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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 001-36152

Aerie Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3109565
(I.R.S. Employer
Identification Number)

135 US Highway 206, Suite 15
Bedminster, New Jersey 07921
(908) 470-4320

(Address of principal executive offices, zip code and telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (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:

As of November 5, 2014, there were 23,984,485 shares of the registrant's common stock, par value \$0.001, outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We may, in some cases, use terms such as “predicts,” “believes,” “potential,” “proposed,” “focused,” “estimates,” “anticipates,” “expects,” “plans,” “intends,” “may,” “would,” “could,” “might,” “will,” “should,” “exploring,” “pursuing” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements.

Forward-looking statements appear in a number of places throughout this report and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things:

- the success, timing and cost of our ongoing and anticipated preclinical studies and clinical trials for our current product candidates, including statements regarding the timing of initiation and completion of the studies and trials;
- our expectations regarding the clinical effectiveness of our product candidates and results of our clinical trials;
- the timing of and our ability to obtain and maintain U.S. Food and Drug Administration or other regulatory authority approval of, or other action with respect to, our product candidates;
- our expectations related to the use of proceeds from our initial public offering (“IPO”) in October 2013 and the issuance and sale of our senior secured convertible notes in September 2014;
- our estimates regarding anticipated capital requirements and our needs for additional financing;
- the commercial launch and potential future sales of our current or any other future product candidates;
- our commercialization, marketing and manufacturing capabilities and strategy;
- third-party payor reimbursement for our product candidates;
- the glaucoma patient market size and the rate and degree of market adoption of our product candidates by eye-care professionals and patients;
- the timing, cost or other aspects of the commercial launch of our product candidates;
- our plans to pursue development of our product candidates for additional indications and other therapeutic opportunities;
- the potential advantages of our product candidates;
- our ability to protect our proprietary technology and enforce our intellectual property rights; and
- our expectations regarding licensing, acquisitions and strategic activities.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics and industry change, and depend on regulatory approvals and economic and other environmental circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. We discuss many of these risks in greater detail under the heading “Risk Factors” in Part II, Item IA of this report and in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the Securities and Exchange Commission (“SEC”) on March 26, 2014. You should not rely upon forward-looking statements as predictions of future events.

Although we believe that we have a reasonable basis for each forward-looking statement contained in this report, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and events in the industry in which we operate are consistent with the forward-looking statements contained in this report, they may not be predictive of results or developments in future periods.

Any forward-looking statements that we make in this report are as of the date of this report. Except as required by law, we are under no duty to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this report.

[Table of Contents](#)**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****AERIE PHARMACEUTICALS, INC.**
(A Development Stage Company)**Balance Sheets**
(Unaudited)

(in thousands, except share and per share data)

	<u>SEPTEMBER 30,</u> <u>2014</u>	<u>DECEMBER 31,</u> <u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 148,884	\$ 69,649
Short-term investments	22,177	—
Prepaid expenses and other current assets	656	618
Total current assets	171,717	70,267
Furniture, fixtures and equipment, net	228	132
Other assets	1,338	59
Total assets	<u>\$ 173,283</u>	<u>\$ 70,458</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and other current liabilities	\$ 6,999	\$ 3,482
Total current liabilities	6,999	3,482
Convertible notes, net of discounts	124,125	—
Total liabilities	131,124	3,482
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock, \$0.001 par value; 15,000,000 shares authorized as of September 30, 2014 and December 31, 2013; None issued and outstanding	—	—
Common stock, \$0.001 par value; 150,000,000 shares authorized as of September 30, 2014 and December 31, 2013; 23,967,696 and 23,285,549 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	24	23
Additional paid-in capital	168,844	162,021
Accumulated other comprehensive loss	(9)	—
Deficit accumulated during the development stage	(126,700)	(95,068)
Total stockholders' equity	42,159	66,976
Total liabilities and stockholders' equity	<u>\$ 173,283</u>	<u>\$ 70,458</u>

The accompanying notes are an integral part of these financial statements.

AERIE PHARMACEUTICALS, INC.
(A Development Stage Company)

Statements of Operations and Comprehensive Loss
(Unaudited)

(in thousands, except share and per share data)

	<u>THREE MONTHS ENDED</u> <u>SEPTEMBER 30,</u>		<u>NINE MONTHS ENDED</u> <u>SEPTEMBER 30,</u>		<u>PERIOD</u> <u>FROM</u> <u>INCEPTION</u> <u>(JUNE 22,</u> <u>2005) TO</u> <u>SEPTEMBER 30,</u> <u>2014</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Operating expenses					
General and administrative	\$ (4,944)	\$ (3,287)	\$ (13,723)	\$ (6,693)	\$ (43,907)
Research and development	(8,230)	(2,399)	(20,276)	(8,727)	(75,308)
Loss from operations	(13,174)	(5,686)	(33,999)	(15,420)	(119,215)
Other income (expense), net	27	(5,062)	2,367	(5,446)	(7,353)
Net loss	<u>\$ (13,147)</u>	<u>\$ (10,748)</u>	<u>\$ (31,632)</u>	<u>\$ (20,866)</u>	<u>\$ (126,568)</u>
Net loss attributable to common stockholders—basic and diluted	<u>\$ (13,147)</u>	<u>\$ (10,887)</u>	<u>\$ (31,632)</u>	<u>\$ (21,279)</u>	
Net loss per share attributable to common stockholders—basic and diluted	<u>\$ (0.54)</u>	<u>\$ (10.81)</u>	<u>\$ (1.32)</u>	<u>\$ (21.61)</u>	
Weighted average number of common shares outstanding—basic and diluted	24,325,166	1,006,893	23,980,963	984,727	
Net loss	\$ (13,147)	\$ (10,748)	\$ (31,632)	\$ (20,866)	\$ (126,568)
Unrealized gain (loss) on available-for-sale investments	4	—	(9)	—	(9)
Comprehensive loss	<u>\$ (13,143)</u>	<u>\$ (10,748)</u>	<u>\$ (31,641)</u>	<u>\$ (20,866)</u>	<u>\$ (126,577)</u>

The accompanying notes are an integral part of these financial statements.

AERIE PHARMACEUTICALS, INC.
(A Development Stage Company)

Statements of Cash Flows
(Unaudited)

(in thousands, except share and per share data)

	NINE MONTHS ENDED SEPTEMBER 30,		PERIOD FROM INCEPTION (JUNE 22, 2005) TO SEPTEMBER 30,
	2014	2013	2014
Cash flows from operating activities			
Net loss	\$ (31,632)	\$(20,866)	\$ (126,568)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	50	47	1,000
Amortization and accretion costs related to notes payable—related parties	—	2,377	4,604
Loss (gain) on conversion of notes payable	—	—	1,916
Stock-based compensation	6,696	1,531	10,584
Interest payable—related parties	—	488	1,725
Change in fair value measurements	—	3,850	3,718
Amortization of discount on available-for-sale investments	247	—	247
Changes in operating assets and liabilities			
Prepaid, current and other assets	(20)	(18)	(697)
Accounts payable and other current liabilities	2,267	1,025	5,768
Net cash used in operating activities	<u>(22,392)</u>	<u>(11,566)</u>	<u>(97,703)</u>
Cash flows from investing activities			
Purchase of available-for-sale investments	(34,593)	—	(34,593)
Maturity of available-for-sale investments	10,660	—	10,660
Sale of available-for-sale investments	1,500	—	1,500
Purchase of furniture, fixtures and equipment	(146)	(28)	(1,228)
Net cash used in investing activities	<u>(22,579)</u>	<u>(28)</u>	<u>(23,661)</u>
Cash flows from financing activities			
Proceeds from issuance of convertible notes, net of discounts	124,375	—	124,375
Payments of debt issuance costs	(297)	—	(412)
Proceeds from issuance of common stock in initial public offering, net of underwriting discounts	—	—	71,870
Payments of initial public offering costs	—	(1,713)	(3,644)
Proceeds from sale of preferred stock	—	—	45,000
Payments of stock issuance costs	—	—	(1,216)
Proceeds from notes payable to related parties	—	15,000	34,778
Dividends paid	—	—	(130)
Proceeds from sale of common stock	—	—	3
Proceeds from exercise of stock options	9	1	25
Proceeds from exercise of warrants	—	—	8
Proceeds from exercise of stock purchase rights	119	—	119
Payments of long-term debt	—	—	(528)
Net cash provided by financing activities	<u>124,206</u>	<u>13,288</u>	<u>270,248</u>
Net change in cash and cash equivalents	79,235	1,694	148,884
Beginning of period	<u>69,649</u>	<u>2,925</u>	<u>—</u>
End of period	<u>\$148,884</u>	<u>\$ 4,619</u>	<u>\$ 148,884</u>
Supplemental disclosures			
Noncash financing activities			
Conversion of preferred stock to common stock	\$ —	\$ —	\$ 61,348
Conversion of convertible notes payable and accrued interest to common stock	—	—	18,604
Issuance of common stock upon net exercise of warrants	—	—	4,888
Reclassification of warrants from liabilities to equity	—	—	6,560
Conversion of long-term debt into preferred stock	—	—	17,364
Debt discount attributable to warrants	—	5,275	7,725
Accretion from conversion of note payable to related parties	—	220	775
Accretion of stock issuance costs	—	193	739
Deferred offering costs	—	617	—
Deferred costs from issuance of convertible notes	250	—	250
Deferred financing costs	1,000	—	1,000

The accompanying notes are an integral part of these financial statements.

