of January 19, 2015, a variety of adverse events, or AEs, have been reported. Treatment-emergent Grade ≥ 3 AEs occurring in >5% of patients included febrile neutropenia, thrombocytopenia,

hyponatremia, and increases in liver enzymes aspartate aminotransferase (AST), alanine aminotransferase (ALT) and alkaline phosphatase. We have treated an insufficient number of patients to assess the safety of CB-839 and, as our trials progress, we may experience more frequent or more severe adverse events. Our ongoing trials for CB-839 may fail due to safety issues, and we may need to abandon development of CB-839. Our arginase and hexokinase II inhibitor programs may also fail due to preclinical safety issues, causing us to abandon or delay the development of a product candidate from this program.

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

We have limited financial and managerial resources. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications 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, 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.

Even if any of our product candidates receive marketing approval, they may fail to achieve the degree of market acceptance by physicians, patients, third party payors and others in the medical community necessary for commercial success.

If any of our product candidates receive marketing approval, they may nonetheless fail to gain sufficient market acceptance by physicians, patients, third party payors and others in the medical community for us to achieve commercial success. For example, current cancer treatments like chemotherapy and radiation therapy for certain diseases and conditions are well established in the medical community, and doctors may continue to rely on these treatments. If our product candidates do not achieve an adequate level of acceptance, we may not generate significant product revenue to become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

·the efficacy and potential advantages compared to alternative treatments;
·our ability to offer any approved products for sale at competitive prices;
·convenience and ease of administration compared to alternative treatments;
·the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
·the strength of marketing and distribution support;
·sufficient third-party coverage or reimbursement; and
·the prevalence and severity of any side effects.

If, in the future, we are unable to establish sales and marketing capabilities or to selectively enter into agreements with third parties to sell and market our product candidates, we may not be successful in commercializing our product candidates if and when they are approved.

We do not have a sales or marketing infrastructure and have no experience in the sale, marketing or distribution of pharmaceutical products. To achieve commercial success for any approved product for which we retain sales and marketing responsibilities, we must either develop a sales and marketing organization or outsource these functions to other third parties. In the future, we may choose to build a focused sales and marketing infrastructure to sell some of our product candidates if and when they are approved.

There are risks involved both with establishing our own sales and marketing capabilities and with entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

Factors that may inhibit our efforts to commercialize our product candidates on our own include:

·our inability to recruit and retain adequate numbers of effective sales and marketing personnel;

- the inability of sales personnel to obtain access to physicians or persuade adequate numbers of physicians to prescribe any future products; and
- unforeseen costs and expenses associated with creating an independent sales and marketing organization.

If we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenue or the profitability of these product revenue to us may be lower than if we were to market and sell any products that we develop ourselves. In addition, we may not be successful in entering into arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us. We may have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively. If we do not establish sales and marketing capabilities successfully, either on our own or in collaboration with third parties, we will not be successful in commercializing our product candidates.

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

The development and commercialization of new drug products is highly competitive. We face competition with respect to our current product candidates, and will face competition with respect to any product candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. There are a number of large pharmaceutical and biotechnology companies that currently market and sell products or are pursuing the development of products for the treatment of the cancer indications for which we are focusing our product development efforts. Some of these competitive products and therapies are based on scientific approaches that are the same as or similar to our aNTER>

Name of Holder (print):
(Signature):
(By:)
(Title:)
Tax ID No.
Dated:

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ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs [ ] to issue the above indicated number of shares of Common Stock in accordance with the Irrevocable Transfer Agent Instructions dated [ ] 2005 from the Company and acknowledged and agreed to by [ ].

La Jolla Pharmaceutical Company
By:

Name:

Title:

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EXHIBIT B [TO FORM OF CONTINGENT WARRANT]
FORM OF ASSIGNMENT

FOR VALUE RECEIVED, hereby sells, assigns and transfers to each assignee set forth below all of the rights of the undersigned under the Warrant to acquire La Jolla Pharmaceutical Company Common Stock (as defined in the attached Warrant) to acquire the number of Warrant Shares set opposite the name of such assignee below and in and to the foregoing Warrant with respect to said acquisition rights and the shares of Common Stock issuable upon exercise of the Warrant:

Name and Address of Assignee	Federal Tax Identification Number	Number of Warrant Shares

If the total of the Warrant Shares are not all of the Warrant Shares evidenced by the foregoing Warrant, the undersigned requests that a new Warrant evidencing the right to acquire the Warrant Shares not so assigned be issued in the name of and delivered to the undersigned.

In connection with any transfer of the Warrant prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision) (other than any transfer pursuant to a registration statement that has been declared effective under the Securities Act), the undersigned confirms that the Warrant is being transferred:

- o Inside the United States to a Qualified Institutional Purchaser pursuant to and in compliance with the Securities Act of 1933, as amended; or

- o Inside the United States to an Accredited Investor pursuant to and in compliance with the Securities Act of 1933, as amended; or

- o Pursuant to and in compliance with Rule 144 under the Securities Act of 1933, as amended;

Name of Holder (print):
(Signature):
(By:)
(Title:)
Dated:

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ANNEX E

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this **Agreement**), dated as of October 6, 2005, by and among La Jolla Pharmaceutical Company, a Delaware corporation (the **Company**), and the undersigned Purchasers (individually a **Purchaser** and collectively the **Purchasers**).

PRELIMINARY STATEMENT

A. In connection with the Securities Purchase Agreement by and among the parties hereto of even date herewith (the **Securities Purchase Agreement**), the Company has agreed, upon the terms and subject to the conditions of the Securities Purchase Agreement, to issue and sell to the Purchasers (i) shares (the **Common Shares**) of the Company s common stock, par value $0.01 per share (the **Common Stock**) and (ii) Contingent Warrants and Closing Warrants (each as defined in the Securities Purchase Agreement) to purchase shares of Common Stock (the **Warrants** and, as exercised, the **Warrant Shares**).

B. To induce the Purchasers to execute and deliver the Securities Purchase Agreement, the Company has agreed to provide certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the **Securities Act**), and applicable state securities laws.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and each of the Purchasers hereby agree as follows:

1. *Definitions.*

As used in this Agreement, the following terms shall have the following meanings:

(a) **Delay Payment Rate** means (i) during the first two weeks of a Damages Accrual Period, an amount per week (or portion thereof) per share of Common Stock equal to 0.5% of the Per Share Purchase Price (as defined in the Securities Purchase Agreement) of such share, (ii) during the next two weeks of a Damages Accrual Period, an amount per week (or portion thereof) per share of Common Stock equal to 1% of the Per Share Purchase Price of such share, and (iii) during the remainder of a Damages Accrual Period, an amount per week (or portion thereof) per share of Common Stock equal to 2% of the Per Share Purchase Price of such share.

(b) **Investor** means a Purchaser and any transferee or assignee thereof to whom a Purchaser assigns its rights under this Agreement and who agrees to become bound by the provisions of this Agreement in accordance with Section 9.

(c) **Person** means a corporation, a limited liability company, an association, a partnership, an organization, a business, an individual, a governmental or political subdivision thereof or a governmental agency.

(d) **Register, registered,** and **registration** refer to a registration effected by preparing and filing one or more Registration Statements (as defined below) in compliance with the Securities Act and pursuant to Rule 415 under the Securities Act or any successor rule providing for offering securities on a continuous or delayed basis (**Rule 415**), and the declaration or ordering of effectiveness of such Registration Statement(s) by the United States Securities and Exchange Commission (the **SEC**).

(e) **Registrable Securities** means (i) the Common Shares issued or issuable pursuant to the terms of the Securities Purchase Agreement, (ii) the Warrant Shares issued or issuable upon exercise of the Warrants, (iii) any shares of capital stock issued or issuable with respect to the Common Shares and the Warrant Shares as a result of any stock split, stock dividend, recapitalization, exchange or similar event or otherwise, without

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regard to any limitations on the issuance of the Common Shares or exercise of the Warrants and (iv) any securities of the Company issued upon the reclassification of any of the foregoing.

(f) **Registration Delay** means the occurrence of any of (i) a Registration Statement covering all the Registrable Securities (other than, if the Share Authorization Approval is not obtained prior to the closing of the transactions contemplated by the Securities Purchase Agreement, any Warrant Shares for which the Share Authorization Approval is required prior to their issuance) is not filed with the SEC on or before the Filing Deadline or is not declared effective by the SEC on or before the Effectiveness Deadline, (ii) if the Share Authorization Approval is not obtained prior to the closing of the transactions contemplated by the Securities Purchase Agreement, a Registration Statement covering all the Warrant Shares for which the Share Authorization Approval is required prior to their issuance is not filed with the SEC on or before the Warrant Share Filing Deadline or is not declared effective by the SEC on or before the Warrant Share Effectiveness Deadline, (iii) a Registration Statement in connection with a Demand Registration covering all of the Registrable Securities required to be covered thereby is not filed with the SEC on or before the deadline described in the last sentence of Section 2(b) or is not declared effective by the SEC on or before the deadline described in the last sentence of Section 2(b), (iv) on any day during the Registration Period (other than during an Allowable Grace Period, as defined in Section 3(g)), any Registrable Security required to be included in such Registration Statement cannot be sold pursuant to such Registration Statement as a matter of law or because the Company has failed to perform its obligations under this Agreement within the applicable time period required for such performance (including, without limitation, because of a failure to keep such Registration Statement effective, to disclose such information as is necessary for sales to be made pursuant to such Registration Statement or to register a sufficient number of shares of Common Stock), or (v) a Grace Period (as defined in Section 3(g)) exceeds the length of an Allowable Grace Period.

(g) **Registration Statement** means a registration statement or registration statements of the Company filed under the Securities Act covering the Registrable Securities.

(h) **Warrant Trigger Date** means the date at which the Contingent Warrants become exercisable in accordance with the terms thereof.

2. *Registration.*

(a) *Mandatory Registration.*

(i) The Company shall prepare, and, as soon as practicable, but in no event later than forty-five (45) days after the earlier of (A) the Closing Date (as defined in the Securities Purchase Agreement) or (B) the Warrant Trigger Date (the earlier of such dates, the **Filing Deadline**), file with the SEC a Registration Statement or Registration Statements (as necessary) on Form S-3 covering the resale of all of the Registrable Securities (other than, if the Share Authorization Approval is not obtained prior to the closing of the transactions contemplated by the Securities Purchase Agreement, any Warrant Shares for which the Share Authorization Approval is required prior to their issuance). In the event that Form S-3 is unavailable for such a registration, the Company shall use such other form as is available for such a registration, subject to the provisions of Section 2(f). The Company shall use its best efforts to cause such Registration Statement to be declared effective by the SEC as soon as possible, but in no event later than the earlier of (a) the fifth business day after the SEC advises the Company that either (A) it will not review such Registration Statement or (B) it has no further comments with respect to such Registration Statement, and (b) one hundred thirty five (135) days after the Closing Date (the earlier of such dates, the **Effectiveness Deadline**).

(ii) If the Share Authorization Approval is not obtained prior to the closing of the transactions contemplated by the Securities Purchase Agreement, the Company shall prepare, and, as soon as practicable, but in no event later than the later of (A) the Filing Deadline and (B) fifteen days (15) days after the date on which the Share Authorization Approval is obtained (the **Warrant Share Filing Deadline**), file with the SEC a Registration Statement or Registration Statements (as necessary) on Form S-3 covering the resale of all of the Warrant Shares for which the Share Authorization Approval is required prior to their issuance. In the event that Form S-3 is unavailable for such a registration, the Company shall use such other form as is

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available for such a registration, subject to the provisions of Section 2(f). If the Share Authorization Approval is not obtained prior to the closing of the transactions contemplated by the Securities Purchase Agreement, the Company shall use its best efforts to cause such Registration Statement to be declared effective by the SEC as soon as possible, but in no event later than the earlier of (a) the fifth business day after the SEC advises the Company that either (A) it will not review such Registration Statement or (B) it has no further comments with respect to such Registration Statement, and (b) ninety (90) days after the date on which the Share Authorization Approval is obtained (the earlier of such dates, the **Warrant Share Effectiveness Deadline**).

(b) *Demand Registrations.* If for any reason prior to the expiration of the Registration Period (as hereinafter defined), a Registration Statement required to be filed pursuant to Section 2(a) ceases to be effective or fails to cover all of the Registrable Securities required to be covered by such Registration Statement, any Investors may on subsequently demand registration pursuant to the terms of and within the time frames set forth in Section 2(a) by providing written demand registration notice to the Company (a **Demand Registration**). The Filing Deadline and Effectiveness Deadline with respect to any Demand Registration will be those dates which are forty-five (45) days and one hundred thirty five (135) days after the date that the Demand Registration notice is delivered to the Company.

(c) *Piggy-Back Registrations.* If at any time prior to the expiration of the Registration Period (as hereinafter defined), the number of shares of Common Stock available for sale under a Registration Statement is insufficient to cover all of the Registrable Securities and the Company proposes to file with the SEC a Registration Statement relating to an offering for its own account or the account of others under the Securities Act of any of its securities (other than on Form S-4, Form S-8 or Form S-1 (or their equivalents at such time) relating to securities to be issued solely in connection with any acquisition of any entity or business or to equity securities issuable in connection with stock option or other employee benefit plans approved by the board of directors of the Company) the Company shall promptly send to each Investor written notice of the Company s intention to file a Registration Statement and of such Investor s rights under this Section 2(c) and, if within twenty (20) days after receipt of such notice, such Investor shall so request in writing, the Company shall include in such Registration Statement all or any part of the Registrable Securities such Investor requests to be registered, subject to the priorities set forth in this Section 2(c) below. No right to registration of Registrable Securities under this Section 2(c) shall be construed to limit any registration required under Section 2(a). The obligations of the Company under this Section 2(c) may be waived by Investors holding a majority of the Registrable Securities. If an offering in connection with which an Investor is entitled to registration under this Section 2(c) is an underwritten offering, then each Investor whose Registrable Securities are included in such Registration Statement shall, unless otherwise agreed by the Company, offer and sell such Registrable Securities in an underwritten offering using the same underwriter or underwriters and, subject to the provisions of this Agreement, on the same terms and conditions as other shares of Common Stock included in such underwritten offering. If a registration pursuant to this Section 2(c) is to be an underwritten public offering and the managing underwriter(s) advise the Company in writing, that in their reasonable good faith opinion, marketing or other factors dictate that a limitation on the number of shares of Common Stock which may be included in the Registration Statement is necessary to facilitate and not adversely affect the proposed offering, then the Company shall include in such registration: (1) first, all securities the Company proposes to sell for its own account and (2) second, up to the full number of securities proposed to be registered for the account of the Investors entitled to registration under this Section 2(c), pro rata among such Investors on the basis of the number of Registrable Securities that each of them requested to be included in such registration.