AERIE PHARMACEUTICALS, INC.
(A Development Stage Company)

Notes to the Financial Statements
(Unaudited)

1. The Company

Aerie Pharmaceuticals, Inc. (the “Company”) is a development stage pharmaceutical company focused on the discovery, development and commercialization of topical, small molecule products to treat patients with glaucoma and other diseases of the eye. Incorporated in the State of Delaware on June 22, 2005, the Company maintains its corporate headquarters in Bedminster, New Jersey, conducts research in Research Triangle Park, North Carolina, and also has an office in Newport Beach, California.

To date, the Company is in the development stage and has not yet commenced primary operations or generated product revenue. The Company’s activities since inception primarily consisted of developing product candidates, raising capital and performing research and development activities. The Company has no current source of revenue to sustain its present activities, and it does not expect to generate revenue until and unless it receives regulatory approval of and successfully commercializes its product candidates. The Company has incurred losses and experienced negative operating cash flows since inception, and has cumulative net cash flows used in operating activities of \$97.7 million and cumulative net losses of \$126.6 million for the period from inception (June 22, 2005) to September 30, 2014.

The Company has funded its operations primarily through the sale of equity securities and issuance of convertible notes. In October 2013, the Company completed its initial public offering (“IPO”) and issued 7,728,000 shares of its common stock at an IPO price of \$10.00 per share, including 1,008,000 shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares to cover over-allotments. The Company received net proceeds from the IPO of approximately \$68.3 million, after deducting underwriting discounts and commissions of \$5.4 million and expenses of \$3.6 million. On September 30, 2014, the Company issued \$125.0 million aggregate principal amount of senior secured convertible notes (the “Convertible Notes”). The Company received net proceeds from the issuance of the Convertible Notes of approximately \$124.1 million, after deducting discounts and certain expenses of \$875,000. Refer to Note 7 for further information regarding the Convertible Notes.

If the Company does not successfully commercialize any of its product candidates, it may be unable to generate product revenue or achieve profitability. Accordingly, the Company may be required to obtain further funding through other public or private offerings, debt financing, collaboration and licensing arrangements or other sources. Adequate additional funding may not be available to the Company on acceptable terms, or at all. If the Company is unable to raise capital when needed or on attractive terms, it would be forced to delay, reduce or eliminate its research and development programs or commercialization efforts. The Company estimates that it has sufficient funding to sustain operations through product commercialization of Rhopressa™ and Roclatan™, pending successful outcome of their trials and FDA approval.

2. Significant Accounting Policies

Basis of Presentation

The Company’s interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In the opinion of management, the Company has made all necessary adjustments, which include normal recurring adjustments necessary for a fair statement of the Company’s financial position and results of operations for the interim periods presented. Certain information and disclosures normally included in the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These interim financial statements should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2013 included in the Company’s Annual Report on Form 10-K. The results for the three months and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for a full year, any other interim periods or any future year or period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the valuation of stock options and operating expense accruals. Actual results could differ from these estimates.

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Investments

The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase. The Company's investments are comprised of certificates of deposit and corporate notes that are classified as available-for-sale in accordance with ASC 320, Investments—Debt and Equity Securities. The Company classifies investments available to fund current operations as current assets on its balance sheet. Investments are classified as long-term assets on the balance sheet if (i) the Company has the intent and ability to hold the investments for a period of at least one year and (ii) the contractual maturity date of the investments is greater than one year.

Available-for-sale investments are recorded at fair value, with unrealized gains or losses included in Accumulated other comprehensive gain (loss) on the Company's balance sheets. Realized gains and losses are determined using the specific identification method and are included as a component of Other income (expense), net (Note 3). There were no realized gains or losses recognized for the three months and nine months ended September 30, 2014 or 2013 or for the period from inception (June 22, 2005) to September 30, 2014.

The Company reviews investments for other-than-temporary impairment whenever the fair value of an investment is less than the amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. To determine whether an impairment is other-than-temporary, the Company considers its intent to sell, or whether it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, the severity and the duration of the impairment and changes in value subsequent to period end. As of September 30, 2014, there were no investments with a fair value that was significantly lower than the amortized cost basis or any investments that had been in an unrealized loss position for a significant period.

Deferred Financing Costs

Deferred financing costs consist of financing costs incurred by the Company in connection with the closing of the Company's Convertible Notes and are included in Other assets. The Company amortizes deferred financing costs through the earlier of maturity or the conversion of the Convertible Notes using the effective interest method. Refer to Note 7 for further information regarding the Convertible Notes.

Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The fair value of the Company's financial instruments, including cash and cash equivalents, short-term investments, other current assets, accounts payable and accrued expenses approximate their respective carrying values due to the short-term nature of these instruments. The estimated fair value of the Company's Convertible Notes also approximates carrying value as of September 30, 2014, the date of the Convertible Note transaction. Refer to Note 7 for further information regarding the Convertible Notes.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-15, which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for the Company for the annual period ending after December 15, 2016 and for annual and interim periods thereafter, with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-10, which eliminates the concept of a development stage entity in its entirety from current accounting guidance. The new standard is effective for the Company for interim and annual periods beginning after December 15, 2014, with early adoption permitted. Upon adoption of ASU 2014-10, the Company will no longer disclose inception-to-date information in its Statement of Operations and Comprehensive Loss, Cash Flows and Stockholders' Deficit and the related notes thereto.

In July 2013, the FASB issued ASU 2013-11, which is an amendment to the accounting guidance on income taxes. This guidance provides clarification on the financial statement presentation of an unrecognized benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendment is effective for the Company for interim and annual periods beginning after December 15, 2013. The adoption of the provisions of this guidance did not have a material impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02 Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires that public and non-public companies present information about reclassification adjustments for accumulated other comprehensive income in their annual financial statements in a note or on the face of the financial statements. Public companies are also required to provide this information in interim financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of the provisions of this guidance did not have a material impact on the Company's results of operations, cash flows and financial position.

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Net Loss per Share Attributable to Common Stock

Basic net loss per share attributable to common stock (“Basic EPS”) is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding for the period, without consideration for potentially dilutive securities with the exception of warrants for common stock with a \$0.05 exercise price, which are exercisable for nominal consideration and are therefore included in the calculation of the weighted-average number of shares of common stock as common stock equivalents. Net loss attributable to common stockholders is calculated by adjusting the Company’s net loss for accretion on convertible preferred stock, if any. Diluted net loss per share attributable to common stock (“Diluted EPS”) gives effect to all dilutive potential shares of common stock outstanding during this period. For Diluted EPS, net loss attributable to common stockholders used in calculating Basic EPS is adjusted for certain items related to the dilutive securities.

For all periods presented, the Company’s potential common stock equivalents have been excluded from the computation of Diluted EPS as their inclusion would have the effect of reducing the net loss per share of common stock. Therefore, the denominator used to calculate Basic EPS and Diluted EPS is the same in all periods presented.

The Company’s potential common stock equivalents that have been excluded from the computation of Diluted EPS for all periods presented consist of the following:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2014	2013	2014	2013
Convertible Notes ⁽¹⁾	5,040,323	—	5,040,323	—
Convertible preferred stock ⁽²⁾	—	12,120,531	—	12,120,531
Outstanding stock options	3,792,152	3,189,660	3,792,152	3,189,660
Notes and interest payable to related parties ⁽²⁾	\$ —	\$ 18,504,000	\$ —	\$ 18,504,000
Stock purchase warrants	309,506	1,277,686	309,506	1,277,686
Unvested restricted common stock awards	138,815	317,900	138,815	317,900

(1) Conversion is limited to a 9.985% ownership cap in shares of common stock by the holder. Additionally, the Convertible Notes provide for an increase in the conversion rate if conversion is elected in connection with a significant corporate transaction. Refer to Note 7 for further information regarding the Convertible Notes.