(d) *Allocation of Registrable Securities.* The initial number of Registrable Securities included in any Registration Statement and each increase in the number of Registrable Securities included therein shall be allocated pro rata among the Investors based on the number of Registrable Securities held by each Investor at the time the Registration Statement covering such initial number of Registrable Securities or increase thereof is declared effective by the SEC. In the event that an Investor sells or otherwise transfers any of such Investor s Registrable Securities, each transferee shall be allocated a pro rata portion of the then remaining number of Registrable Securities included in such Registration Statement for such transferor. Any shares of

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Common Stock included in a Registration Statement and which remain allocated to any Person which ceases to hold any Registrable Securities covered by such Registration Statement shall be allocated to the remaining Investors, pro rata based on the number of Registrable Securities then held by such Investors which are covered by such Registration Statement.

(e) *Legal Counsel.* Subject to Section 5 of this Agreement, the Investors holding at least a majority of the Registrable Securities shall have the right to select one legal counsel to review and comment upon any registration pursuant to this Agreement (**Legal Counsel**), which shall be Baker & McKenzie LLP or such other counsel as is thereafter designated by the holders of a majority of Registrable Securities and of which the Company and its counsel have been given prior notice. The Legal Counsel shall not represent any Investor that sends such counsel written notice that such Investor does not wish such counsel to represent it in connection with the matters discussed in this Section 2(e). The Investors, other than any Investor that delivers the notice discussed in the preceding sentence, hereby waive any conflict of interest or potential conflict of interest that may arise as a result of the representation of such Investors by the Legal Counsel in connection with the subject matter of this Agreement. These provisions will not prohibit any other counsel to an Investor from reviewing and commenting on any registration filed pursuant to this Agreement at no cost to the Company. The Company shall reasonably cooperate with Legal Counsel in performing the Company s obligations under this Agreement.

(f) *Ineligibility for Form S-3.* In the event that Form S-3 is not available for any registration of Registrable Securities hereunder, the Company shall (i) register the sale of the Registrable Securities on another appropriate form reasonably acceptable to the holders of a majority of the Registrable Securities and (ii) undertake to register the Registrable Securities on Form S-3 as soon as such form is available, provided that the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form S-3 covering the Registrable Securities has been declared effective by the SEC.

(g) *Failure to File, Obtain and Maintain Effectiveness of Registration Statement.* If a Registration Delay occurs the Company shall pay to each holder of Registrable Securities (the **Registration Delay Payments**), as liquidated damages and not as a penalty, and calculated for each share of Common Stock for which a Registration Statement is required to be filed pursuant to the terms of Section 2(a) then outstanding that is a Registrable Security and not covered for resale at such time pursuant to the terms of a Registration Statement, an accruing amount per each such share equal to the Delay Payment Rate for each week (or portion thereof) during the Damages Accrual Period; provided that such Registration Delay Payments shall be paid only to the Investors that have complied with their obligations under Section 4 of this Agreement with respect thereto. The Registration Delay Payments shall accrue from the first day of the applicable Registration Delay through the date it is cured (the **Damages Accrual Period**), and shall be payable in cash to the record holders of the Registrable Securities entitled thereto on the last business day of each calendar month. The parties agree that the sole monetary damages payable for a violation of the terms of Section 2(a) shall be such liquidated damages (unless such liquidated damages are disallowed, reduced or not permitted by applicable law). Nothing shall preclude any Investor from pursuing or obtaining specific performance or other equitable relief with respect to this Agreement in accordance with applicable law. The parties hereto agree that the liquidated damages provided for in this Section 2(g) constitute a reasonable estimate of the damages that may be incurred by holders of Registrable Securities by reason of the failure of the Registration Statement to be filed or declared effective or available for effecting resales of Registrable Securities in accordance with the provisions hereof.

3. *Related Obligations.*

At such time as the Company is obligated to file a Registration Statement with the SEC pursuant to Section 2(a), the Company will use its best efforts to effect the registration of the Registrable Securities in

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accordance with the intended method of distribution thereof and, pursuant thereto, the Company shall have the following obligations:

(a) The Company shall promptly prepare and file with the SEC a Registration Statement with respect to the Registrable Securities (but in no event later than the Filing Deadline or Warrant Share Filing Deadline, as applicable) and use its best efforts to cause such Registration Statement relating to the Registrable Securities to become effective as soon as practicable after such filing (but in no event later than the applicable Effectiveness Deadline or Warrant Share Effectiveness Deadline). The Company shall keep each Registration Statement effective pursuant to Rule 415 at all times until the earlier of (i) the date as of which all of the Investors may sell all of the Registrable Securities covered by such Registration Statement without restriction pursuant to Rule 144(k) promulgated under the Securities Act (or successor thereto) or (ii) the date on which the Investors shall have sold all the Registrable Securities covered by such Registration Statement either pursuant to the Registration Statement or in one or more transactions in which the acquirer obtained unlegended certificates representing the Registrable Securities so purchased (the **Registration Period**), which Registration Statement (including any amendments or supplements thereto and prospectuses contained therein) shall not contain any 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 (in the case of any prospectus only, in light of the circumstances under which they were made) not misleading.

(b) The Company shall prepare and file with the SEC such amendments (including post-effective amendments) and supplements to a Registration Statement and the prospectus used in connection with such Registration Statement, which prospectus is to be filed pursuant to Rule 424 promulgated under the Securities Act, as may be necessary to keep such Registration Statement effective at all times during the Registration Period, and, during such period, comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities of the Company covered by such Registration Statement until such time as all of such Registrable Securities shall have been disposed of in accordance with the intended methods of distribution by the seller or sellers thereof as set forth in such Registration Statement. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to this Agreement (including pursuant to this Section 3(b)) by reason of the Company filing a report on Form 10-K, Form 10-Q or Form 8-K or any analogous report under the Securities Exchange Act of 1934, as amended (the **Exchange Act**), the Company shall have incorporated such report by reference into the Registration Statement, if applicable, or shall file such amendments or supplements with the SEC on the same day on which the Exchange Act report is filed which created the requirement for the Company to amend or supplement the Registration Statement.

(c) The Company shall (a) permit Legal Counsel and any legal counsel for a particular Investor to review and comment upon those sections of (i) the Registration Statement which are applicable to the Investors at least five (5) business days prior to its filing with the SEC and (ii) all other Registration Statements and all amendments and supplements to all Registration Statements which are applicable to the Investors (except for Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any similar or successor reports) within a reasonable number of days prior to the their filing with the SEC and (b) not file any document in a form to which Legal Counsel or such legal counsel reasonably objects. The Company shall furnish to Legal Counsel, without charge, (i) any correspondence from the SEC or the staff of the SEC to the Company or its representatives relating to any Registration Statement, provided the Legal Counsel shall keep such correspondence confidential and shall not provide copies thereof to any Investor without the Investor s express prior written consent, (ii) promptly after the same is prepared and filed with the SEC, one copy of any Registration Statement and any amendment(s) thereto, including financial statements and schedules and all exhibits and (iii) upon the effectiveness of any Registration Statement, one copy of the prospectus included in such Registration Statement and all amendments and supplements thereto. The Company shall reasonably cooperate with Legal Counsel and such other legal counsel in performing the Company s obligations pursuant to this Section 3.

(d) The Company shall furnish to each Investor whose Registrable Securities are included in any Registration Statement, without charge, (i) promptly after the same is prepared and filed with the SEC, at least one copy of such Registration Statement and any amendment(s) thereto, including financial statements

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and schedules, and all exhibits and each preliminary prospectus, (ii) upon the effectiveness of any Registration Statement, ten (10) copies of the prospectus included in such Registration Statement and all amendments and supplements thereto (or such other number of copies as such Investor may reasonably request) and (iii) such other documents, including copies of any preliminary or final prospectus, as such Investor may reasonably request from time to time in order to facilitate the disposition of the Registrable Securities owned by such Investor. From and after December 1, 2005, the Company shall comply with the requirements of Rule 153 and 172 with respect to the filing of a final prospectus with the SEC.

(e) The Company shall use its best efforts to (i) register and qualify the Registrable Securities covered by a Registration Statement under all other securities or blue sky laws of such jurisdictions in the United States, (ii) prepare and file in those jurisdictions, such amendments (including post-effective amendments) and supplements to such registrations and qualifications as may be necessary to maintain the effectiveness thereof during the Registration Period, (iii) take such other actions as may be necessary to maintain such registrations and qualifications in effect at all times during the Registration Period, and (iv) take all other actions reasonably necessary or advisable to qualify the Registrable Securities for sale in such jurisdictions; provided, however, that the Company shall not be required in connection therewith or as a condition thereto to (w) make any change in the Company s Certificate of Incorporation or by-laws that the Company s board of directors determines in good faith to be contrary to the best interests of the Company and its shareholders, (x) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 3(e), (y) subject itself to general taxation in any such jurisdiction, or (z) file a general consent to service of process in any such jurisdiction. The Company shall promptly notify Legal Counsel and each Investor who holds Registrable Securities of the receipt by the Company of any notification with respect to the suspension of the registration or qualification of any of the Registrable Securities for sale under the securities or blue sky laws of any jurisdiction in the United States or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(f) As promptly as practicable after becoming aware of such event or development, the Company shall notify Legal Counsel and each Investor in writing of the happening of any event as a result of which the prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and promptly prepare a supplement or amendment to such Registration Statement to correct such untrue statement or omission, and deliver ten (10) copies of such supplement or amendment to Legal Counsel and each Investor (or such other number of copies as Legal Counsel or such Investor may reasonably request). The Company shall also promptly notify Legal Counsel and each Investor in writing (i) when a prospectus or any prospectus supplement or post-effective amendment has been filed, and when a Registration Statement or any post-effective amendment has become effective (notification of such effectiveness shall be delivered to Legal Counsel and each Investor by facsimile on the same day of such effectiveness), (ii) of any request by the SEC for amendments or supplements to a Registration Statement or related prospectus or related information, and (iii) of the Company s reasonable determination that a post-effective amendment to a Registration Statement would be appropriate.

(g) The Company shall use its best efforts to prevent the issuance of any stop order or other suspension of effectiveness of a Registration Statement, or the suspension of the qualification of any of the Registrable Securities for sale in any jurisdiction and, if such an order or suspension is issued, to obtain the withdrawal of such order or suspension at the earliest possible moment and to notify Legal Counsel and each Investor who holds Registrable Securities being sold of the issuance of such order and the resolution thereof or its receipt of actual notice of the initiation or threat of any proceeding for such purpose.

(h) At the reasonable request of any Investor and at such Investor s expense, the Company shall use its best efforts to furnish to such Investor, on the date of the effectiveness of the Registration Statement and thereafter from time to time on such dates as an Investor may reasonably request (i) a letter, dated such date, from the Company s independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, and (ii) an opinion, dated as of such date, of counsel representing the Company for purposes of such Registration

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Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the Investors.

(i) The Company shall, upon reasonable notice and during normal business hours, make available for inspection by (i) any Investor, (ii) Legal Counsel and any other legal counsel representing an Investor and (iii) one firm of accountants or other agents retained by the Investors (collectively, the **Inspectors**) all pertinent financial and other records, and pertinent corporate documents and properties of the Company (collectively, the **Records**), which are requested for any purpose reasonably related to the Investors rights and/or the Company s obligations under this Agreement, and cause the Company s officers, directors and employees to supply all information which any Inspector may reasonably request; provided, however, that each Inspector which is not a party hereto shall agree in writing prior to obtaining access to any Records, and each Investor hereby agrees, to hold in strict confidence and shall not make any disclosure (except to an Investor similarly bound by the terms hereof) or use of any Record or other information which the Company determines in good faith to be confidential, and of which determination the Inspectors are so notified, unless (a) the disclosure of such Records is necessary to avoid or correct a misstatement or omission in any Registration Statement or is otherwise required under the Securities Act, (b) the release of such Records is ordered pursuant to a final, non-appealable subpoena or order from a court or government body of competent jurisdiction, or (c) the information in such Records has been made generally available to the public other than by disclosure in violation of this or any other agreement of which the Inspector has knowledge. Neither the Company nor any Inspector of a particular Investor shall provide any confidential information to any other Investor unless such Investor is first informed of the confidential nature of such information and given a reasonable opportunity to determine whether to accept disclosure of such confidential information. The Company shall not be required to disclose any confidential information in such Records to any Inspector until and unless such Inspector shall have entered into confidentiality agreements with the Company with respect thereto, substantially in the form of this Section 3(i). Each Investor receiving the Records agrees that it shall, if permitted by applicable law, upon learning that disclosure of such Records is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt notice to the Company prior to making any such disclosure and allow the Company, at its expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, the Records deemed confidential. Each Investor undertaking an inspection pursuant to this Section 3(i) shall, and shall instruct its other Inspectors to, use commercially reasonable efforts to perform any such inspection in a manner designed to not materially disrupt the business activities of the Company.

(j) The Company shall hold in confidence and not make any disclosure of information concerning an Investor provided to the Company unless (i) disclosure of such information is necessary to comply with federal or state securities laws, (ii) the disclosure of such information is necessary to avoid or correct a misstatement or omission in any Registration Statement, (iii) the release of such information is ordered pursuant to a subpoena or other final, non-appealable order from a court or governmental body of competent jurisdiction, (iv) such information has been made generally available to the public other than by disclosure in violation of this Agreement or any other agreement, or (v) such Investor consents to the form and content of any such disclosure. The Company agrees that it shall, if permitted by applicable law, upon learning that disclosure of such information concerning an Investor is sought in or by a court or governmental body of competent jurisdiction or through other means, give prompt written notice to such Investor prior to making any such disclosure and allow such Investor, at the Investor s expense, to undertake appropriate action to prevent disclosure of, or to obtain a protective order for, such information.

(k) The Company shall use its best efforts either to (i) cause all the Registrable Securities covered by a Registration Statement to be listed on each securities exchange on which securities of the same class or series issued by the Company are then listed, if any, if the listing of such Registrable Securities is then permitted under the rules of such exchange, or (ii) secure designation and quotation of all the Registrable Securities covered by the Registration Statement on The NASDAQ Stock Market. The Company shall pay all fees and expenses in connection with satisfying its obligation under this Section 3(k).

(l) The Company shall cooperate with the Investors who hold Registrable Securities being offered and, to the extent applicable, to facilitate the timely preparation and delivery of certificates (not bearing any

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restrictive legend) representing the Registrable Securities to be offered pursuant to a Registration Statement and enable such certificates to be in such denominations or amounts, as the case may be, as the Investors may reasonably request and registered in such names as the Investors may request.

(m) The Company shall provide a transfer agent and registrar of all such Registrable Securities not later than the effective date of such Registration Statement.

(n) If requested by an Investor, the Company shall (i) as soon as practicable incorporate in a prospectus supplement or post-effective amendment, as necessary, such information as an Investor requests to be included therein relating to the Investor and the sale and distribution of Registrable Securities, including, without limitation, information with respect to the number of Registrable Securities being offered or sold, the purchase price being paid therefor and any other terms of the offering of the Registrable Securities to be sold in such offering; and (ii) as soon as practicable make all required filings of such prospectus supplement or post-effective amendment after being notified of the matters to be incorporated in such prospectus supplement or post-effective amendment.

(o) The Company shall use its best efforts to cause the Registrable Securities covered by the applicable Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to consummate the disposition of such Registrable Securities within the United States.

(p) The Company shall otherwise use its best efforts to comply with all applicable rules and regulations of the SEC in connection with any registration hereunder.

(q) Within two (2) business days after a Registration Statement which covers applicable Registrable Securities is ordered effective by the SEC, the Company shall deliver, and shall cause legal counsel for the Company to deliver, to the transfer agent for such Registrable Securities (with copies to the Investors whose Registrable Securities are included in such Registration Statement) confirmation that such Registration Statement has been declared effective by the SEC.

(r) Notwithstanding anything to the contrary in this Section 3, at any time after the applicable Registration Statement has been declared effective by the SEC, the Company may delay the disclosure of material non-public information concerning the Company the disclosure of which at the time is not, in the good faith opinion of the Board of Directors of the Company and its counsel, in the best interest of the Company and, in the opinion of counsel to the Company, otherwise required (a **Grace Period**); provided, that the Company shall promptly (i) notify the Investors in writing of the existence of material non-public information giving rise to a Grace Period (provided that in each notice the Company will not disclose the content of such material non-public information to the Investors) and the date on which the Grace Period will begin, and (ii) notify the Investors in writing of the date on which the Grace Period ends; and, provided further, that no Grace Periods shall exceed thirty (30) consecutive days and during any consecutive three hundred sixty-five (365) day period, such Grace Periods shall not exceed an aggregate of sixty (60) days (an **Allowable Grace Period**). For purposes of determining the length of a Grace Period above, the Grace Period shall begin on and include the date the holders receive the notice referred to in clause (i) and shall end on and include the later of the date the holders receive the notice referred to in clause (ii) and the date referred to in such notice. The provisions of Section 3(g) hereof shall not be applicable during the period of any Allowable Grace Period. Upon expiration of the Grace Period, the Company shall again be bound by the first sentence of Section 3(f) with respect to the information giving rise thereto unless such material non-public information is no longer applicable.

4. *Obligations of the Investors.*

(a) At least seven (7) days prior to the first anticipated filing date of a Registration Statement, the Company shall notify each Investor in writing of the information the Company requires from each such Investor if such Investor elects to have any of such Investor s Registrable Securities included in such Registration Statement. It shall be a condition precedent to the obligations of the Company to complete the registration pursuant to this Agreement with respect to the Registrable Securities of a particular Investor that such Investor shall furnish to the Company such information regarding itself, the Registrable Securities held

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by it and the intended method of disposition of the Registrable Securities held by it as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request, in each case within ten (10) days of being notified by the Company of its necessity.

(b) Each Investor by such Investor s acceptance of the Registrable Securities agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of any Registration Statement hereunder, unless such Investor has notified the Company in writing of such Investor s election to exclude all of such Investor s Registrable Securities from such Registration Statement.

(c) Each Investor agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(g) or the first sentence of 3(f), such Investor will immediately discontinue disposition of Registrable Securities pursuant to any Registration Statement(s) covering such Registrable Securities until such Investor s receipt of the copies of the supplemented or amended prospectus contemplated by Section 3(g) or the first sentence of 3(f) or receipt of notice that no supplement or amendment is required. Notwithstanding anything to the contrary, the Company shall cause its transfer agent to deliver unlegended shares of Common Stock to a transferee of an Investor in accordance with the terms of the Securities Purchase Agreement in connection with any sale of Registrable Securities with respect to which an Investor has entered into a contract for sale prior to the Investor s receipt of a notice from the Company of the happening of any event of the kind described in Section 3(g) or the first sentence of Section 3(f) and for which the Investor has not yet settled.

(d) As promptly as practicable after becoming aware of such event, each Investor shall notify the Company in writing of the happening of any event as a result of which the information provided in writing by such Investor to the Company expressly for use in the Prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that no separate written notification shall be required for any event disclosed by such Investor in a timely filing with the SEC relating to the Company s securities.

5. *Expenses of Registration.*

All expenses incurred in connection with registrations, filings or qualifications pursuant to Sections 2 and 3 of this Agreement, including, without limitation, all registration, listing and qualifications fees, printers and accounting fees, transfer agent fees and fees and disbursements of counsel for the Company, but excluding underwriting discounts and commissions, shall be paid by the Company. The Company shall also reimburse the Investors for the reasonable and documented fees and disbursements of Legal Counsel in connection with registration, filing or qualification pursuant to Sections 2 and 3 of this Agreement. The Company shall pay all of the Investors reasonable costs (including fees and disbursements of Legal Counsel) incurred in connection with the successful enforcement of the Investors rights under this Agreement. Notwithstanding the foregoing, each seller of Registrable Securities shall pay all fees and disbursements of all counsel (other than the Legal Counsel) retained by such seller and all selling expenses, including, without limitation, all underwriting discounts, selling commissions, transfer taxes and other similar expenses, to the extent required by applicable law.

6. *Indemnification.*

In the event any Registrable Securities are included in a Registration Statement under this Agreement:

(a) To the fullest extent permitted by law, the Company will, and hereby does, indemnify, hold harmless and defend each Investor, the directors, officers, partners, employees, agents, representatives of, and each Person, if any, who controls any Investor within the meaning of the Securities Act or the Exchange Act (each, an **Investor Indemnified Person**), against any losses, claims, damages, liabilities, judgments, fines, penalties, charges, costs, reasonable attorneys fees, amounts paid in settlement or expenses, joint or several, (collectively, **Claims**) incurred in investigating, preparing or defending any action, claim, suit, inquiry, proceeding, investigation or appeal taken from the foregoing by or before any court or governmental, administrative or other regulatory agency, body or the SEC, whether pending or threatened, whether or not an indemnified

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party is or may be a party thereto (**Indemnified Damages**), to which any of them may become subject insofar as such Claims (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact in a Registration Statement or any post-effective amendment thereto or in any filing made in connection with the qualification of the offering under the securities or other blue sky laws of any jurisdiction in which Registrable Securities are offered (**Blue Sky Filing**), or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus if used prior to the effective date of such Registration Statement, or contained in the final prospectus (as amended or supplemented, if the Company files any amendment thereof or supplement thereto with the SEC) or the omission or alleged omission to state therein any material fact necessary to make the statements made therein, in light of the circumstances under which the statements therein were made, not misleading, (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any other law, including, without limitation, any state securities law, or any rule or regulation thereunder relating to the offer or sale of the Registrable Securities pursuant to a Registration Statement or (iv) any violation by the Company of the terms of this Agreement (the matters in the foregoing clauses (i) through (iv) being, collectively, **Violations**). Subject to Section 6(c), the Company shall reimburse the Investors and each such controlling person, promptly as such expenses are incurred and are due and payable, for any legal fees or disbursements or other reasonable expenses incurred by them in connection with investigating or defending any such Claim. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(a): (i) shall not apply to a Claim by an Investor Indemnified Person arising out of or based upon a Violation which occurs in reliance upon and in conformity with information furnished in writing to the Company by such Investor Indemnified Person expressly for use in connection with the preparation of the Registration Statement or any such amendment thereof or supplement thereto, if such prospectus was timely made available by the Company pursuant to Section 3(d); (ii) shall not be available to the extent such Claim is based on a failure of the Investor to deliver or to cause to be delivered the prospectus made available by the Company, (A) if such prospectus was timely made available by the Company pursuant to Section 3(d) and (B) from and after December 1, 2005, the Company had notified the Investor that such prospectus was required to be delivered by the Investor as a result of the Company s failure to comply with the conditions of Rule 172(c) under the Securities Act; and (iii) shall not apply to amounts paid in settlement of any Claim, if such settlement is effected without the prior written consent of the Company, which consent shall not be unreasonably withheld. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Investor Indemnified Person and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9.

(b) In connection with any Registration Statement in which an Investor is participating, each such Investor agrees to severally and not jointly indemnify, hold harmless and defend, to the same extent and in the same manner as is set forth in Section 6(a), the Company, each of its directors, each of its officers who signs the Registration Statement, each of the Company s agents or representatives, and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (each an **Company Indemnified Party**), against any Claim or Indemnified Damages to which any of them may become subject, under the Securities Act, the Exchange Act or otherwise, insofar as such Claim or Indemnified Damages arise out of or are based upon any Violation, in each case to the extent, and only to the extent, that such Violation occurs in reliance upon and in conformity with written information furnished to the Company by such Investor specifically for use in connection with such Registration Statement; and, subject to Section 6(d), such Investor will reimburse any legal or other expenses reasonably incurred by them in connection with investigating or defending any such Claim; provided, however, that the indemnity agreement contained in this Section 6(b) and the agreement with respect to contribution contained in Section 7 shall not apply to amounts paid in settlement of any Claim if such settlement is effected without the prior written consent of such Investor, which consent shall not be unreasonably withheld; provided, further, however, that the Investor shall be liable under this Section 6(b) for only that amount of a Claim or Indemnified Damages as does not exceed the net proceeds to such Investor as a result of the sale of the Registrable Securities pursuant to the Registration Statement giving rise to such liability. Such indemnity shall remain in full force and effect

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regardless of any investigation made by or on behalf of such Company Indemnified Party and shall survive the transfer of the Registrable Securities by the Investors pursuant to Section 9. Notwithstanding anything to the contrary contained herein, the indemnification agreement contained in this Section 6(b) with respect to any prospectus shall not inure to the benefit of any Company Indemnified Party if the untrue statement or omission of material fact contained in the prospectus was corrected on a timely basis in the prospectus, as then amended or supplemented.

(c) Promptly after receipt by an Investor Indemnified Person or Company Indemnified Party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental action or proceeding) involving a Claim, such Investor Indemnified Person or Company Indemnified Party shall, if a Claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof, and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume control of the defense thereof with counsel mutually satisfactory to the indemnifying party and the Investor Indemnified Person or the Company Indemnified Party, as the case may be; provided, however, that an Investor Indemnified Person or Company Indemnified Party shall have the right to retain its own counsel with the fees and expenses of not more than one counsel for such Investor Indemnified Person or Company Indemnified Party to be paid by the indemnifying party, if, in the reasonable opinion of counsel retained by the indemnifying party, the representation by such counsel of the Investor Indemnified Person or Company Indemnified Party and the indemnifying party would be inappropriate due to actual or potential conflicting interests between such Investor Indemnified Person or Company Indemnified Party and any other party represented by such counsel in such proceeding. In the case of an Investor Indemnified Person, legal counsel referred to in the immediately preceding sentence (the **Investor Legal Counsel**) shall be selected by the Investors holding a majority in interest of the Registrable Securities included in the Registration Statement to which the Claim relates. The Investor Legal Counsel shall not represent any Investor Indemnified Person that sends such counsel written notice that such Investor Indemnified Person does not wish such counsel to represent it in connection with the matters discussed in this Section. The Investor Indemnified Persons, other than any Investor Indemnified Person that delivers the notice discussed in the preceding sentence, hereby waive any conflict of interest or potential conflict of interest that may arise as a result of the representation of such Investor Indemnified Persons by the Investor Legal Counsel in connection with the subject matter of the Claim. The Company Indemnified Party or Investor Indemnified Person shall cooperate with the indemnifying party in connection with any negotiation or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the Company Indemnified Party or Investor Indemnified Person which relates to such action or claim. The indemnifying party shall keep the Company Indemnified Party or Investor Indemnified Person apprised as to the status of the defense or any settlement negotiations with respect thereto. No indemnifying party shall be liable for any settlement of any action, claim or proceeding effected without its prior written consent, which consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the Company Indemnified Party or Investor Indemnified Person, consent to entry of any judgment or enter into any settlement or other compromise which (i) does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Company Indemnified Party or Investor Indemnified Person of a release from all liability in respect of such claim or litigation, (ii) requires any admission of wrongdoing by the Company Indemnified Party or Investor Indemnified Party or (iii) obligates or requires a Company Indemnified Party or Investor Indemnified Party to take, or refrain from taking, any action. Following indemnification as provided for hereunder, the indemnifying party shall be subrogated to all rights of the Company Indemnified Party or Investor Indemnified Person with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the Investor Indemnified Person or Company Indemnified Party under this Section 6, except to the extent that the indemnifying party is materially prejudiced in its ability to defend such action.

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(d) The indemnification required by this Section 6 shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or Indemnified Damages are incurred.

(e) The indemnity agreements contained herein shall be in addition to (i) any cause of action or similar right of the Company Indemnified Party or Investor Indemnified Person against the indemnifying party or others, and (ii) any liabilities the indemnifying party may be subject to pursuant to the law.