(2) In connection with the completion of the Company’s IPO, the outstanding shares of convertible preferred stock and outstanding convertible notes to related parties and accrued interest thereon were converted into 12,120,531 and 1,860,363 shares of common stock, respectively.

3. Other Income (Expense), Net

Other income (expense), net consists of the following:

(in thousands)	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		PERIOD FROM INCEPTION (JUNE 22, 2005) TO SEPTEMBER 30,
	2014	2013	2014	2013	2014
Interest expense	\$ —	\$ (1,477)	\$ —	\$ (2,865)	\$ (6,329)
Loss on conversion of notes payable to related parties	—	—	—	—	(1,916)
Sale of New Jersey state tax benefit	—	—	2,288	1,268	3,556
Expense due to change in fair value measurements	—	(3,585)	—	(3,850)	(3,718)
Investment and other income, net	27	—	79	1	1,054
	<u>\$ 27</u>	<u>\$ (5,062)</u>	<u>\$ 2,367</u>	<u>\$ (5,446)</u>	<u>\$ (7,353)</u>

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4. Investments

Cash, cash equivalents and investments as of September 30, 2014 included the following:

(in thousands)	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Cash and cash equivalents:				
Cash and money market accounts	\$ 148,884	\$ —	\$ —	\$148,884
Total cash and cash equivalents	\$ 148,884	\$ —	\$ —	\$148,884
Investments:				
Certificates of deposit (due within 1 year)	\$ 9,869	\$ —	\$ (6)	\$ 9,863
Corporate bonds (due within 1 year)	12,317	1	(4)	12,314
Total investments	\$ 22,186	\$ 1	\$ (10)	\$ 22,177
Total cash, cash equivalents, and investments	\$ 171,070	\$ 1	\$ (10)	\$171,061

The Company only held cash and cash equivalents at December 31, 2013 and did not hold any investments.

5. Fair Value Measurements

The Company records certain financial assets and liabilities at fair value in accordance with the provisions of ASC Topic 820 on fair value measurements. As defined in the guidance, fair value, defined as an exit price, represents the amount that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering these assumptions, the guidance defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

- Level 1—Unadjusted quoted prices in active, accessible markets for identical assets or liabilities.
- Level 2—Other inputs that are directly or indirectly observable in the marketplace.
- Level 3—Unobservable inputs that are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The following tables summarize the fair value of financial assets and liabilities that are measured at fair value and the classification by level of input within the fair value hierarchy:

(in thousands)	FAIR VALUE MEASUREMENTS AS OF SEPTEMBER 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Cash and money market accounts	\$148,884	\$ —	\$ —	\$148,884
Total cash and cash equivalents	\$148,884	\$ —	\$ —	\$148,884
Investments:				
Certificates of deposit	\$ —	\$ 9,863	\$ —	\$ 9,863
Corporate bonds	—	\$12,314	—	\$ 12,314
Total investments	\$ —	\$22,177	\$ —	\$ 22,177
Total cash, cash equivalents, and investments	\$148,884	\$22,177	\$ —	\$171,061

(in thousands)	FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Cash and money market accounts	\$ 69,649	\$ —	\$ —	\$ 69,649
Total cash and cash equivalents	\$ 69,649	\$ —	\$ —	\$ 69,649

As of September 30, 2014, the date of the Convertible Note transaction, the estimated fair value of the Company's Convertible Notes approximates carrying value.

The Company had no long-term debt as of December 31, 2013.

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6. Accounts Payable & Other Current Liabilities

Accounts payable and other current liabilities consist of the following:

(in thousands)	SEPTEMBER 30, 2014	DECEMBER 31, 2013
Accounts payable	\$ 3,039	\$ 1,442
Accrued expenses and other liabilities:		
Employee benefits and compensation related accruals ⁽¹⁾	1,170	966
General and administrative related accruals	757	411
Research and development related accruals	2,033	663
	\$ 6,999	\$ 3,482

(1) Comprised of accrued bonus, accrued vacation, accrued severance liabilities, and liabilities under the Company's employee stock purchase plan.

7. Convertible Notes

On September 30, 2014, the Company issued the Convertible Notes to Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Private Design Fund III, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P. (collectively, "Deerfield").

The Convertible Notes bear interest at a rate of 1.75% per annum payable quarterly in arrears on the first business day of each January, April, July and October, commencing on January 1, 2015. The Convertible Notes mature on the seventh anniversary from the date of issuance, unless earlier converted.

The Convertible Notes constitute a senior secured obligation of the Company, collateralized by a first priority security interest in substantially all of the assets of the Company. The Convertible Notes provide that, upon the request of the Company, Deerfield will release all of the liens on the collateral if both of the following occur: (i) beginning one month after U.S. Food and Drug Administration approval of either Rhopressa™ or Roclatan™, shares of the Company's common stock have traded at a price above \$30 per share (subject to adjustment for any subdivision or combination of outstanding common stock) for 30 consecutive trading days, and (ii) the Company is prepared to close a financing that will be secured by a lien on the Company's assets, subject only to the release of the lien on the Company's assets by Deerfield.

At closing, the Company paid Deerfield a one-time transaction fee of \$625,000. In addition, the Company reimbursed Deerfield in the amount of \$250,000 for certain expenses incurred by Deerfield in connection with the transaction. The Company also incurred \$1.3 million of legal and advisory fees in connection with the transaction.

The Convertible Notes are convertible at any time at the option of Deerfield, in whole or in part, into shares of common stock, including upon the repayment of the Convertible Notes at maturity (the "Conversion Option"). However, upon conversion, Deerfield (together with their affiliates) is limited to a 9.985% ownership cap in shares of common stock (the "9.985% Cap"). The 9.985% Cap would remain in place upon any assignment of the Convertible Notes by Deerfield.

The initial conversion price is \$24.80 per share of common stock (equivalent to an initial conversion rate of 40.32 shares of common stock per \$1,000 principal amount of Convertible Notes), representing a 30% premium over the closing price of the common stock on September 8, 2014. The conversion rate and the corresponding conversion price are subject to adjustment for stock dividends (other than a dividend for which Deerfield would be entitled to participate on an as-converted basis), stock splits, reverse stock splits and reclassifications. In addition, in connection with certain significant corporate transactions, Deerfield, at its option, may (i) require the Company to prepay all or a portion of the principal amount of the Convertible Notes, plus accrued and unpaid interest, or (ii) convert all or a portion of the principal amount of the Convertible Notes into, depending upon the type of transaction, shares of common stock or the right to receive upon consummation of the transaction the consideration Deerfield would have received had Deerfield converted the Convertible Notes immediately prior to the consummation of the transaction. The Convertible Notes provide for an increase in the conversion rate if Deerfield elects to convert their Convertible Notes in connection with a significant corporate transaction. The maximum increase to the initial conversion rate, in connection with a significant corporate transaction, is 12.07 shares of common stock per \$1,000 principal amount of Conversion Notes, which decreases over time and is determined by reference to the price of the common stock prior to the consummation of the significant corporate transaction or the value of the significant corporate transaction.

The agreement governing the Convertible Notes contains various representations and warranties, and affirmative and negative covenants, customary for financings of this type, including restrictions on the incurrence of additional debt and liens on the Company's assets. The agreement governing the Convertible Notes also provides for certain events of default, including the failure to pay principal and interest when due; inaccuracies in the Company's representations and warranties to Deerfield; failure to comply with any of the covenants; the Company's insolvency or the occurrence of certain bankruptcy-related events; certain judgments against the Company; the suspension, cancellation or revocation of

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governmental authorizations that are reasonably expected to have a material adverse effect on the Company's business; the acceleration of a specified amount of indebtedness; and the failure to deliver shares of common stock upon conversion of the Convertible Notes. If any event of default were to occur, and continue beyond any applicable cure period, the holders of more than 50% of the aggregate principal amount of the then outstanding Convertible Notes would be permitted to declare the principal and accrued and unpaid interest to be immediately due and payable.

The Company recorded the Convertible Notes as long-term debt at face value less debt discounts relating to fees and certain expenses paid to Deerfield in connection with the transaction. The Conversion Option is a derivative that qualifies for an exemption from bifurcation and liability accounting as provided for in ASC Topic 815 "Derivatives and Hedging – Contracts in Entity's Own Equity" ("ASC 815"). Since the Conversion Option is not bifurcated as a derivative pursuant to ASC 815, the Company further evaluated the Conversion Option to determine whether it is considered a beneficial conversion feature ("BCF"). The Company determined that the initial accounting conversion price was greater than the fair value of the common stock at the close of trading on the date of issuance, therefore no BCF existed at inception. However, if Deerfield elects to convert their Convertible Notes in connection with a significant corporate transaction, the increase to the initial conversion rate may cause a contingent BCF to exist at the time of conversion. The contingent BCF, if any, will be recognized in earnings when the contingency is resolved and will be measured using the fair value of the common stock at the close of trading on the date of issuance and the accounting conversion price as adjusted for such an increase to the initial conversion rate.