7. *Contribution.*

If for any reason the indemnification provided for in Section 6 hereof is unavailable to a Company Indemnified Party or an Investor Indemnified Party or insufficient to hold it harmless, other than as expressly specified therein, then the indemnifying party shall contribute to the amount paid or payable by the Company Indemnified Party or the Investor Indemnified Party, as applicable, as a result of Claims in such proportion as is appropriate to reflect the relative fault of the indemnified party and the indemnifying party, as well as any other relevant equitable considerations. No person guilty of fraudulent misrepresentation within the meaning of Section 11(f) of the Securities Act shall be entitled to contribution from any person not guilty of such fraudulent misrepresentation. In no event shall the contribution obligation of a holder of Registrable Securities be greater in amount than the dollar amount of the proceeds (net of all expenses paid by such holder in connection with any claim relating to this Section 7 and the amount of any damages such holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission) received by it upon the sale of the Registrable Securities giving rise to such contribution obligation.

8. *Reports Under the Exchange Act.*

With a view to making available to the Investors the benefits of Rule 144 promulgated under the Securities Act or any other similar rule or regulation of the SEC that may at any time permit the Investors to sell securities of the Company to the public without registration (**Rule 144**), the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements (it being understood that nothing herein shall limit the Company s obligations under the Securities Purchase Agreement) and the filing of such reports and other documents is required for the applicable provisions of Rule 144; and

(c) furnish to each Investor so long as such Investor owns Registrable Securities, promptly upon request, (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the Securities Act and the Exchange Act and (ii) such other information as may be reasonably requested to permit the investors to sell such securities pursuant to Rule 144 without registration.

9. *Assignment of Registration Rights.*

The rights under this Agreement shall be automatically assignable by the Investors to any transferee of all or any portion of Registrable Securities if: (i) the Investor agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment; (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned; (iii) the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein; and (iv) such transfer shall have been made in accordance with the applicable requirements of the Securities Purchase Agreement and Warrant. No transferee of registration rights under this Agreement shall be entitled to include any Registrable Securities on a Registration Statement unless it previously has provided the Company the written notice referred to in clause (ii) of the preceding sentence.

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10. *Amendment of Registration Rights.*

Provisions of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors who then hold a majority of the Registrable Securities. Any amendment or waiver effected in accordance with this Section 10 shall be binding upon each Investor and the Company. No such amendment shall be effective to the extent that it applies to less than all of the holders of the Registrable Securities.

11. *Miscellaneous.*

(a) For the purposes of determining the rights of the Parties hereto, including the right to approve matters pursuant to the terms hereof, a Person is deemed to be a holder of Registrable Securities whenever such Person owns or is deemed to own of record such Registrable Securities or holds Warrants exercisable for such Registrable Securities. When the number of Registrable Securities shall be determined, the number shall be deemed to include not only outstanding Common Shares but also any Common Shares issuable pursuant to the terms of the Securities Purchase Agreement and Warrant Shares issued upon the exercise of the Warrants. If the Company receives conflicting instructions, notices or elections from two or more Persons with respect to the same Registrable Securities, the Company shall act upon the basis of instructions, notice or election received from the registered owner of such Registrable Securities.

(b) All notices, requests, consents, and other communications under this Agreement shall be in writing and shall be deemed delivered (i) three business days after being sent by registered or certified mail, return receipt requested, postage prepaid, (ii) one business day after being sent via a reputable nationwide overnight courier service guaranteeing next business day delivery or (iii) upon delivery when sent by facsimile (with confirmation of receipt), in each case to the intended recipient as set forth below:

If to the Company:

La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, CA 92121
Attention: Chief Executive Officer
Fax: (858) 626-2851

or at such other address as may have been furnished in writing by the Company to the other parties hereto, with a copy to:

Gibson, Dunn & Crutcher LLP
4 Park Plaza
Irvine, CA 92614
Attention: Mark W. Shurtleff
Fax: (949) 451-4220

If to a Purchaser, at its address set forth on the Schedule A, or at such other address as may have been furnished in writing by such party to the Company, with a copy to its legal counsel set forth on Schedule A, if any.

If to Legal Counsel:

Baker & McKenzie LLP
130 East Randolph Drive
Chicago, Illinois 60601
Attention: Bruce Zivian, Esq.
Fax: (312) 698-2469

Any party may give any notice, request, consent or other communication under this Agreement using any other means (including, without limitation, personal delivery, messenger service or electronic mail), but no

such notice, request, consent or other communication shall be deemed to have been duly given unless and until it is actually received by the party for whom it is intended. Any party may change the address to which notices, requests, consents or other communications hereunder are to be delivered by giving the other parties notice in the manner set forth in this Section.

(c) Failure of any party to exercise any right or remedy under this Agreement or otherwise, or delay by a party in exercising such right or remedy, shall not operate as a waiver thereof. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

(d) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and the laws of the United States applicable therein (in each case without giving effect to any choice or conflict of laws provision or rule that would cause the application of the laws of any other jurisdiction) and shall be treated in all respects as a Delaware contract. Any action, suit or proceeding arising out of or relating to this Agreement shall be brought in San Diego County, California or, if it has or can acquire jurisdiction, any Federal court located in such State and County, and EACH OF THE PARTIES HERETO, AFTER CONSULTING WITH OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY AND IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS AND WAIVES TRIAL BY JURY (AND AGREES NOT TO REQUEST TRIAL BY JURY), IN EACH CASE IN CONNECTION WITH ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT. Each of the parties hereto hereby irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby in the courts of the State of California or the United States of America, in each case located in San Diego County, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such matter brought in any such court has been brought in an inconvenient forum Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

(e) This Agreement, the Securities Purchase Agreement and the Warrants constitute the entire agreement among the parties hereto with respect to the subject matter hereof and thereof. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein and therein. This Agreement, the Securities Purchase Agreement and the Warrants supersede all prior agreements and understandings among the parties hereto with respect to the subject matter hereof and thereof.

(f) Subject to the requirements of Section 9, this Agreement shall inure to the benefit of and be binding upon the permitted successors and assigns of each of the parties hereto.

(g) The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) This Agreement may be executed in identical counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

(i) Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(j) All consents and other determinations to be made by the Investors pursuant to this Agreement shall be made, unless otherwise specified in this Agreement, by Investors holding a majority of the Registrable

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Securities, determined as if all of the Common Shares issuable pursuant to the Purchase Agreement had been issued and the Warrants then outstanding and exercisable have been converted into or exercised for Registrable Securities without regard to any limitation on the issuance of the Common Shares or exercise of the Warrants.

(k) The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent and no rules of strict construction will be applied against any party.

(l) This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first set forth above.

The Company:	La Jolla Pharmaceutical Company a Delaware corporation
	By: /s/ Steven B. Engle
	Name: Steven B. Engle Title: Chairman and CEO
Purchasers:	Essex Woodlands Health Ventures Fund VI, LP
	By: Essex Woodlands Health Ventures VI, L.P. Its: General Partner
	By: Essex Woodlands Health Ventures VI, L.L.C. Its: General Partner
	By: /s/ Martin P. Sutter
	Martin P. Sutter, Managing Director

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Domain Public Equity Partners, L.P.
By: Domain Public Equity Associates, L.L.C.,
its General Partner
By: /s/ Lisa A. Kraeutler

Lisa A. Kraeutler, Attorney-in-Fact

/s/ Alejandro Gonzalez Cimadevilla

Alejandro Gonzalez Cimadevilla

Special Situations Fund III, L.P.
By: /s/ Austin W. Marxe

Austin W. Marxe, its General Partner

Special Situations Cayman Fund, L.P.
By: /s/ Austin W. Marxe

Austin W. Marxe, its General Partner

Special Situations Private Equity Fund, L.P.
By: /s/ Austin W. Marxe

Austin W. Marxe, its General Partner

Special Situations Life Sciences Fund, L.P.
By: /s/ Austin W. Marxe

Austin W. Marxe, its General Partner

Sutter Hill Ventures,
a California limited partnership
By: /s/ William H. Younger, Jr.

William H. Younger Jr.
Managing Director of the General Partner

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ANVEST, L.P.
By: /s/ David Anderson

David Anderson, General Partner

G. Leonard Baker, Jr. and Mary Anne Baker, Co-Trustees of the Baker Revocable Trust U/ A/ D 2/3/03
By: /s/ G. Leonard Baker, Jr.
By David E. Sweet
Under Power of Attorney

G. Leonard Baker, Jr., Trustee

William H. Younger, Jr. and Lauren L. Younger, Co-Trustees of the Younger Living Trust U/ A/ D 1/20/95
By: /s/ William H. Younger, Jr.

William H. Younger, Jr., Trustee

Tench Coxe and Simone Otus Coxe,
Co-Trustees of the Coxe Revocable Trust
U/ A/ D 4/23/98
By: /s/ Tench Coxe By David E. Sweet
Under Power of Attorney

Tench Coxe, Trustee

/s/ James C. Gaither By David E. Sweet
Under Power of Attorney

James C. Gaither

Jeffrey W. Bird and Christina R. Bird as Trustees of Jeffrey W. and Christina R. Bird Trust Agreement Dated 10/31/00
By: /s/ Jeffrey W. Bird

Jeffrey W. Bird, Trustee

Saunders Holdings, L.P.
By: /s/ G. Leonard Baker, Jr.
By David E. Sweet Under Power of Attorney

G. Leonard Baker, Jr., General Partner

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Robert Yin and Lily Yin as Trustees of
Yin Family Trust Dated March 1, 1997
By: /s/ Robert Yin

Robert Yin, Trustee

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO Sherryl W. Hossack

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO David L. Anderson

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO William H. Younger

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO Tenche Coxe

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO David E. Sweet

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO David E. Sweet (Rollover)

/s/ Vicki M. Bandel

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Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO Lynne M. Brown

/s/ Vicki M. Bandel

Wells Fargo Bank, N.A. FBO
SHV Profit Sharing Plan FBO Patricia Tom (Post)

/s/ Vicki M. Bandel

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SCHEDULE OF PURCHASERS

Investor Name	Investor Address and Facsimile Number	Investor s Representatives Address and Facsimile Number
Essex Woodlands Health Ventures Fund VI, L.P.	10001 Woodloch Forest Drive Waterway Plaza Two, Suite 175 The Woodlands, TX 77380 Attn: Martin P. Sutter Fax: (281) 364-9755	Baker & McKenzie LLP 130 E. Randolph Drive Chicago, IL 60601 Attn: Bruce Zivian, Esq. Fax: (312) 698-2469
Frazier Healthcare V, LP	601 Union Street, Suite 3200 Seattle, WA 98101 Attn: James Topper Fax: (206) 621-1848	
Alejandro Gonzalez Cimadevilla	Ruben Dario #223 5-A Chapultepec Morales Mexico D.F. ZIP 11570 Fax: (5255) 52818008	
Domain Public Equity Partners, L.P.	One Palmer Square, Suite 515 Princeton, NJ 08542 Attn: Nicole Vitullo Fax: (609) 683-4581	
Special Situations Fund III, L.P.	153 E. 53rd Street, 55th Floor New York, NY 10022 Attn: Marianne Hicks Fax: 212-207-6515	Lowenstein Sandler PC 65 Livingston Avenue Roseland, NJ 07068 Attn: John D. Hogoboom, Esq. Fax: (973) 597-2383
Special Situations Cayman Fund, L.P.	153 E. 53rd Street, 55th Floor New York, NY 10022 Attn: Marianne Hicks Fax: 212-207-6515	Lowenstein Sandler PC 65 Livingston Avenue Roseland, NJ 07068 Attn: John D. Hogoboom, Esq. Fax: (973) 597-2383
Special Situations Private Equity Fund, L.P.	153 E. 53rd Street, 55th Floor New York, NY 10022 Attn: Marianne Hicks Fax: 212-207-6515	Lowenstein Sandler PC 65 Livingston Avenue Roseland, NJ 07068 Attn: John D. Hogoboom, Esq. Fax: (973) 597-2383
Special Situations Life Sciences Fund, L.P.	153 E. 53rd Street, 55th Floor New York, NY 10022 Attn: Marianne Hicks Fax: 212-207-6515	Lowenstein Sandler PC 65 Livingston Avenue Roseland, NJ 07068 Attn: John D. Hogoboom, Esq. Fax: (973) 597-2383
Sutter Hill Ventures	755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax: 650-493-5600	
Anvest, L.P.		

c/o Sutter Hill Ventures
755 Page Mill Road
Suite A-200
Palo Alto, CA 94304
Attn: Robert Yin
Fax (650) 493-5600

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Investor Name	Investor Address and Facsimile Number	Investor s Representatives Address and Facsimile Number
G. Leonard Baker, Jr. and Mary Anne Baker, Co-Trustees of The Baker Revocable Trust U/A/D 2/3/03	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
Saunders Holdings, L.P.	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
William H. Younger, Jr. and Lauren L. Younger, Co-Trustees of The Younger Living Trust U/ A/ D 1/20/95	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
Tench Coxe and Simone Otus Coxe, Co-Trustees of The Coxe Revocable Trust U/ A/ D 4/23/98	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
James C. Gaither	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
Jeffrey W. Bird and Christina R. Bird as Trustees of Jeffrey W. and Christina R. Bird Trust Agreement Dated 10/31/00	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
Robert Yin and Lily Yin as Trustees of Yin Family Trust Dated March 1, 1997	c/o Sutter Hill Ventures 755 Page Mill Road Suite A-200 Palo Alto, CA 94304 Attn: Robert Yin Fax (650) 493-5600	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO Sherryl W. Hossack	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101	

	Fax: 415-956-9362
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO David L. Anderson	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362

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Investor Name	Investor Address and Facsimile Number	Investor s Representatives Address and Facsimile Number
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO William H. Younger, Jr.	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO Tench Coxe	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO David E. Sweet	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO David E. Sweet (Rollover)	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO Lynne M. Brown	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	
Wells Fargo Bank, N.A. FBO SHV Profit Sharing Plan FBO Patricia Tom (Post)	Attention: Vicki Bandel 420 Montgomery Street, 2nd Fl. San Francisco, CA 94101 Fax: 415-956-9362	

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ANNEX F

RETENTION AGREEMENTS

October 6, 2005

Bruce K. Bennett
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Bruce,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $52,462.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 69,949 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 139,898 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the

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Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

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8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent(50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

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Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

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(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.