As of September 30, 2014, the Company recognized unamortized debt discounts of \$875,000. Debt discounts are amortized using the effective interest method through the earlier of maturity or the conversion of the Convertible Notes.

The table below summarizes the carrying value of the Convertible Notes as of September 30, 2014:

<i>(in thousands)</i>	SEPTEMBER 30, 2014
Gross proceeds	\$ 125,000
Initial value of issuance costs recorded as debt discount	(875)
Amortization of debt discount	—
Carrying value	<u>\$ 124,125</u>

For the three and nine months ended September 30, 2014, interest expense related to the Convertible Notes was \$0.

8. Stock Purchase Warrants

As of September 30, 2014 and December 31, 2013, the following equity classified warrants were outstanding:

NUMBER OF UNDERLYING SHARES	EXERCISE PRICE PER SHARE	WARRANT EXPIRATION DATE	TYPE OF EQUITY SECURITY
2,006	\$ 5.00	March 2016	Common Stock
75,000	\$ 5.00	February 2019	Common Stock
75,000	\$ 5.00	November 2019	Common Stock
157,500	\$ 5.00	August 2020	Common Stock
408,295	\$ 0.05	December 2019	Common Stock

The warrants outstanding as of September 30, 2014 and December 31, 2013 are all currently exercisable with weighted-average remaining lives of 5.24 and 5.99 years, respectively.

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9. Stock-based Compensation

The Company maintains two equity compensation plans, the 2005 Aerie Pharmaceutical Stock Plan (the “2005 Plan”) and the 2013 Omnibus Incentive Plan (the “2013 Equity Plan”). The 2005 Plan and the 2013 Equity Plan are referred to collectively as the “Plans.”

On October 30, 2013, the effective date of the 2013 Equity Plan, the 2005 Plan was frozen and no additional awards will be made under the 2005 Plan. Any shares remaining available for future grant under the 2005 Plan were allocated to the 2013 Equity Plan. The 2013 Equity Plan provides for the granting of up to 3,229,068 equity awards for common stock of the Company. The Company granted stock options to employees to purchase 1,211,700 and 2,009,551 shares of common stock during the nine months ended September 30, 2014 and 2013, respectively.

The following table summarizes the stock option activity under the Plans:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	AGGREGATE INTRINSIC VALUE (000's)
Options outstanding at December 31, 2013	3,189,660	\$ 2.1634	\$ 50,386
Granted	1,211,700	20.1937	—
Exercised	(574,951)	0.3593	—
Cancelled	(34,257)	14.3228	—
Options outstanding at September 30, 2014	3,792,152	\$ 8.0882	\$ 47,788
Options exercisable at September 30, 2014	1,185,834	\$ 2.0615	\$ 22,090

The estimated fair value of options granted is determined on the date of grant using the Black-Scholes option pricing model. Options granted to non-employees are re-measured at each financial reporting period until required service is performed.

Stock-based compensation expense for options granted, restricted stock and stock purchase rights are reflected in the statement of operations as follows:

(in thousands)	THREE MONTHS ENDED		NINE MONTHS ENDED		PERIOD FROM INCEPTION (JUNE 22, 2005) TO
	SEPTEMBER 30,		SEPTEMBER 30,		SEPTEMBER 30,
	2014	2013	2014	2013	2014
Research and development	\$ 220	\$ 62	\$1,072	\$ 105	\$ 1,472
General and administrative	2,172	1,068	5,624	1,426	9,112
Total	<u>\$2,392</u>	<u>\$ 1,130</u>	<u>\$6,696</u>	<u>\$1,531</u>	<u>\$ 10,584</u>

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As of September 30, 2014, the Company had \$24.5 million of unrecognized compensation expense related to options granted under the Plans. This cost is expected to be recognized over a weighted average period of 2.8 years as of September 30, 2014. The weighted average remaining contractual life on all outstanding options as of September 30, 2014 was 8.6 years.

Restricted Common Stock

On March 21, 2013, concurrent with the cancellation of 345,000 stock options, the Company issued 371,034 shares of restricted stock to an employee. The vesting of these awards is time-based with terms of two to four years. These restricted stock awards are subject to repurchase, such that the Company has the right, but not the obligation, to repurchase unvested shares upon the employee's termination. As of September 30, 2014, 138,815 shares of restricted stock awards were unvested and subject to repurchase.

Compensation expense related to these restricted stock awards is based on the market value of the Company's common stock on the date of grant and is expensed on a straight-line basis (net of estimated forfeitures) over the vesting period. The weighted average remaining contractual term for restricted stock awards as of September 30, 2014 was 1.47 years. Compensation expense related to restricted stock awards for the three months and nine months ended September 30, 2014 was \$97,000 and \$292,000, respectively and was included in general and administrative expense.

As of September 30, 2014, the Company had \$340,000 of unrecognized compensation expense, related to unvested restricted stock awards. This cost is expected to be recognized over a weighted average period of 1.47 years as of September 30, 2014.

10. Commitments and Contingencies

Litigation

The Company is not party to any known litigation, is not aware of any unasserted claims and does not have contingency reserves established for any litigation liabilities.

Contract Service Providers

In the course of the Company's normal business operations, it has agreements with contract service providers to assist in the performance of its research and development, clinical research and manufacturing. Substantially all of these contracts are on an as-needed basis.

11. Related-Party Transactions

In connection with the completion of the Company's IPO in October 2013, the outstanding shares of convertible preferred stock and outstanding convertible notes to related parties and accrued interest thereon were converted into 12,120,531 and 1,860,363 shares of common stock, respectively. Prior to their conversion into common stock in connection with the IPO, the Company's convertible notes to related parties were due to holders of the Company's convertible preferred stock. Interest expense on those obligations for the three months and nine months ended September 30, 2013 was \$266,000 and \$488,000, respectively.

On September 6, 2013, the Company terminated its agreement to exclusively license its intellectual property for non-ophthalmic indications to Novaer Holding, Inc. Since September 6, 2013, the Company owns all of the worldwide rights to its current product candidates for all indications, both ophthalmic and non-ophthalmic.

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

The following discussion and analysis should be read in conjunction with our unaudited financial statements and related notes that appear elsewhere in this report and with our audited financial statements and related notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as filed with the SEC on March 26, 2014. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Please see "Special Note Regarding Forward-Looking Statements" for additional factors relating to such statements, and see "Risk Factors" in Part II, Item 1A of this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for a discussion of certain risk factors applicable to our business, financial condition and results of operations. Past operating results are not necessarily indicative of operating results in any future periods.

Overview

We are a clinical-stage pharmaceutical company focused on the discovery, development and commercialization of first-in-class therapies for the treatment of patients with glaucoma and other diseases of the eye. Our lead product candidate, once-daily, triple-action Rhopressa™, successfully completed a Phase 2b clinical trial in patients with open-angle glaucoma and ocular hypertension in May 2013. The first patients enrolled in our Phase 3 registration trials of Rhopressa™ were dosed in early July 2014. Two trials are being conducted in the United States and one safety-only study is being conducted in Canada. Our second product candidate, once-daily, quadruple-action Roclatan™, which is a fixed-dose combination of Rhopressa™ and latanoprost, the most commonly prescribed drug for the treatment of patients with glaucoma, successfully completed a Phase 2b clinical trial in patients with open-angle glaucoma and ocular hypertension in June 2014. We expect Phase 3 registration trials to commence in mid-2015. Preparatory steps for these trials have already commenced.

We are developing Rhopressa™ as the first of a new class of compounds that is designed to lower intraocular pressure, or IOP, through novel biochemical targets. By inhibiting these targets, we believe Rhopressa™ reduces IOP via three separate mechanisms of action, or MOAs: (i) it increases fluid outflow through the trabecular meshwork, the diseased tissue of the eye, (ii) it reduces episcleral venous pressure, which represents the pressure of the blood in the episcleral veins of the eye where eye fluid drains into the bloodstream, and (iii) it reduces the production of eye fluid. Roclatan™ is a combination of Rhopressa™ and latanoprost and is designed to lower IOP through the same three MOAs as Rhopressa™ and, with a fourth MOA, through the ability of latanoprost to increase fluid outflow through the uveoscleral pathway, the eye's secondary drain.

We are focused on becoming a major ophthalmic pharmaceutical company. In addition to our primary product candidates, Rhopressa™ and Roclatan™, we are in the preclinical development stage with AR-13533. We are also exploring the longer-term impact of Rhopressa™ and Roclatan™ on the diseased trabecular meshwork and evaluating possible uses of our existing proprietary portfolio of Rho Kinase inhibitors beyond glaucoma. We may license, acquire or develop additional product candidates to broaden our presence in ophthalmology. However, we have no present plans, agreements or commitments with respect to any potential acquisition, investment or license.

We have incurred net losses since our inception in June 2005. Our operations to date have been limited to research and development and raising capital. As of September 30, 2014, we had a deficit accumulated during the development stage of \$126.7 million. We recorded net losses of \$13.1 million and \$31.6 million for the three months and nine months ended September 30, 2014, respectively, and net losses of \$10.7 million and \$20.9 million for the three months and nine months ended September 30, 2013, respectively. We anticipate that a substantial portion of our capital resources and efforts in the foreseeable future will be focused on completing development activities, obtaining regulatory approval, preparing for potential commercialization of our product candidates and potentially pursuing strategic opportunities.

Prior to our initial public offering ("IPO"), we raised net cash proceeds of \$78.6 million from the private placement of \$43.8 million of convertible preferred stock and \$34.8 million of convertible notes. Subsequent to the issuance of the convertible notes, we made \$0.5 million in cash payments, \$16.2 million of the convertible notes were converted into shares of convertible preferred stock, which were subsequently converted into shares of common stock in connection with our IPO, and \$18.0 million of the convertible notes were converted into shares of common stock in connection with our IPO. In connection with our IPO, all outstanding shares of convertible preferred stock were converted into shares of common stock.

On October 30, 2013, we completed our IPO and issued 7,728,000 shares of our common stock at an IPO price of \$10.00 per share, including 1,008,000 shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares to cover over-allotments. Our shares began trading on the NASDAQ Global Market on October 25, 2013. We received net proceeds from the IPO of approximately \$68.3 million, after deducting underwriting discounts and commissions of \$5.4 million and expenses of \$3.6 million.

On September 30, 2014, we issued \$125.0 million aggregate principal amount of senior secured convertible notes (the "Convertible Notes"). We received net proceeds from the issuance of the Convertible Notes of approximately \$124.1 million, after deducting discounts and certain expenses of \$875,000.

We expect our research and development expenses to increase as we initiate and conduct clinical trials for our Rhopressa™ and Roclatan™ product candidates and pursue regulatory approval. As we prepare for commercialization, we will likely incur significant commercial, sales, marketing and outsourced manufacturing expenses. Since our IPO in October 2013, we are also incurring

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additional expenses associated with operating as a public company. As a result, we expect to continue to incur significant and increasing operating losses at least for the next several years. To date, we have not generated product revenue and we do not expect to generate product revenue unless and until we successfully complete development and obtain regulatory approval for one or more of our product candidates. If we do not successfully commercialize any of our product candidates, we may be unable to generate product revenue or achieve profitability.

Accordingly, we may be required to obtain further funding through public or private offerings, debt financing, collaboration and licensing arrangements or other sources. Adequate additional funding may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on acceptable terms, we would be forced to delay, reduce or eliminate our research and development programs or commercialization efforts.

Proceeds from the Convertible Notes financing in September 2014, together with proceeds from our IPO in October 2013, are expected to provide sufficient resources to complete all currently known non-clinical and clinical requirements for our development programs advancing Rhopressa™ and Roclatan™, and approval by the U.S. Federal Drug Administration (“FDA”) and product commercialization, pending successful outcome of the trials. We also intend to use the proceeds in part for general corporate purposes and potentially for strategic growth opportunities.

Financial Overview

Revenue

We have not generated any revenue from the sale of any products, and we do not expect to generate any revenue unless or until we obtain regulatory approval and commercialize our products.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries, benefits and stock-based compensation for all officers and employees in general management, finance and administration. Other significant expenses include facilities expenses and professional fees for accounting, legal and other services.

We expect that our general and administrative expenses will increase with the continued advancement of our product candidates and with our increased management, legal, compliance, accounting and investor relations expenses as we continue to grow. We expect these increases will likely include increased expenses for insurance, expenses related to the hiring of additional personnel and payments to outside service providers, lawyers and accountants.

Research and Development Expenses

Since our inception, we have focused on our development programs. Research and development expenses consist primarily of costs incurred for the research and development of our preclinical and clinical candidates, which include:

- employee-related expenses, including salaries, benefits, travel and stock-based compensation expense for research and development personnel;
- expenses incurred under agreements with contract research organizations (“CROs”), contract manufacturing organizations and service providers that assist in conducting clinical trials and preclinical studies;
- costs associated with preclinical activities and development activities;
- costs associated with regulatory operations; and
- depreciation expense for assets used in research and development activities.

We expense research and development costs to operations as incurred. The costs for certain development activities, such as clinical trials, are recognized based on the terms of underlying agreements as well as an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations along with additional information provided to us by our vendors.

Expenses relating to activities, such as manufacturing and stability and toxicology studies, that are supportive of the product candidate itself, are classified as direct non-clinical. Expenses relating to clinical trials and similar activities, including costs associated with CROs, are classified as direct clinical. Expenses relating to activities that support more than one development program or activity such as personnel costs, stock-based compensation and depreciation are not allocated to direct clinical or non-clinical expenses and are separately classified as “unallocated.”

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The following table shows our research and development expenses by product candidate and type of activity for the three months and nine months ended September 30, 2014 and 2013:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2014	2013	2014	2013
	(unaudited) (in thousands)			
Rhopressa™				
Direct non-clinical	\$ 2,298	\$ 1,139	\$ 6,826	\$ 2,040
Direct clinical	3,762	32	5,980	1,333
Total	\$ 6,060	\$ 1,171	\$ 12,806	\$ 3,373
Roclatan™				
Direct non-clinical	\$ 301	\$ 209	\$ 455	\$ 209
Direct clinical	18	—	1,868	—
Total	\$ 319	\$ 209	\$ 2,323	\$ 209
Discontinued product candidates				
Direct non-clinical	\$ 22	\$ 72	\$ 75	\$ 537
Direct clinical	—	395	1	2,969
Total	\$ 22	\$ 467	\$ 76	\$ 3,506
Unallocated	1,829	552	5,071	1,639
Total research and development expense	\$ 8,230	\$ 2,399	\$ 20,276	\$ 8,727

From inception through September 30, 2014, we did not incur any direct non-clinical or direct clinical costs for AR-13533, exploring the longer-term impact of Rhopressa™ and Roclatan™ on the diseased trabecular meshwork or evaluating possible uses of our existing proprietary portfolio of Rho Kinase inhibitors beyond glaucoma. Costs for these activities were primarily comprised of internal personnel costs and were included in unallocated costs. Discontinued product candidates relate to previously developed AR-12286 and related compounds, which did not meet their primary endpoints in clinical trials. We may continue to incur immaterial costs for these discontinued product candidates related to the enforcement of patent protection and general record maintenance.

From inception through September 30, 2014, we have incurred approximately \$75.3 million in research and development expenses.

Research and development activities associated with the discovery and development of new drugs and products for the treatment of diseases of the eye are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase as we continue to conduct clinical trials for our product candidates, or if the FDA requires us to conduct additional trials for approval.

Our research and development expenditures are subject to numerous uncertainties in timing and cost to completion. Development timelines, the probability of success and development expenses can differ materially from expectations. The cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical development, including, among others, the following:

- number of trials required for approval;
- number of sites included in the trials;
- length of time required to enroll suitable patients;
- number of patients that participate in the trials;
- drop-out or discontinuation rates of patients;
- duration of patient follow-up;
- costs related to compliance with regulatory requirements;
- number and complexity of analyses and tests performed during the trial;
- phase of development of the product candidate; and
- efficacy and safety profile of the product candidate.

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Our expenses related to clinical trials are based on estimates of patient enrollment and related expenses at clinical investigator sites as well as estimates for the services received and efforts expended pursuant to contracts with research institutions, consultants and CROs that assist in conducting and managing our clinical trials. We generally accrue expenses related to clinical trials based on contracted amounts applied to the level of patient enrollment and activity according to the protocol. If future timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, we modify our estimates of accrued expenses accordingly on a prospective basis. Historically, such modifications have not been material.

As a result of the uncertainties discussed above, we are unable to determine with certainty the duration and completion costs of our development programs or precisely when and to what extent we will receive revenue from the commercialization of our products. We may never succeed in achieving regulatory approval for one or more of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including the uncertainties of future preclinical studies and clinical trials, uncertainties in the clinical trial enrollment rate and changing government regulation. In addition, the probability of success for each product candidate will depend on numerous factors, including efficacy and tolerability profiles, manufacturing capability, competition, and commercial viability.