/s/ Bruce K. Bennett

_____

Signature

Bruce K. Bennett

_____

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Josefina T. Elchico
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Jessie,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $50,500.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 67,333 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 134,667 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent(50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

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(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Josefina T. Elchico

Signature

Josefina T. Elchico

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Steven B. Engle
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Steve,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $109,200.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 145,600 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 291,200 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(d) *Incentive Election #4.* If you elect Incentive Election #4, you will receive $54,600.00 in cash within two business days after the Closing. In addition, you will receive 72,800 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to $109,200.00 (the Second Cash Payment).

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2, Incentive Election #3, or Incentive Election #4, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the

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Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2, Incentive Election #3 or Incentive Election #4 you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or

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there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2, Incentive Election #3, and Incentive Election #4, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or

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(B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

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(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven M. Martin

Steven M. Martin
Director

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Steven B. Engle

Steven B. Engle

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October 6, 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

Incentive Election #4

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that if I have chosen Incentive Election #2, Incentive Election #3, or Incentive Election #4 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Paul C. Jenn
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Paul,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $49,241.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 65,654 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 131,308 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you plus the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) plus the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

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the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been

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signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Paul C. Jenn

_____

Signature
Paul C. Jenn

_____

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Matthew D. Linnik
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Matt,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $76,371.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 101,827 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 203,655 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

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the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been

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signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Matthew D. Linnik

Signature

Matthew D. Linnik

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Theodora Reilly
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Teddi,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $46,469.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 61,958 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 123,916 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent(50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been

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signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Theodora Reilly

Signature

Theodora Reilly

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Gail A. Sloan
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Gail,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $44,256.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 59,008 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 118,015 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been

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signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Gail A. Sloan

Signature

Gail A. Sloan

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect (*check one*):

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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October 6, 2005

Andrew Wiseman
La Jolla Pharmaceutical Company
6455 Nancy Ridge Drive
San Diego, California 92121

Dear Andrew,

In order to continue to retain your services and to incentivize you to continue as an employee, subject to the terms of this letter agreement (this Agreement), La Jolla Pharmaceutical Company (the Company) hereby offers to pay to you a success bonus, the payment of which is conditioned upon the Company s achievement of the strategic objectives identified herein.

1. *Strategic Objectives.* As part of this Agreement, you agree to continue to make a valuable contribution to the Company and to assist the Company with the assessment and implementation of the strategic alternatives the Company may choose to pursue and to continue to contribute to the development of Riquent® and the Company s other drug development efforts. You also agree to continue to work towards closing the transactions contemplated by that certain Securities Purchase Agreement, dated of even date herewith (the Purchase Agreement).

2. *Incentive Elections.* On or prior to October 19, 2005 (the Election Deadline), you agree to elect which Incentive Election (defined below) will be awarded to you following the closing of the transactions contemplated by the Purchase Agreement (the Closing) by delivering to the Vice President of Finance an executed election notice in substantially the form of Exhibit A attached hereto (the Election Notice). Incentive Election means, collectively, the following:

(a) *Incentive Election #1.* If you elect Incentive Election #1, you will receive $43,388.00 (the Closing Cash Amount) in cash within two days after the Closing. On the 180th day after the Closing, subject to Section 7, you will receive an additional incentive payment in cash equal to the Closing Cash Amount (the Second Cash Payment).

(b) *Incentive Election #2.* If you elect Incentive Election #2, you will receive an amount equal to the Closing Cash Amount within two business days after the Closing. In addition, you will receive 57,851 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (the Plan). The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

(c) *Incentive Election #3.* If you elect Incentive Election #3, you will receive 115,701 shares of restricted stock under the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan. The shares will be issued as soon as practicable after the Closing and, subject to Section 8, the Company s repurchase right with respect to such shares will lapse with respect to all of the shares on the one year anniversary of the Closing.

3. *Gross-Up.*

(a) In the event that you elect Incentive Election #2 or Incentive Election #3, the Company will pay you an additional amount in cash (the Gross-Up Amount). Subject to the Section 3(b), the Gross-Up Amount will be (i) equal to the amount of taxes that would be payable by you with respect to your receipt of shares of restricted stock as if you had made an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the Code), (ii) calculated using the maximum federal and state tax rates, and (iii) based on the fair market value of the shares on the date of grant. Although the calculation of the Gross-Up Amount assumes that you will make an election under Section 83(b) of the Code, nothing herein shall require you to make an election under Section 83(b) of the Code, and, for the sake of clarity, even if you make no such election, the Company will pay you the Gross-Up Amount within five business days of the date of the grant of shares of restricted stock.

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(b) Notwithstanding Section 3(a) to the contrary, your Gross-Up Amount may be reduced if the payment of the Gross-Up Amount to you *plus* the amount of the cash bonuses paid or to be paid by the Company pursuant to all of the other Retention Agreements entered into by the Company with other employees of the Company as of the date hereof (the Other Retention Agreements) *plus* the amount of any other gross-up amounts paid by the Company pursuant to the Other Retention Agreements exceeds $1,013,770 in the aggregate (the Maximum Retention Payout Amount). In the event that the Maximum Retention Payout Amount would be exceeded, your Gross-Up Amount, and each other gross-up amount payable to other employees pursuant to the Other Retention Agreements, will be reduced by the percentage (which percentage shall be equal for all employees) that would cause the sum of the total gross-up payments (including your Gross-Up Payment) made by the Company pursuant to the Other Retention Agreements plus the total cash bonuses paid or to be paid by the Company pursuant to the Other Retention Agreements not to exceed the Maximum Retention Payout Amount.

(c) You acknowledge and agree that you will owe taxes on the Gross-Up Amount and that the Company will not gross you up for such amount of taxes.

4. *Default.* If you do not deliver the Election Notice to the Vice President of Finance by the Election Deadline, then you will be deemed to have chosen Incentive Election #1 (the Default Election) and you will receive an amount equal to the Closing Cash Payment within two days after the Closing and, subject to Section 7, an additional incentive amount equal to the Closing Cash Payment on the 180th day after the Closing.

5. *Company Obligations.* The Company s obligations hereunder to make payments in cash or to issue shares of restricted stock is subject to, and conditioned upon, the consummation of the transactions contemplated by the Purchase Agreement. If the Closing does not occur, the Company shall have no obligation to make any payments to you and shall not be required to issue any shares of stock to you.

6. *Issuance of Shares.*

(a) The Company s obligation to issue you shares of restricted stock is subject to: (a) the consummation of the transactions contemplated by the Purchase Agreement; (b) there being a sufficient number of shares available for issuance under the Plan and under the Certificate of Incorporation of the Company (the Certificate); (c) the Plan being amended to allow for the Company s repurchase restrictions to lapse on the one year anniversary of the Closing; and (d) compliance with (and the amendment of, if necessary) the limitation on the number of shares issuable to any single person in a calendar year contained in the Plan.

(b) In the event that there are not a sufficient number of shares authorized under the Plan or the Certificate to enable the Company to issue the shares on the Closing, then you agree that, instead of receiving shares under Incentive Election #2 or Incentive Election #3, you will be deemed to have made the Default Election and will receive the benefits set forth in Incentive Election #1.

(c) The consideration given by you for shares issued to you pursuant to the terms of this Agreement will be deemed to be the services provided by you to the Company between the date hereof and the date upon which the shares are issued to you and shall, for purposes of the Delaware General Corporation Law, be deemed to be equal to at least $0.01 per share issued to you.

7. *Acceleration of Cash Payments.* With respect to Incentive Election #1, if you die, become Disabled, are terminated without Cause (as defined below), resign for Good Reason (as defined below), or there is a Change in Control prior to the payment of the Second Cash Payment, then the Second Cash Payment shall be paid by the Company to you (or your heirs) within five business days of such event. If you are terminated for Cause or voluntarily resign prior to the payment of the Second Cash Payment, then the Second Cash Payment will be immediately forfeited.

8. *Acceleration of Lapse of Repurchase Right.* With respect to Incentive Election #2 and Incentive Election #3, if you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control prior to the first anniversary of the Closing, then upon the occurrence of any of the foregoing events, the Company s repurchase right shall immediately lapse. If your are terminated for Cause or

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voluntarily resign before the first anniversary of the Closing, then the Company may repurchase your shares for $0.01 per share within 90 days after the occurrence of such event.

9. *Certain Definitions.*

(a) Cause means the occurrence of one or more of the following: (i) you are convicted of or plead guilty or *nolo contendere* to a felony or any crime involving moral turpitude, embezzlement, fraud or misappropriation; (ii) you breach this Agreement or any agreement entered into with the Company in a manner that materially and adversely affects the Company; (iii) you commit willful misconduct that materially and adversely impacts the Company; or (iv) you fail, after receipt of written notice and after receiving a period of at least fifteen (15) days following such notice, to follow a direction of the Board of Directors (provided that such direction is lawful).

(b) Good Reason means the occurrence of any of the following: (i) a reduction of your current base salary; (ii) a material breach of the Company s obligations under any agreement with you; (iii) the termination of, or a material reduction in, any employee benefit currently enjoyed by you (other than as part of an across-the-board reduction applying to all executive officers of the Company that has been approved by the Board of Directors); (iv) your removal from your current position(s); (v) a material diminution in your duties; (vi) the assignment to you of duties that materially impair your ability to perform the duties normally assigned to a similarly situated executive of a corporation of the size and nature of the Company; (vii) the receipt of a directive from the Board of Directors to commit an illegal act; (viii) you are required to be employed more than 50 miles from the Company s current headquarters; (ix) you resign upon the request of the Board of Directors or a person acting upon authority or at the instruction of the Board of Directors.

(c) Change in Control means the following and shall be deemed to occur if any of the following events occur (other than as a result of any transaction contemplated by the Securities Purchase Agreement): (i) except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the effective date of this Agreement, constitute the board of directors (the Incumbent Board) cease for any reason to constitute at least a majority of the board of directors, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or (iii) approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than: (A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or (iv) approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (x) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of

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the Company s securities or (y) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(d) Disabled means that you become physically or mentally incapacitated or disabled or otherwise unable to fully discharge your responsibilities to the Company as determined by a physician agreed to by you and the Company. In the absence of agreement between you and the Company, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to disability.

10. *Continued Employment.* In the event that, between the date hereof and the Closing, you voluntarily resign or are terminated for Cause, then the Company will not have any obligation under this Agreement to make any payments to you or to issue any shares of restricted stock to you. For the sake of clarity, if, between the date hereof and the Closing, you die, become Disabled, are terminated without Cause, resign for Good Reason, or there is a Change in Control (other than as a result of any transaction contemplated by the Securities Purchase Agreement), you (or your heirs) will be entitled to receive the payments and shares required to be issued to you hereunder, subject to the other terms and conditions set forth herein.

11. *No Change in Terms of Employment.* You will continue to be bound by the Company s policies and this letter does not change your employment status with the Company. As with all employees at the Company, you or the Company may, subject to the terms of any contractual agreement you may have with the Company, terminate your employment at any time for any reason whatsoever, with or without cause or advance notice.

12. *Miscellaneous.*

(a) *Entire Agreement.* This Agreement constitutes the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings, among the parties with respect to the subject matter of this Agreement. This Agreement shall be binding upon and inure solely to the benefit of each of the parties and their respective successors and assigns. Without limiting the foregoing, you acknowledge and agree that your prior agreement with the Company, dated April 19, 2005, as amended on August 9, 2005, is terminated and is no longer of any effect and that the Company has no further obligations thereunder.

(b) *Amendment.* This Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing signed on behalf of each party hereto.

(c) *Governing Law.* This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of California.

(d) *Share Amounts.* All share amounts in this Agreement shall be adjusted automatically on a proportionate basis to take into account any stock split, reverse stock split, stock dividend or other similar transaction with respect to Company common stock or any similar change in capitalization with respect to the Company that occurs during the term of this Agreement.

(e) *Counterparts.* This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been

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signed by each of the parties and delivered to the other party. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Very truly yours,

La Jolla Pharmaceutical Company
By: /s/ Steven B. Engle

Steven B. Engle
Chief Executive Officer

I hereby agree to and accept the terms of this Agreement as of the date first set forth above.
/s/ Andrew Wiseman

Signature

Andrew Wiseman

Print Name

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EXHIBIT A
Form of Election Notice

Pursuant to the terms of that certain letter agreement dated October , 2005 (the Letter Agreement), I hereby elect *(check one)*:

Incentive Election #1

Incentive Election #2

Incentive Election #3

I acknowledge and agree that I have read and understand the terms of the Letter Agreement and that the Company has advised me to seek legal and tax advice prior to making my election. I understand that If I have chosen Incentive Election #2 or Incentive Election #3 and there are not a sufficient number of shares available under the Plan or the Certificate, then I will be deemed to have selected Incentive Election #1. I represent to the Company that I have had a sufficient opportunity to consult with my own legal and tax advisors regarding my election.

IN WITNESS WHEREOF, the foregoing election is made and given to the Company as of the date written below.

Signature

Print Name

Date

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ANNEX G

FORM OF AMENDMENT TO CERTIFICATE OF INCORPORATION
CERTIFICATE OF AMENDMENT TO
CERTIFICATE OF INCORPORATION
OF
LA JOLLA PHARMACEUTICAL COMPANY

La Jolla Pharmaceutical Company (the Corporation), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

1. The name of the Corporation is: La Jolla Pharmaceutical Company.

2. The Certificate of Incorporation of the Corporation is hereby amended by striking out Article IV thereof and by substituting in lieu of said Article the following new Article:

ARTICLE IV
AUTHORIZED CAPITAL STOCK

The Corporation is authorized to issue two classes of stock designated Common Stock and Preferred Stock. The total number of shares of all classes of stock that this Corporation is authorized to issue is Two Hundred Thirty Three Million (233,000,000), consisting of Two Hundred Twenty Five Million (225,000,000) shares of Common Stock, par value $0.01 per share, and Eight Million (8,000,000) shares of Preferred Stock, par value $0.01 per share.

The Board is hereby authorized to issue the shares of Preferred Stock in one or more series, to fix the number of shares of any such series of Preferred Stock, to determine the designation of any such series, and to fix the rights, preferences, and privileges and the qualifications, limitations or restrictions of the series of Preferred Stock to the full extent permitted under the Delaware General Corporation Law. The authority of the Board with respect to any series of Preferred Stock shall include, without limitation, the power to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions, if any), the redemption price or prices, and the liquidation preferences and the number of shares constituting any such additional series and the designation thereof, or any of them; and to increase or decrease the number of authorized shares of any series subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the authorized number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Executed on this _____ day of _____, 2005.