Other Income (Expense), Net

Other income consists of interest earned on our cash and cash equivalents and investments as well as the net proceeds from the sale of our net operating loss tax benefits for the state of New Jersey. Interest income is not considered significant to our historical financial statements and consists of interest earned on our cash and cash equivalents. Refer to Note 3 to our unaudited financial statements appearing elsewhere in this report for further information.

Other expense consists of interest expense under our prior convertible notes, amortization of debt discounts and non-cash expense related to changes in the fair value of our warrants liability arising from stock purchase warrants. Upon closing of the IPO in October 2013, the principal and accrued interest outstanding under our prior convertible notes to related parties were converted into 1,860,363 shares of common stock at a conversion price equal to the IPO price of \$10.00 per share. Prior to the IPO, we recognized all of our outstanding warrants as liabilities on our balance sheet as they were subject to price protection provisions. The liability was revalued at each reporting period and changes in the fair value of the warrant liability were included as a component of Other income (expense), net. Upon closing of the IPO, the remaining outstanding warrants to purchase convertible preferred stock were automatically converted into warrants to purchase common stock and all price protection provisions associated with the warrants were removed, at which time the liabilities were revalued and reclassified to equity.

Critical Accounting Policies and Use of Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The preparation of financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, costs and expenses and related disclosures. We evaluate our estimates and judgments on an ongoing basis. Significant estimates include assumptions used in the determination of the fair value measurement of stock purchase warrants, stock-based compensation and certain research and development expenses. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are more fully described in Note 2 to our unaudited financial statements included elsewhere in this report and Note 2 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

	THREE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)	% INCREASE (DECREASE)
	2014	2013		
	(unaudited)			
	(in thousands)			
Expenses				
General and administrative	\$ (4,944)	\$ (3,287)	\$ 1,657	50%
Research and development	(8,230)	(2,399)	5,831	243%
Other income (expense), net	27	(5,062)	5,089	N/A
Net loss	\$ (13,147)	\$ (10,748)		

General and administrative expenses

General and administrative expenses increased by \$1.7 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. This increase was primarily associated with the expansion of our employee base to support the growth of our operations. Personnel costs increased by \$1.4 million, including employee stock based compensation expense of \$1.1 million and new salaried employees and related expenses of \$0.3 million. This increase in personnel costs was partially offset by a decrease in severance expense of \$0.4 million related to a former employee. As a result of increased board expenses and other business related activities in connection with operating as a public company, outside professional fees increased by \$0.5 million and travel expenses increased by \$0.2 million.

Research and development expenses

During the three months ended September 30, 2014, our research and development activity was primarily associated with Phase 3 registration trials for Rhopressa™ and preparatory activities for our Phase 3 clinical trials for Roclatan™. Research and development expenses increased by \$5.8 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Costs for Rhopressa™ increased by \$4.8 million as direct clinical costs and direct non-clinical costs increased \$3.7 million and \$1.1 million, respectively. Costs for Roclatan™ increased \$0.1 million as direct non-clinical costs increased \$0.1 million. Additionally, unallocated expenses including employee salary, consulting costs and related expenses increased by \$1.3 million. Research and development expenses for product candidates for which further advancement was discontinued during the third quarter of 2013 decreased by \$0.4 million.

Other income (expense), net

Other income (expense), net increased by \$5.1 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. The increase was mainly due to a decrease of \$3.6 million in non-cash expense related to the change in the fair value of warrant liabilities and a decrease of \$1.5 million in non-cash interest expense relating to the amortization of debt discounts and accrued interest. Upon closing of the IPO in October 2013, the principal and accrued interest outstanding under our prior convertible notes to related parties were converted into 1,860,363 shares of common stock and the remaining outstanding warrants to purchase convertible preferred stock were automatically converted into warrants to purchase common stock at which time the liabilities were revalued and reclassified to equity.

Comparison of the Nine Months Ended September 30, 2014 and 2013

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

	NINE MONTHS ENDED SEPTEMBER 30,		INCREASE (DECREASE)	% INCREASE (DECREASE)
	2014	2013		
	(unaudited)			
	(in thousands)			
Expenses				
General and administrative	\$ (13,723)	\$ (6,693)	\$ 7,030	105%
Research and development	(20,276)	(8,727)	11,549	132%
Other income (expense), net	2,367	(5,446)	7,813	N/A
Net loss	\$ (31,632)	\$ (20,866)		

General and administrative expenses

General and administrative expenses increased by \$7.0 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. This increase was primarily associated with the expansion of our employee base to support the growth of our operations. Personnel costs increased by \$5.2 million, including employee stock based compensation expense of \$4.2 million and new salaried employees and related expenses of \$1.0 million. This increase in personnel costs was partially offset by a decrease in severance expense of \$0.4 million related to a former employee. As a result of increased audit fees, legal fees, board expenses and other business related activities in connection with operating as a public company, outside professional fees increased by \$1.9 million and travel expenses increased by \$0.4 million.

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Research and development expenses

During the nine months ended September 30, 2014, our research and development activity was primarily associated with the preparation and initiation of Phase 3 registration trials for Rhopressa™ and the initiation and completion of the Phase 2b clinical trial for Roclatan™. Research and development expenses increased by \$11.5 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Costs for Rhopressa™ increased by \$9.4 million as direct non-clinical costs and direct clinical costs increased \$4.8 million and \$4.6 million, respectively. Costs for Roclatan™ increased \$2.1 million as direct clinical and direct non-clinical costs increased \$1.9 million and \$0.2 million. Additionally, unallocated expenses including employee salary, consulting costs and related expenses increased by \$3.4 million. Research and development expenses for product candidates for which further advancement was discontinued during the third quarter of 2013 decreased by \$3.4 million.

Other income (expense), net

Other income (expense), net increased by \$7.8 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase was mainly due to a \$1.0 million increase in income generated as a result of our participation in the New Jersey Economic Development Authority's sponsored Technology Business Tax Certificate Transfer Program. Additionally, there was a decrease of \$3.9 million in non-cash expense related to the change in the fair value of warrant liabilities and a decrease of \$2.9 million in non-cash interest expense relating to the amortization of debt discounts and accrued interest. Upon closing of the IPO in October 2013, the principal and accrued interest outstanding under our prior convertible notes to related parties were converted into 1,860,363 shares of common stock and the remaining outstanding warrants to purchase convertible preferred stock were automatically converted into warrants to purchase common stock at which time the liabilities were revalued and reclassified to equity.

Liquidity and Capital Resources

Since our inception, we have funded operations primarily through the sale of equity securities, including our IPO, and the issuance of convertible notes. We have incurred losses and experienced negative operating cash flows since our inception and anticipate that we will continue to incur losses for at least the next several years. For the period from inception (June 22, 2005) to September 30, 2014, we have cumulative net cash used in operating activities of \$97.7 million and cumulative net losses of \$126.6 million.

Prior to our IPO, we raised net cash proceeds of \$78.6 million from the private placement of \$43.8 million of convertible preferred stock and \$34.8 million of convertible notes. Subsequent to their issuance, we paid \$0.5 million in cash payments on the convertible notes, \$16.2 million of the convertible notes were converted into shares of convertible preferred stock, which were subsequently converted into shares of common stock in connection with our IPO, and \$18.0 million of the convertible notes to related parties were converted into shares of common stock in connection with our IPO. In connection with our IPO, all outstanding shares of convertible preferred stock were converted into shares of common stock.

On October 30, 2013, we completed our IPO and issued 7,728,000 shares of our common stock at an IPO price of \$10.00 per share, including 1,008,000 shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares to cover over-allotments. We received net proceeds from the IPO of approximately \$68.3 million, after deducting underwriting discounts and commissions of \$5.4 million and expenses of \$3.6 million.

On September 30, 2014, we issued \$125.0 million aggregate principal amount of Convertible Notes. We received net proceeds from the issuance of the Convertible Notes of approximately \$124.1 million, after deducting discounts and certain expenses of \$875,000.

As of September 30, 2014, our principal sources of liquidity were our cash and cash equivalents and investments, which totaled approximately \$171.1 million.

We believe that our cash and cash equivalents and investments as of September 30, 2014 will provide sufficient resources to complete all currently known non-clinical and clinical requirements for our development programs advancing Rhopressa™ and Roclatan™, and approval by the FDA and product commercialization, pending successful outcome of the trials. Our ability to continue as a going concern will depend, in large part, on our ability to successfully commercialize our product candidates and generate positive cash flow from operations, neither of which is certain.

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The following table summarizes our sources and uses of cash:

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2014	2013
	(unaudited)	
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (22,392)	\$ (11,566)
Investing activities	(22,579)	(28)
Financing activities	124,206	13,288
Net change in cash and cash equivalents	<u>\$ 79,235</u>	<u>\$ 1,694</u>

During the nine months ended September 30, 2014 and 2013, our operating activities used net cash of \$22.4 million and \$11.6 million, respectively. The use of net cash in each of these periods primarily resulted from our net losses. The increase in net loss from operations for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 was due to increases in general and administrative and research and development expenses. For the nine months ended September 30, 2014 and 2013, we received \$2.3 million and \$1.3 million, respectively, of cash proceeds from the sale of deferred state tax benefits to an unrelated third party, which decreased net loss for the respective periods.

During the nine months ended September 30, 2014, our investing activities used net cash of \$22.6 million primarily related to purchases of available-for-sale investments of \$34.6 million, which was partially offset by maturities and sales of available-for-sale investments of \$10.7 million and \$1.5 million, respectively. During the nine months ended September 30, 2013, our investing activities primarily related to purchases of office furnishings and equipment to accommodate our business growth.

During the nine months ended September 30, 2014 and 2013, our financing activities provided net cash of \$124.2 million and \$13.3 million, respectively. The net cash provided by financing activities during the nine months ended September 30, 2014 was primarily related to net proceeds of \$124.4 from the aforementioned issuance of Convertible Notes, partially offset by payments of debt issuance costs of \$0.3 million. The net cash provided by financing activities during the nine months ended September 30, 2013 was related to proceeds of \$15.0 million from the sale of our prior convertible notes, partially offset by \$1.7 million in payments made in preparation for our IPO.

Operating Capital Requirements

We expect to incur increasing operating losses for at least the next several years as we continue to conduct Phase 3 clinical trials for Rhopressa™ and initiate and complete for Phase 3 clinical trials for Roclatan™. We expect that our existing cash and cash equivalents and investments will provide sufficient resources to complete all currently known non-clinical and clinical requirements for our development programs advancing Rhopressa™ and Roclatan™, and approval by the FDA and product commercialization, pending successful outcome of the trials.

We will also continue to incur increasing costs associated with the growth of our operations, including but not limited to, increased costs and expenses for directors fees, increased personnel costs, increased directors and officers insurance premiums, audit and legal fees, investor relations fees, expenses for compliance with reporting requirements under the Exchange Act and rules implemented by the SEC and NASDAQ and various other costs.

Due to 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. We based our projections on assumptions that may prove to be incorrect or unreliable or may change due to circumstances beyond our control, and as a result we may consume our available capital resources earlier than we originally projected. Our future funding requirements will depend on many factors, including, but not limited to the following:

- timing and costs of our future preclinical studies and clinical trials for our product candidates;
- costs of any follow-on development or products;
- timing and cost of the ongoing supportive preclinical studies and activities for our product candidates;
- outcome, timing and costs of seeking regulatory approval;
- costs of commercialization activities for our product candidates, if we receive regulatory approval, including the costs and timing of establishing product sales, marketing, manufacturing and distribution capabilities;
- costs of operating as a public company, including legal, compliance, accounting and investor relations expenses;
- terms and timing of any future collaborations, licensing, consulting or other arrangements that we may establish; and
- filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims.

We may need to obtain additional financing to fund our future operations, including supporting sales and marketing activities, as well as funding the ongoing development of any additional product candidates we might acquire or develop internally. To the extent that we raise additional capital through the sale of common stock, convertible securities or other equity securities, the ownership interests of our existing stockholders may be materially diluted and the terms of these securities could include liquidation or other preferences that could adversely affect the rights of our existing stockholders.

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If we are unable to raise capital when needed or on acceptable terms, we could be forced to delay, reduce or discontinue our research and development programs or commercialization efforts.

Contractual Obligations and Commitments

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

	<u>TOTAL</u>	<u>LESS THAN 1 YEAR</u>	<u>1 TO 3 YEARS</u>	<u>3 TO 5 YEARS</u>	<u>MORE THAN 5 YEARS</u>
			(in thousands)		
Operating lease obligations(1)	\$ 2,241	\$ 510	\$ 656	\$ 708	\$ 367
Convertible Notes(2)	125,000	—	—	—	125,000
	<u>127,241</u>	<u>510</u>	<u>656</u>	<u>708</u>	<u>125,367</u>

- (1) Our operating lease obligations are related to our corporate headquarters in New Jersey, research facility in North Carolina and office in Newport Beach, California.
- (2) On September 30, 2014, we issued the Convertible Notes to Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Private Design Fund III, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P. The Convertible Notes mature on the seventh anniversary from the date of issuance, unless earlier converted. Refer to Note 7 to our unaudited financial statements appearing elsewhere in this report for further information.

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We have no other contractual obligations or commitments that are not subject to our existing financial statement accrual processes.

Off-Balance Sheet Arrangements

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

Jumpstart Our Business Startups Act of 2012

The Jumpstart Our Business Startups Act of 2012 provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. Our cash and cash equivalents as of September 30, 2014, totaled \$148.9 million and consisted primarily of cash and money market funds with original maturities of three months or less from the date of purchase. Our investments totaled \$22.2 million as of September 30, 2014 and consisted of certificates of deposit and corporate notes. We had cash and cash equivalents on hand of \$69.6 million as of December 31, 2013. Given the short-term nature of our cash equivalents and investments, a sudden change in market interest rates would not be expected to have a material impact on our financial condition or results of operations. We do not engage in any hedging activities against changes in interest rates. We do not have any foreign currency or other derivative financial instruments.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)), as of the end of the period covered by this report. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2014, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently a party to any legal proceedings.

Item 1A. Risk Factors

You should consider carefully the risks described below and set forth under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on March 26, 2014.

Our substantial leverage and related obligations could adversely affect our financial condition and restrict our operating flexibility.

We have substantial debt and related obligations. As of September 30, 2014 our total indebtedness consisted of our \$125.0 million aggregate principal amount of Convertible Notes issued in September 2014. Our substantial level of debt and related obligations, including interest payments, covenants and restrictions, could have important consequences, including the following:

- impairing our ability to successfully complete the development of our product candidates which would prevent us from generating a source of revenue and becoming profitable;

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- making it more difficult for us to satisfy our obligations with respect to our indebtedness, which could result in an event of default under the agreement governing the Convertible Notes;
- limiting our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, debt obligations and other general corporate requirements;
- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to our competitors that are less leveraged and therefore we may be unable to take advantage of opportunities that our leverage prevents us from exploiting; and
- imposing additional restrictions on the manner in which we conduct our business, including restrictions on our ability to pay dividends, incur additional debt and sell assets.

The occurrence of any one of these events could have an adverse effect on our business, financial condition, operating results or cash flows and ability to satisfy our obligations under our indebtedness.

Although the agreement governing the Convertible Notes contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and any indebtedness incurred in compliance with these restrictions could be substantial. In addition, the agreement governing the Convertible Notes allows us to incur a significant amount of indebtedness in connection with acquisitions and a significant amount of purchase money debt. If new debt is added to current debt levels, the related risks that we and noteholders face would be increased.

The terms of the agreement governing the Convertible Notes may restrict our current and future operations, particularly our ability to respond to changes in our business or to take certain actions.

The agreement governing the Convertible Notes contains, and the terms of any future indebtedness of ours would likely contain, a number of restrictive covenants that impose significant operating restrictions, including restrictions on our ability to engage in acts that may be in our best long-term interests. The agreement governing the Convertible Notes includes covenants that, among other things, restrict or otherwise limit our ability to:

- incur additional indebtedness and create liens;
- pay dividends on capital stock and make other restricted payments;
- enter into any merger, partnership, joint venture, syndicate, pool, profit-sharing or royalty agreement, or engage in any transactions with our affiliates;
- sell or transfer assets;
- merge; and
- issue equity securities senior to our common stock or convertible or exercisable for equity securities senior to our common stock.

A breach of any of these provisions could result in a default under the agreement governing the Convertible Notes that would allow noteholders to declare the outstanding debt immediately due and payable. In addition, the Convertible Notes are secured by substantially all of our existing and hereafter created or acquired assets, including our intellectual property, accounts receivable, equipment, general intangibles, inventory and investment property, and all of the proceeds and products of the foregoing. If we are unable to pay those amounts because we do not have sufficient cash on hand or are unable to obtain alternative financing on acceptable terms, the noteholders could initiate a bankruptcy proceeding or proceed against any assets that serve as collateral to secure the Convertible Notes. These restrictions could limit our ability to obtain future financings, make needed capital expenditures, withstand future downturns in the economy or otherwise conduct necessary corporate activities. We may also be prevented from taking advantage of business opportunities that arise because of limitations imposed on us by the restrictive covenants under the Convertible Notes.