Name:
Title:

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ANNEX H

LA JOLLA PHARMACEUTICAL COMPANY
2004 EQUITY INCENTIVE PLAN
(as proposed to be amended)

ARTICLE I
GENERAL PROVISIONS

1.01 Definitions.

Terms used herein and not otherwise defined shall have the meanings set forth below:

(a) **Administrator** means the Board or a Committee that has been delegated the authority to administer the Plan.

(b) **Award** means an Incentive Award or a Nonemployee Director s Option.

(c) **Award Document** means an award agreement duly executed on behalf of the Company and by the Recipient or, in the Administrator s discretion, a confirming memorandum issued by the Company to the Recipient.

(d) **Board** means the Board of Directors of the Company.

(e) **Change in Control** means the following and shall be deemed to occur if any of the following events occur:

(i) Except as provided by subsection (iii) hereof, the acquisition (other than from the Company) by any person, entity or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (excluding, for this purpose, the Company or its subsidiaries, or any employee benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of Common Stock or the combined voting power of the Company s then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the effective date of the Plan, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company s stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of the Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than:

(A) a merger or consolidation which would result in the persons holding the voting securities of the Company outstanding immediately prior thereto continuing to hold more than fifty percent (50%) of the combined voting power of the voting securities of the Company or its successor which are outstanding immediately after such merger or consolidation, or

(B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company s then outstanding voting securities; or

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(iv) Approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company s assets.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred (1) if the person is an underwriter or underwriting syndicate that has acquired the ownership of 50% or more of the combined voting power of the Company s then outstanding voting securities solely in connection with a public offering of the Company s securities, or (2) if the person is an employee stock ownership plan or other employee benefit plan maintained by the Company that is qualified under the provisions of the Employee Retirement Income Security Act of 1974, as amended.

(f) **Code** means the Internal Revenue Code of 1986, as amended. Where the context so requires, a reference to a particular Code section shall also refer to any successor provision of the Code to such section.

(g) **Committee** means the committee appointed by the Board to administer the Plan.

(h) **Common Stock** means the common stock of the Company, $0.01 par value.

(i) **Company** means La Jolla Pharmaceutical Company.

(j) **Dividend Equivalent** means a right granted by the Company under Section 2.07 to a holder of an Option, Stock Appreciation Right, or other Incentive Award denominated in shares of Common Stock to receive from the Company during the Applicable Dividend Period (as defined in Section 2.07) payments equivalent to the amount of dividends payable to holders of the number of shares of Common Stock underlying such Option, Stock Appreciation Right, or other Incentive Award.

(k) **Eligible Person** means any director, Employee or consultant of the Company or any Related Corporation.

(l) **Employee** means an individual who is in the employ of the Company (or any Parent or Subsidiary) subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

(m) **Exchange Act** means the Securities Exchange Act of 1934, as amended. Where the context so requires, a reference to a particular section of the Exchange Act or rule thereunder shall also refer to any successor provision to such section or rule.

(n) **Exercise Price** means the price at which the Holder may purchase shares of Common Stock underlying an Option.

(o) **Fair Market Value** of capital stock of the Company shall be determined with reference to the closing price of such stock on the day in question (or, if such day is not a trading day in the U.S. securities markets, on the nearest preceding trading day), as reported with respect to the principal market or trading system on which such stock is then traded; or, if no such closing prices are reported, the mean between the high bid and low ask prices that day on the principal market or national quotation system on which such shares are then quoted; provided, however, that when appropriate, the Administrator in determining Fair Market Value of capital stock of the Company may take into account such other factors as may be deemed appropriate under the circumstances. Notwithstanding the foregoing, the Fair Market Value of capital stock for purposes of grants of Incentive Stock Options shall be determined in compliance with applicable provisions of the Code. The Fair Market Value of rights or property other than capital stock of the Company means the fair market value thereof as determined by the Administrator on the basis of such factors as it may deem appropriate.

(p) **Holder** means the Recipient of an Award or any permitted assignee holding the Award.

(q) **Incentive Award** means any Option (other than a Nonemployee Director s Option), Restricted Stock, Stock Appreciation Right, Stock Payment, Performance Award or Dividend Equivalent granted or sold to an Eligible Person under this Plan.

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(r) **Incentive Stock Option** means an Option that qualifies as an incentive stock option under Section 422 (or any successor section) of the Code and the regulations thereunder.

(s) **Just Cause Dismissal** shall mean a termination of a Recipient s Service for any of the following reasons: (i) the Recipient violates any reasonable rule or regulation of the Company or the Recipient s superiors or the Chief Executive Officer or President of the Company that (A) results in damage to the Company or (B) after written notice to do so, the Recipient fails to correct within a reasonable time; (ii) any willful misconduct or gross negligence by the Recipient in the responsibilities assigned to him or her; (iii) any willful failure to perform his or her job; (iv) any wrongful conduct of a Recipient which has an adverse impact on the Company or which constitutes fraud, embezzlement or dishonesty; (v) the Recipient s performing services for any other person or entity which competes with the Company while he or she is providing Service, without the written approval of the Chief Executive Officer or President of the Company; or (vi) any other conduct that the Administrator determines constitutes Just Cause for Dismissal; provided, however, that if the term of concept has been defined in an employment agreement between the Company and the Recipient, then Just Cause Dismissal shall have the definition set forth in such employment agreement. The foregoing definition shall not in any way preclude or restrict the right of the Company or any Related Corporation to discharge or dismiss any Recipient or other person in the Service of the Company or any Related Corporation for any other acts or omissions but such other acts or omission shall not be deemed, for purposes of the Plan, to constitute grounds for Just Cause Dismissal.

(t) **Nonemployee Director** means a director of the Company who is not an Employee of the Company or any of its Related Corporations.

(u) **Nonemployee Director s Option** means a Nonqualified Stock Option granted to a Nonemployee Director pursuant to Article III of the Plan.

(v) **Nonqualified Stock Option** means an Option that does not qualify as an Incentive Stock Option.

(w) **Option** means a right to purchase stock of the Company granted under this Plan, and can be an Incentive Stock Option or a Nonqualified Stock Option.

(x) **Parent** means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, provided each corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(y) **Performance Award** means an award, payable in cash, Common Stock or a combination thereof, which vests and becomes payable over a period of time upon attainment of performance criteria established in connection with the grant of the award.

(z) **Performance-Based Compensation** means performance-based compensation as described in Section 162(m) of the Code and the regulations thereunder. If the amount of compensation an Eligible Person will receive under any Incentive Award is not based solely on an increase in the value of Common Stock after the date of grant or award, the Administrator, in order to qualify an Incentive Award as performance-based compensation under Section 162(m) of the Code and the regulations thereunder, can condition the grant, award, vesting, or exercisability of such an award on the attainment of a preestablished, objective performance goal. For this purpose, a preestablished, objective performance goal may include one or more of the following performance criteria: (i) cash flow, (ii) earnings per share (including earnings before interest, taxes, and amortization), (iii) return on equity, (iv) total stockholder return, (v) return on capital, (vi) return on assets or net assets, (vii) income or net income, (viii) operating margin, (ix) return on operating revenue, (x) attainment of stated goals related to the

Company s research and development or clinical trials programs, (xi) attainment of stated goals related to the Company s capitalization, costs, financial condition, or results of operations, and (xii) any other similar performance criteria.

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(aa) **Permanent Disability** shall mean the inability of the Recipient to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or has lasted or can be expected to last for a continuous period of twelve months or more.

(bb) **Plan** means the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan as set forth in this document.

(cc) **Purchase Price** means the purchase price (if any) to be paid by a Recipient for Restricted Stock as determined by the Administrator (which price shall be at least equal to the minimum price required under applicable laws and regulations for the issuance of Common Stock).

(dd) **Recipient** means an Eligible Person who has received an Award hereunder.

(ee) **Related Corporation** means either a Parent or Subsidiary.

(ff) **Restricted Stock** means Common Stock that is the subject of an award made under Section 2.04 and which is nontransferable and subject to a substantial risk of forfeiture until specific conditions are met as set forth in this Plan and in any Award Document.

(gg) **Securities Act** means the Securities Act of 1933, as amended.

(hh) **Service** means the performance of services for the Company or its Related Corporations by a person in the capacity of an Employee, a director or a consultant, except to the extent otherwise specifically provided in the Award Document.

(ii) **Stock Appreciation Right** means a right granted under Section 2.05 to receive a payment that is measured with reference to the amount by which the Fair Market Value of a specified number of shares of Common Stock appreciates from a specified date, such as the date of grant of the Stock Appreciation Right, to the date of exercise.

(jj) **Stock Payment** means a payment in shares of Common Stock to replace all or any portion of the compensation (other than base salary) that would otherwise become payable to a Recipient.

(kk) **Subsidiary** means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each corporation in the unbroken chain (other than the last corporation) owns, at the time of the determination, stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

1.02 Purpose of the Plan.

The Board has adopted this Plan to advance the interests of the Company and its stockholders by (a) providing Eligible Persons with financial incentives to promote the success of the Company s business objectives, and to increase their proprietary interest in the success of the Company, and (b) giving the Company a means to attract and retain Eligible Persons.

1.03 Common Stock Subject to the Plan.

(a) **Number of Shares.** Subject to Section 1.05(b), the maximum number of shares of Common Stock that may be issued and outstanding or subject to outstanding Awards under the Plan shall not exceed 20,800,000.

(b) **Source of Shares.** The Common Stock to be issued under this Plan will be made available, at the discretion of the Administrator, either from authorized but unissued shares of Common Stock or from previously issued shares of Common Stock reacquired by the Company, including shares purchased on the open market.

(c) **Availability of Unused Shares.** Shares of Common Stock subject to unexercised portions of any Award granted under this Plan that expire, terminate or are cancelled, and shares of Common Stock issued pursuant to an

Award under this Plan that are reacquired by the Company pursuant to the terms of the Award

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under which such shares were issued, will again become available for the grant of further Awards under this Plan.

(d) **Grant Limits.** Notwithstanding any other provision of this Plan, no Eligible Person shall be granted Awards with respect to more than 7,000,000 shares of Common Stock in the aggregate in any one calendar year; provided, however, that this limitation shall not apply if it is not required in order for the compensation attributable to Awards hereunder to qualify as Performance-Based Compensation.

1.04 Administration of the Plan.

(a) **The Administrator.** The Plan will be administered by a Committee, which will consist of two or more members of the Board each of whom must be an independent director as defined by applicable listing standards. Notwithstanding the foregoing or any provision of the Plan to the contrary, the Board may, in lieu of the Committee, exercise any authority granted to the Committee pursuant to the provisions of the Plan. To obtain the benefits of Rule 16b-3, Incentive Awards must be granted by the entire Board or a Committee comprised entirely of non-employee directors as such term is defined in Rule 16b-3. In addition, if Incentive Awards are to be made to persons subject to Section 162(m) of the Code and such Awards are intended to constitute Performance-Based Compensation, then such Incentive Awards must be granted by a Committee comprised entirely of outside directors as such term is defined in the regulations under Section 162(m) of the Code.

(b) **Authority of the Administrator.** The Administrator has authority in its discretion to select the Eligible Persons to whom, and the time or times at which, Incentive Awards shall be granted or sold, the nature of each Incentive Award, the number of shares of Common Stock or the number of rights that make up or underlie each Incentive Award, the period for the exercise of each Incentive Award, the performance criteria (which need not be identical) utilized to measure the value of Performance Awards, and such other terms and conditions applicable to each individual Incentive Award as the Administrator shall determine. In addition, the Administrator shall have all other powers granted to it in the Plan.

(c) **Interpretation.** Subject to the express provisions of the Plan, the Administrator has the authority to interpret the Plan and any Award Documents, to determine the terms and conditions of Incentive Awards and to make all other determinations necessary or advisable for the administration of the Plan. All interpretations, determinations and actions by the Administrator shall be final, conclusive and binding upon all parties. The Administrator has authority to prescribe, amend and rescind rules and regulations relating to the Plan.

(d) **Special Rules Regarding Nonemployee Director Options.** Notwithstanding anything herein to the contrary, the Administrator shall have no authority or discretion as to the selection of persons eligible to receive Nonemployee Directors Options granted under the Plan, the number of shares covered by Nonemployee Directors Options granted under the Plan, the timing of such grants, or the Exercise Price of Nonemployee Directors Options granted under the Plan, which matters are specifically governed by the provisions of the Plan.

(e) **No Liability.** The Administrator and its delegates shall be indemnified by the Company to the fullest extent provided for in the Company s certificate of incorporation and bylaws.

1.05 Other Provisions.

(a) **Documentation.** Each Award granted under the Plan shall be evidenced by an Award Document which shall set forth the terms and conditions applicable to the Award as the Administrator may in its discretion determine consistent with the Plan, provided that the Administrator shall exercise no discretion with respect to Nonemployee Directors Options, which shall reflect only the terms of the Award as set forth in Article III and certain administrative matters dictated by the Plan. Award Documents shall comply with and be subject to the terms and conditions of the Plan. In case of any conflict between the Plan and any Award Document, the Plan shall control. Various Award Documents covering the same types of Awards may but need not be identical.

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(b) **Adjustment Provisions.** Should any change be made to the outstanding shares of Common Stock by reason of a merger, consolidation, reorganization, recapitalization, reclassification, combination of shares, stock dividend, stock split, reverse stock split, exchange of shares or other change affecting the outstanding Common Stock without the Company s receipt of consideration, an appropriate and proportionate adjustment may be made in (i) the maximum number and kind of shares subject to the Plan as provided in Section 1.03, (ii) the number and kind of shares or other securities subject to then outstanding Awards, (iii) the price for each share or other unit of any other securities subject to then outstanding Awards and (iv) the number and kind of shares or other securities subject to the Nonemployee Director Options described in Section 3.01 and 3.02. In addition, the per person limitation set forth in Section 1.03(d) shall also be subject to adjustment as provided in this Section 1.05(b), but only to the extent such adjustment would not affect the status of compensation attributable to Awards hereunder as Performance-Based Compensation. Such adjustments are to be effected in a manner that shall preclude the enlargement or dilution of rights and benefits under the Awards. In no event shall any adjustments be made in connection with the conversion of preferred stock or warrants into shares of Common Stock. No fractional interests will be issued under the Plan resulting from any such adjustments.

(c) **Continuation of Service.** Nothing contained in this Plan (or in Award Documents or in any other documents related to this Plan or to Awards granted hereunder) shall confer upon any Eligible Person or Recipient any right to continue in the Service of the Company or its Related Corporations or constitute any contract or agreement of employment or engagement, or interfere in any way with the right of the Company or its Related Corporations to reduce such person s compensation or other benefits or to terminate the Service of such Eligible Person or Recipient, with or without cause. Except as expressly provided in the Plan or in any Award Document, the Company shall have the right to deal with each Recipient in the same manner as if the Plan and any Award Document did not exist, including, without limitation, with respect to all matters related to the hiring, discharge, compensation and conditions of the employment or engagement of the Recipient.

(d) **Restrictions.** All Awards granted under the Plan shall be subject to the requirement that, if at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares subject to Awards granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such an Award or the issuance, if any, or purchase of shares in connection therewith, such Award may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

(e) **Additional Conditions.** Any Incentive Award may also be subject to such other provisions (whether or not applicable to any other Award or Recipient) as the Administrator determines appropriate.

(f) **Tax Withholding.** The Company s obligation to deliver shares of Common Stock under the Plan shall be subject to the satisfaction of all applicable income and employment tax withholding requirements.

(g) **Privileges of Stock Ownership.** Except as otherwise set forth herein, a Holder shall have no rights as a stockholder of the Company with respect to any shares issuable or issued in connection with the Award until the date of the receipt by the Company of all amounts payable in connection with exercise of the Award, performance by the Holder of all obligations thereunder, and the Company issues a stock certificate representing the appropriate number of shares. Status as an Eligible Person shall not be construed as a commitment that any Incentive Award will be granted under this Plan to an Eligible Person or to Eligible Persons generally. No person shall have any right, title or interest in any fund or in any specific asset (including shares of capital stock) of the Company by reason of any Award granted hereunder. Neither this Plan (or any documents related hereto) nor any action taken pursuant hereto shall be construed to create a trust of any kind or a fiduciary relationship between the Company and any person. To the extent that any person acquires a right to receive an Award hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

(h) **Effective Date and Duration of Plan; Amendment and Termination of Plan.** The Plan shall become effective upon its approval by the Company s stockholders. Unless terminated by the Board prior to such time, the Plan shall continue in effect until the 10th anniversary of the date the Plan was adopted,

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whereupon the Plan shall terminate automatically. The Board may, insofar as permitted by law, from time to time suspend or terminate the Plan. No Awards may be granted during any suspension of this Plan or after its termination. Any Award outstanding after the termination of the Plan shall remain in effect until such Award has been exercised or expires in accordance with its terms and the terms of the Plan. The Board may, insofar as permitted by law, from time to time revise or amend the Plan in any respect except that no such amendment shall adversely affect any rights or obligations of the Holder under any outstanding Award previously granted under the Plan without the consent of the Holder. Amendments shall be subject to stockholder approval to the extent such approval is required to comply with the listing requirements imposed by any exchange or trading system upon which the Company s securities trade or applicable law.

(i) **Amendment of Awards.** The Administrator may make any modifications in the terms and conditions of an outstanding Incentive Award, provided that (i) the resultant provisions are permissible under the Plan and (ii) the consent of the Holder shall be obtained if the amendment will adversely affect his or her rights under the Award. However, the outstanding Options may not be repriced without stockholder approval.

(j) **Nonassignability.** No Incentive Stock Option granted under the Plan shall be assignable or transferable except by will or by the laws of descent and distribution. No other Awards granted under the Plan shall be assignable or transferable except (i) by will or by the laws of descent and distribution, (ii) to one or more of the Recipient s family members (as such term is defined in the instructions to Form S-8) or (iii) upon dissolution of marriage pursuant to a qualified domestic relations order. During the lifetime of a Recipient, an Award granted to him or her shall be exercisable only by the Holder or his or her guardian or legal representative.

(k) **Other Compensation Plans.** The adoption of the Plan shall not affect any other stock option, incentive or other compensation plans in effect for the Company, and the existence of the Plan shall not preclude the Company from establishing any other forms of incentive or other compensation for Eligible Persons.

(l) **Plan Binding on Successors.** The Plan shall be binding upon the successors and assigns of the Company.

(m) **Participation by Foreign Employees.** Notwithstanding anything to the contrary herein, the Administrator may, in order to fulfill the purposes of the Plan, structure grants of Incentive Awards to Recipients who are foreign nationals or employed outside of the United States to recognize differences in applicable law, tax policy or local custom.

ARTICLE II
INCENTIVE AWARDS

2.01 Grants of Incentive Awards.

Subject to the express provisions of this Plan, the Administrator may from time to time in its discretion select from the class of Eligible Persons those individuals to whom Incentive Awards may be granted pursuant to its authority as set forth in Section 1.04(b). Each Incentive Award shall be subject to the terms and conditions of the Plan and such other terms and conditions established by the Administrator as are not inconsistent with the provisions of the Plan.

2.02 Options.

(a) **Nature of Options.** The Administrator may grant Incentive Stock Options and Nonqualified Stock Options under the Plan. However, Incentive Stock Options may only be granted to Employees of the Company or its Related Corporations.

(b) **Option Price.** The Exercise Price per share for each Option (other than a Nonemployee Director s Option) shall be determined by the Administrator at the date such Option is granted and shall not be less than the Fair Market Value of a share of Common Stock (or other securities, as applicable) on the date of grant,

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except that the Exercise Price for a Nonqualified Stock Option may reflect a discount of up to 15% of the Fair Market Value at the time of grant if the amount of such discount is expressly in lieu of a reasonable amount of salary or cash bonus. Notwithstanding the foregoing, however, in no event shall the Exercise Price be less than the par value of the shares of Common Stock.

(c) **Option Period and Vesting.** Options (other than Nonemployee Directors Options) hereunder shall vest and may be exercised as determined by the Administrator, except that exercise of such Options after termination of the Recipient s Service shall be subject to Section 2.02(g). Each Option granted hereunder (other than a Nonemployee Directors Option) and all rights or obligations thereunder shall expire on such date as shall be determined by the Administrator, but not later than ten years after the date the Option is granted and shall be subject to earlier termination as herein provided.

(d) **Exercise of Options.** Except as otherwise provided herein, an Option may become exercisable, in whole or in part, on the date or dates specified by the Administrator (or, in the case of Nonemployee Directors Options, the Plan) at the time the Option is granted and thereafter shall remain exercisable until the expiration or earlier termination of the Option. No Option shall be exercisable except in respect of whole shares, and fractional share interests shall be disregarded. An Option shall be deemed to be exercised when the Secretary of the Company receives written notice of such exercise from the Holder, together with payment of the Exercise Price made in accordance with Section 2.02(e). Upon proper exercise, the Company shall deliver to the person entitled to exercise the Option or his or her designee a certificate or certificates for the shares of stock for which the Option is exercised.

(e) **Form of Exercise Price.** The aggregate Exercise Price shall be immediately due and payable upon the exercise of an Option and shall, subject to the provisions of the Award Document, be payable in one or more of the following: (i) by delivery of legal tender of the United States, (ii) by delivery of shares of Common Stock held for the requisite period, if any, necessary to avoid a charge to the Company s earnings for financial reporting purposes, and/or (iii) through a sale and remittance procedure pursuant to which the Holder shall concurrently provide irrevocable instructions to (A) a brokerage firm to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate Exercise Price payable for the purchased shares plus all applicable income and employment taxes required to be withheld by the Company by reason of such exercise and (B) the Company to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale. Any shares of Company stock or other non-cash consideration assigned and delivered to the Company in payment or partial payment of the Exercise Price will be valued at Fair Market Value on the exercise date.

(f) **Limitation on Exercise of Incentive Stock Options.** The aggregate Fair Market Value (determined as of the respective date or dates of grant) of the Common Stock for which one or more Options granted to any Recipient under the Plan (or any other option plan of the Company or any of its subsidiaries or affiliates) may for the first time become exercisable as Incentive Stock Options under the Code during any one calendar year shall not exceed $100,000. Any Options granted as Incentive Stock Options pursuant to the Plan in excess of such limitation shall be treated as Nonqualified Stock Options. Options are to be taken into account in the order in which they were awarded.

(g) **Termination of Service.**

(i) **Termination for Cause.** Except as otherwise provided by the Administrator, in the event of a Just Cause Dismissal of a Recipient, all of the outstanding Options granted to such Recipient shall expire and become unexercisable as of the date of such Just Cause Dismissal.

(ii) **Termination Other Than for Cause.** Subject to subsection (i) above and except as otherwise provided by the Administrator, in the event of a Recipient s termination of Service from the Company or its Related Corporations due to:

(A) any reason other than Just Cause Dismissal, death, or Permanent Disability, or normal retirement, the outstanding Options granted to such Recipient, whether or not vested, shall expire and become unexercisable as of the earlier of (1) the date such Options would expire in accordance

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with their terms if the Recipient had remained in Service or (2) three calendar months after the date the Recipient s Service terminated in the case of Incentive Stock Options, or six months after the Recipient s Service terminated, in the case of Nonqualified Stock Options.

(B) death or Permanent Disability, the outstanding Options granted to such Recipient, whether or not vested, shall expire and become unexercisable as of the earlier of (1) the date such Options would expire in accordance with their terms if the Recipient had remained in Service or (2) twelve months after the date of termination.

(C) normal retirement, the outstanding Options granted to such Recipient, whether or not vested, shall expire and become unexercisable as of the earlier of (A) the date such Options expire in accordance with their terms or (B) twenty-four months after the date of retirement.

(iii) **Termination of Director Service.** In the event that a Director shall cease to be a Nonemployee Director, all outstanding Options (other than a Nonemployee Director s Option) granted to such Recipient shall be exercisable, to the extent already vested and exercisable on the date such Recipient ceases to be a Nonemployee Director and regardless of the reason the Recipient ceases to be a Nonemployee Director until the fifth anniversary of the date such Director ceases to be a Nonemployee Director; provided that the Administrator may extend such post-termination period to up to the expiration date of the Option.

2.03 Performance Awards.

(a) **Grant of Performance Award.** The Administrator may grant Performance Awards under the Plan and shall determine the performance criteria (which need not be identical and may be established on an individual or group basis) governing Performance Awards, the terms thereof, and the form and timing of payment of Performance Awards.

(b) **Payment of Award; Limitation.** Upon satisfaction of the conditions applicable to a Performance Award, payment will be made to the Holder in cash or in shares of Common Stock valued at Fair Market Value or a combination of Common Stock and cash, as the Administrator in its discretion may determine. Notwithstanding any other provision of this Plan, no Eligible Person shall be paid Performance Awards with a value in excess of $1,000,000 in any one calendar year; provided, however, that this limitation shall not apply if it is not required in order for the compensation attributable to the Performance Award hereunder to qualify as Performance-Based Compensation.

(c) **Expiration of Performance Award.** If any Recipient s Service is terminated for any reason other than normal retirement, death or Permanent Disability prior to the time a Performance Award or any portion thereof becomes payable, all of the Holder s rights under the unpaid portion of the Performance Award shall expire unless otherwise determined by the Administrator. In the event of termination of Service by reason of death, Permanent Disability or normal retirement, the Administrator, in its discretion, may determine what portions, if any, of the Performance Award should be paid to the Holder.

2.04 Restricted Stock.

(a) **Award of Restricted Stock.** The Administrator may issue Restricted Stock under the Plan. The Administrator shall determine the Purchase Price (if any), the forms of payment of the Purchase Price (which shall be either cash or past services), the restrictions upon the Restricted Stock, and when such restrictions shall lapse.

(b) **Requirements of Restricted Stock.** All shares of Restricted Stock granted or sold pursuant to the Plan will be subject to the following conditions:

(i) **No Transfer.** The shares of Restricted Stock may not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of, alienated or encumbered until the restrictions are removed or expire;

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(ii) **Certificates.** The Administrator may require that the certificates representing shares of Restricted Stock granted or sold to a Holder pursuant to the Plan remain in the physical custody of an escrow holder or the Company until all restrictions are removed or expire;

(iii) **Restrictive Legends.** Each certificate representing shares of Restricted Stock granted or sold to a Holder pursuant to the Plan will bear such legend or legends making reference to the restrictions imposed upon such Restricted Stock as the Administrator in its discretion deems necessary or appropriate to enforce such restrictions; and

(iv) **Other Restrictions.** The Administrator may impose such other conditions on Restricted Stock as the Administrator may deem advisable including, without limitation, restrictions under the Securities Act, under the Exchange Act, under the requirements of any stock exchange or upon which such Restricted Stock or shares of the same class are then listed and under any blue sky or other securities laws applicable to such shares.

(c) **Rights of Holder.** Subject to the provisions of Section 2.04(b) and any additional restrictions imposed by the Administrator, the Holder will have all rights of a stockholder with respect to the Restricted Stock, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

(d) **Termination of Service.** Unless the Administrator in its discretion determines otherwise, upon a Recipient s termination of Service for any reason, all of the Restricted Stock issued to the Recipient that remains subject to restrictions imposed pursuant to the Plan on the date of such termination of Service may be repurchased by the Company at the Purchase Price (if any).

(e) **Adjustments.** Any new, substituted or additional securities or other property which Holder may have the right to receive with respect to the Holder s shares of Restricted Stock by reason of a merger, consolidation, reorganization, recapitalization, reclassification, combination of shares, stock dividend, stock split, reverse stock split, exchange of shares or other change affecting the outstanding Common Stock without the Company s receipt of consideration shall be issued subject to the same vesting requirements applicable to the Holder s shares of Restricted Stock and shall be treated as if they had been acquired on the same date as such shares.

2.05 Stock Appreciation Rights.

(a) **Granting of Stock Appreciation Rights.** The Administrator may grant Stock Appreciation Rights, either related or unrelated to Options, under the Plan.

(b) **Stock Appreciation Rights Related to Options.**

(i) A Stock Appreciation Right granted in connection with an Option granted under this Plan will entitle the holder of the related Option, upon exercise of the Stock Appreciation Right, to surrender such Option, or any portion thereof to the extent unexercised, with respect to the number of shares as to which such Stock Appreciation Right is exercised, and to receive payment of an amount computed pursuant to Section 2.05(b)(iii). Such Option will, to the extent surrendered, then cease to be exercisable.

(ii) A Stock Appreciation Right granted in connection with an Option hereunder will be exercisable at such time or times, and only to the extent that, the related Option is exercisable, and will not be transferable except to the extent that such related Option may be transferable.

(iii) Upon the exercise of a Stock Appreciation Right related to an Option, the Holder will be entitled to receive payment of an amount determined by multiplying: (i) the difference obtained by subtracting the Exercise Price of a share of Common Stock specified in the related Option from the Fair Market Value of a share of Common Stock on the date of exercise of such Stock Appreciation Right (or as of such other date or as of the occurrence of such event as may have been specified in the instrument evidencing the grant of the Stock Appreciation Right), by (ii) the number of shares as to which such Stock Appreciation Right is exercised.

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(c) **Stock Appreciation Rights Unrelated to Options.** The Administrator may grant Stock Appreciation Rights unrelated to Options to Eligible Persons. Section 2.05(b)(iii) shall be used to determine the amount payable at exercise under such Stock Appreciation Right, except that in lieu of the Exercise Price specified in the related Option the initial base amount specified in the Incentive Award shall be used.

(d) **Limits.** Notwithstanding the foregoing, the Administrator, in its discretion, may place a dollar limitation on the maximum amount that will be payable upon the exercise of a Stock Appreciation Right under the Plan.

(e) **Payments.** Payment of the amount determined under the foregoing provisions may be made solely in whole shares of Common Stock valued at their Fair Market Value on the date of exercise of the Stock Appreciation Right, in cash or in a combination of cash and shares of Common Stock as the Administrator deems advisable. If permitted by the Administrator, the Holder may elect to receive cash in full or partial settlement of a Stock Appreciation Right. If the Administrator decides to make full payment in shares of Common Stock, and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

(f) **Termination of Service.** Section 2.02(g) will govern the treatment of Stock Appreciation Rights upon the termination of a Recipient s Service.

2.06 Stock Payments.

The Administrator may issue Stock Payments under the Plan for all or any portion of the compensation (other than base salary) or other payment that would otherwise become payable by the Company to the Eligible Person in cash.

2.07 Dividend Equivalents.

The Administrator may grant Dividend Equivalents to any Recipient who has received an Option, Stock Appreciation Right, or other Incentive Award denominated in shares of Common Stock. Such Dividend Equivalents shall be effective and shall entitle the Recipients thereof to payments during the Applicable Dividend Period, which shall be (a) the period between the date the Dividend Equivalent is granted and the date the related Option, Stock Appreciation Right, or other Incentive Award is exercised, terminates, or is converted to Common Stock, or (b) such other time as the Administrator may specify in the Award Document. Dividend Equivalents may be paid in cash, Common Stock, or other Incentive Awards; the amount of Dividend Equivalents paid other than in cash shall be determined by the Administrator by application of such formula as the Administrator may deem appropriate to translate the cash value of dividends paid to the alternative form of payment of the Dividend Equivalent. Dividend Equivalents shall be computed as of each dividend record date and shall be payable to Recipients thereof at such time as the Administrator may determine. Notwithstanding the foregoing, if it is intended that an Incentive Award qualify as Performance-Based Compensation and the amount of the compensation the Eligible Person could receive under the award is based solely on an increase in value of the underlying stock after the date of grant or award (i.e., the grant, vesting, or exercisability of the award is not conditioned upon the attainment of a preestablished, objective performance goal described in Section 1.01(x)), then the payment of any Dividend Equivalents related to the Award shall not be made contingent on the exercise of the Award.

ARTICLE III

NONEMPLOYEE DIRECTOR S OPTIONS

3.01 Grants of Initial Options.

Each Nonemployee Director shall, upon first becoming a Nonemployee Director, receive a one-time grant of a Nonqualified Stock Option to purchase up to 40,000 shares of Common Stock at an Exercise Price per share equal to the Fair Market Value of the Common Stock on the date of grant. Options granted under this Section 3.01 vest in accordance with Section 3.04(a) hereof and are Initial Options for purposes hereof.

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3.02 Grants of Additional Options.

On the date of the annual meeting of stockholders of the Company next following a Nonemployee Director becoming such, and on the date of each subsequent annual meeting of stockholders of the Company, in each case if the Nonemployee Director has served as a director since his or her election or appointment and has been re-elected as a director at such annual meeting or is continuing as a director without being re-elected due to the classification of the Board, such Nonemployee Director shall automatically receive a Nonqualified Stock Option to purchase up to 10,000 shares of Common Stock at an Exercise Price per share equal to the Fair Market Value of Common Stock on the date of grant. Options granted under this Section 3.02 vest in accordance with Section 3.04(b) hereof and are Additional Options for purposes hereof. Notwithstanding the foregoing to the contrary, the first grant of Additional Options shall be made to eligible Nonemployee Directors on the date of the 2005 annual meeting of stockholders.

3.03 Exercise Price.

The Exercise Price for Nonemployee Directors Options shall be payable as set forth in Section 2.02(e).

3.04 Vesting and Exercise.

(a) Initial Options shall vest and become exercisable with respect to 25% of the underlying shares on the grant date and with respect to an additional 25% of the underlying shares on the dates of each of the first three anniversaries of the date of grant provided the Recipient has remained a Nonemployee Director for the entire period from the date of grant to such date.

(b) Additional Options shall vest and become exercisable upon the earlier of (i) the first anniversary of the grant date or (ii) immediately prior to the annual meeting of stockholders of the Company next following the grant date, provided the Recipient has remained a Nonemployee Director for the entire period from the date of grant to such earlier date.

(c) Notwithstanding the foregoing, however, Initial Options and Additional Options that have not vested and become exercisable at the time the Recipient ceases to be a Nonemployee Director shall expire.

3.05 Term of Options and Effect of Termination.

No Nonemployee Directors Option shall be exercisable after the expiration of ten years from the date of its grant. In the event that the Recipient of a Nonemployee Director s Option shall cease to be a Nonemployee Director, all outstanding Nonemployee Directors Options granted to such Recipient shall be exercisable, to the extent already vested and exercisable on the date such Recipient ceases to be a Nonemployee Director and regardless of the reason the Recipient ceases to be a Nonemployee Director until the fifth anniversary of the date such Director ceases to be a Nonemployee Director; provided that the Administrator may extend such post-termination period to the expiration date of the Option.

ARTICLE IV

RECAPITALIZATIONS AND REORGANIZATIONS

4.01 Corporate Transactions.

(a) **Options.** Unless the Administrator provides otherwise in the Award Document or another written agreement, in the event of a Change in Control, the Administrator shall provide that all Options (other than Non-employee Director Options) either (i) vest in full immediately preceding the Change in Control and terminate upon the Change in Control, (ii) are assumed or continued in effect in connection with the Change in Control transaction, (iii) are cashed out for an amount equal to the deal consideration per share less the Exercise Price or (iv) are substituted for similar awards of the surviving corporation. Each Option that is assumed or otherwise continued in effect in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which

would have been issuable to Recipient in consummation of such Change in Control had the Recipient been exercised immediately prior to such Change in Control. Appropriate adjustments to reflect such Change in Control shall also be made to (A) the Exercise Price payable per share under each outstanding Option, provided the aggregate Exercise Price payable for such securities shall remain the same, (B) the maximum number and/or class of securities available for issuance over the remaining term of the Plan, (C) the maximum number and/or class of securities for which any one person may be granted options and direct stock issuances pursuant to the Plan per calendar year and (D) the number and/or class of securities subject to Nonemployee Director s Options. To the extent the holders of Common Stock receive cash consideration in whole or part for their Common Stock in consummation of the Change in Control, the successor corporation may, in connection with the assumption of the outstanding Options, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per share of Common Stock in such Change in Control transaction.

(b) **Nonemployee Directors Options.** Immediately prior to a Change of Control, all outstanding Nonemployee Directors Options shall vest in full.

(c) **Other Incentive Awards.** The Administrator may specify the effect that a Change in Control has on an Incentive Award (other than an Option) outstanding at the time such a Change in Control occurs either in the applicable Award Document or by subsequent modification of the Award.

4.02 No Restraint.

The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all of any part of its business or assets.

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Form of Option Grant

Notice of Grant of Stock Options and Option Agreement	**La Jolla Pharmaceutical Co.** ID: 33-0361285 6455 Nancy Ridge Drive San Diego, CA 92121 (858) 452-6600
Name:	**Option Number:**
	Plan: 2004
Address:	**ID:**

Effective _____, you have been granted a(n) Incentive Stock Option to buy _____ shares of La Jolla Pharmaceutical Co. (the Company) stock at $_____ per share.

The total option price of the shares granted is $_____.

Shares in each period will become fully vested on the date shown.

Shares	Vest Type	Full Vest	Expiration

By your signature and the Company s signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company s Stock Option Plan as amended and the Option Agreement, all of which are attached and made a part of this document.

La Jolla Pharmaceutical Company	Date
Name	Date

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ANNEX I

FORM OF AMENDMENT TO CERTIFICATE OF INCORPORATION

CERTIFICATE OF AMENDMENT TO
CERTIFICATE OF INCORPORATION
OF
LA JOLLA PHARMACEUTICAL COMPANY

La Jolla Pharmaceutical Company (the Corporation), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

1. The name of the Corporation is: La Jolla Pharmaceutical Company.

2. The Certificate of Incorporation of the Corporation is hereby amended by striking out Article IV thereof and by substituting in lieu of said Article the following new Article:

ARTICLE IV
AUTHORIZED CAPITAL STOCK

The Corporation is authorized to issue two classes of stock designated Common Stock and Preferred Stock. The total number of shares of all classes of stock that this Corporation is authorized to issue is Two Hundred Thirty Three Million (233,000,000), consisting of Two Hundred Twenty Five Million (225,000,000) shares of Common Stock, par value $0.01 per share, and Eight Million (8,000,000) shares of Preferred Stock, par value $0.01 per share.

The Board is hereby authorized to issue the shares of Preferred Stock in one or more series, to fix the number of shares of any such series of Preferred Stock, to determine the designation of any such series, and to fix the rights, preferences, and privileges and the qualifications, limitations or restrictions of the series of Preferred Stock to the full extent permitted under the Delaware General Corporation Law. The authority of the Board with respect to any series of Preferred Stock shall include, without limitation, the power to fix or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions, if any), the redemption price or prices, and the liquidation preferences and the number of shares constituting any such additional series and the designation thereof, or any of them; and to increase or decrease the number of authorized shares of any series subsequent to the issue of that series, but not below the number of shares of such series then outstanding. In case the authorized number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

Effective at 5:00 p.m. on _____ ___, 2005 (the Effective Time), the issued and outstanding Common Stock of the Corporation will be reverse split on a one-for-five basis so that each five shares of Common Stock issued and outstanding immediately prior to the Effective Time shall automatically be converted into and reconstituted as one share of Common Stock (the Reverse Split). No fractional shares will be issued by the Corporation as a result of the Reverse Split, and, as of the Effective Time, stockholders otherwise entitled to receive fractions of shares shall have no further interest as a stockholder in respect of such fractions of shares. In lieu of such fractions of shares, the Corporation will pay the holders thereof cash in an amount equal to (i) the value of such fractional shares based on the closing price per share of the Common Stock as reported on the Nasdaq National Market or the Nasdaq Capital Market, as applicable, on the day preceding the Effective Time or (ii) if the Common Stock is not then listed on the Nasdaq National Market or the Nasdaq Capital Market, the fair market value of the Common Stock as determined by the Corporation s board of directors.

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3. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Executed on this day of _____, 2005.

Name:
Title:

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LA JOLLA PHARMACEUTICAL COMPANY
PROXY CARD
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Steven B. Engle and Gail A. Sloan, and each of them, as proxies, each with the power to appoint such proxy s substitute and hereby authorizes them to represent and vote all of the shares of common stock of La Jolla Pharmaceutical Company held by the undersigned on October 14, 2005 at the special meeting of stockholders to be held on Friday, December 2, 2005 and at any and all adjournments or postponements thereof, with like effect as if the undersigned were personally present and voting upon the following matters.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1 THROUGH 4. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE þ.

1. Approval of the proposed issuance of common stock and warrants to purchase common stock to certain investors pursuant to the Securities Purchase Agreement, dated as of October 6, 2005.

   FOR o AGAINST o ABSTAIN o

2. Approval of the proposed amendment of our certificate of incorporation to increase the authorized number of shares of our common stock by 50,000,000.

   FOR o AGAINST o ABSTAIN o

3. Approval of the proposed amendment to the La Jolla Pharmaceutical Company 2004 Equity Incentive Plan (i) to increase the number of shares of common stock that may be issued under the plan by 16,000,000, (ii) to increase the number of shares of common stock that may be issued under the plan to any eligible person in any calendar year by 6,000,000 and (iii) to eliminate the minimum restriction period requirement with respect to restricted stock granted under the plan.

   FOR o AGAINST o ABSTAIN o

4. Approval of the proposed decrease in the number of issued and outstanding shares of common stock by means of a one-for-five reverse stock split.

   FOR o AGAINST o ABSTAIN o

5. In their discretion, the proxies are authorized to consider and vote upon such other business as may properly come before the special meeting or any adjournment or postponement thereof.

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted FOR Proposals 1 through 4. This proxy confers discretionary authority with respect to matters not known or determined at the time of mailing the notice of special meeting and the enclosed proxy statement.

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If Proposal 2 is not approved, Proposal 3 will not be implemented.

The undersigned hereby acknowledges receipt of the Notice of Special Meeting of Stockholders and Proxy Statement furnished herewith and directs that his or her votes be cast by the above named proxies in the manner directed herein. All other proxies heretofore given by the undersigned to vote shares of common stock of La Jolla Pharmaceutical Company are expressly revoked.

Dated _____, 2005

Signatures(s) of stockholder

Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign, When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Please sign and return this proxy in the enclosed envelope. The giving of this proxy will not affect your right to vote in person if you attend the special meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain from the record holder a proxy issued in your name. You may also submit to the Secretary of La Jolla Pharmaceutical Company a later dated revocation or amendment to this proxy on any of the matters set forth above.