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

Unregistered Sales of Equity Securities

On September 30, 2014, we issued \$125.0 million aggregate principal amount of 1.75% senior secured convertible notes (“the Convertible Notes”) to Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Private Design Fund III, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P. The Convertible Notes were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder.

The Convertible Notes are convertible at any time at the option of Deerfield, in whole or in part, into shares of common stock, including upon the repayment of the Convertible Notes at maturity (the “Conversion Option”). However, upon conversion, Deerfield (together with their affiliates) is limited to a 9.985% ownership cap in shares of common stock (the “9.985% Cap”). The 9.985% Cap would remain in place upon any assignment of the Convertible Notes by Deerfield.

The initial conversion price is \$24.80 per share of common stock (equivalent to an initial conversion rate of 40.32 shares of common stock per \$1,000 principal amount of Convertible Notes), representing a 30% premium over the closing price of the common stock on September 8, 2014. The conversion rate and the corresponding conversion price are subject to adjustment for stock dividends (other than a dividend for which Deerfield would be entitled to participate on an as-converted basis), stock splits, reverse stock splits and reclassifications. In addition, in connection with certain significant corporate transactions, Deerfield, at its option, may (i) require the Company to prepay all or a portion of the principal amount of the Convertible Notes, plus accrued and unpaid interest, or (ii) convert all or a portion of the principal amount of the Convertible Notes into, depending upon the type of transaction, shares of common stock or the right to receive upon consummation of the transaction the consideration Deerfield would have received had Deerfield converted the Convertible Notes immediately prior to the consummation of the transaction. The Convertible Notes provide for an increase in the conversion rate if Deerfield elects to convert their Convertible Notes in connection with a significant corporate transaction. The maximum increase to the initial conversion rate, in connection with a significant corporate transaction, is 12.07 shares of common stock per \$1,000 principal amount of Conversion Notes, which decreases over time and is determined by reference to the price of the common stock prior to the consummation of the significant corporate transaction or the value of the significant corporate transaction.

We received net proceeds from the issuance of the Convertible Notes of approximately \$124.1 million, after deducting discounts and certain expenses of \$875,000. Proceeds from the Convertible Notes are expected to provide sufficient resources to complete all currently known non-clinical and clinical requirements for our development programs advancing Rhopressa™ and Roclatan™, and FDA approval and product commercialization, pending successful outcome of the trials. We also intend to use the proceeds in part for general corporate purposes and potentially for strategic growth opportunities.

Use of Proceeds from Registered Securities

On October 30, 2013, we completed our IPO and issued 7,728,000 shares of our common stock at an IPO price of \$10.00 per share, including 1,008,000 shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares to cover over-allotments. The shares were registered under the Securities Act on a Registration Statement on Form S-1 (Registration No. 333-191219). The SEC declared the registration statement effective on October 24, 2013. Shares of our common stock began trading on the NASDAQ Global Market on October 25, 2013.

We received net proceeds from the IPO of \$68.3 million, after deducting underwriting discounts and commissions of \$5.4 million and expenses of \$3.6 million. None of the expenses associated with the IPO were paid to directors, officers, persons owning 10% or more of any class of equity securities, or their respective associates, or to our affiliates.

As of September 30, 2014, we have used a portion of the proceeds from the sale of these securities to fund the direct clinical and non-clinical costs associated with the development of our lead product candidates and for working capital and general corporate purposes. We have invested the balance of the net proceeds from the IPO in a variety of capital preservation investments, including short-term, investment-grade, interest-bearing instruments and U.S. government securities. There has been no material change in our planned use of the net proceeds from our IPO as described in our final prospectus filed with the SEC on October 28, 2013 pursuant to Rule 424(b) under the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which is incorporated herein by reference.

SIGNATURES

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

AERIE PHARMACEUTICALS, INC.

Date: November 12, 2014

/s/ RICHARD J. RUBINO

Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
4.1*†	Note Purchase Agreement between Aerie Pharmaceuticals, Inc. and Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Private Design Fund III, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P., dated as of September 8, 2014.
4.2*	Form of Note (included in Exhibit 4.1).
4.3*	Security Agreement among Aerie Pharmaceuticals, Inc. and Deerfield Partners, L.P., Deerfield International Master Fund, L.P., Deerfield Private Design Fund III, L.P., Deerfield Special Situations Fund, L.P. and Deerfield Special Situations International Master Fund, L.P., as Purchasers, and Deerfield Management Company, L.P., as Agent for the Purchasers, dated September 8, 2014.
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Database.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.

† The Registrant has requested confidential treatment for certain portions of this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

* Filed herewith.

** Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language):

(i) Balance Sheets at September 30, 2014 (unaudited) and December 31, 2013, (ii) Statements of Operations and Comprehensive Loss for the three months ended September 30, 2014 and 2013, the nine months ended September 30, 2014 and 2013, and the period from inception (June 22, 2005) to September 30, 2014 (unaudited), (iii) Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 and for the period from inception (June 22, 2005) to September 30, 2014 (unaudited) and (iv) Notes to Financial Statements (unaudited).

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

PORTIONS OF THIS EXHIBIT DENOTED WITH THREE ASTERISKS (***) HAVE BEEN OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT.

NOTE PURCHASE AGREEMENT

NOTE PURCHASE AGREEMENT (this "Agreement"), dated as of September 8, 2014, between Aerie Pharmaceuticals, Inc., a Delaware corporation (the "Borrower"), and the Persons set forth on Schedule 1 of this Agreement (together with their successors and assigns, the "Purchasers" and, together with the Borrower, the "Parties").

WITNESSETH:

WHEREAS, the Borrower wishes to sell to the Purchasers notes in the original principal amount of One Hundred Twenty-Five Million Dollars (\$125,000,000) for the purposes described in Section 2.1; and

WHEREAS, the Purchasers desire to purchase the notes from the Borrower.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the Parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 General Definitions. Wherever used in this Agreement, the Exhibits or the Schedules attached hereto, unless the context otherwise requires, the following terms have the following meanings:

"Affiliate" shall have the meaning provided therefor in the Notes.

"Agreement Date" means the date of this Agreement.

"Applicable Laws" means all statutes, rules and regulations of Governmental Authorities in the United States or elsewhere applicable to the Borrower and its Subsidiaries.

"Authorizations" has the meaning set forth in Section 3.1(q).

"Business Day" means a day on which banks are open for business in The City of New York.

"Code" means the Internal Revenue Code of 1986, as amended, and any Treasury Regulations promulgated thereunder.

"Collateral" shall have the meaning provided therefor in the Security Agreement.

"Commission" means the United States Securities and Exchange Commission.

"Common Stock" means the common stock, \$0.001 par value, of the Borrower.

“Common Stock Equivalents” means any securities of the Borrower which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock or other securities that entitle the holder to receive, directly or indirectly, Common Stock.

“Conversion Failure” shall have the meaning provided therefor in the Notes.

“Conversion Shares” shall have the meaning provided therefor in the Notes.

“Default” means any event which, at the giving of notice, lapse of time or fulfillment of any other applicable condition (or any combination of the foregoing), would constitute an Event of Default.

“Disbursement Condition” means the Borrower shall have authorized and reserved for issuance a number of shares of Common Stock sufficient to cover all shares issuable on conversion of the Notes (computed without regard to any limitations on the number of shares that may be issued on exercise).

“Dollars” and the “\$” sign mean the lawful currency of the United States of America.

“Domestic Subsidiary” means any direct or indirect Subsidiary of the Borrower that is incorporated or organized under the laws of the United States, any state thereof or the District of Columbia.

“Event of Default” has the meaning given to it in Section 5.4.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

“Excluded Taxes” means with respect to any Purchaser, (a) Taxes imposed on (or measured by) such Purchaser’s net income (however denominated), franchise Taxes and branch profit Taxes, in each case imposed by the United States of America, or by the jurisdiction (or any political subdivision thereof) under the laws of which such Purchaser is organized or incorporated or in which the principal office or applicable lending office of such Purchaser is located, or Other Connection Taxes, (b) any United States withholding Tax imposed on amounts payable to such Purchaser under the laws in effect at the time such Purchaser becomes a party to this Agreement or such Purchaser changes its lending office, except to the extent such Purchaser acquired its interest in a Note from a transferor that was entitled, immediately before such transfer, to receive Additional Amounts with respect to such withholding Tax pursuant to Section 2.5(a), (c) any Tax imposed on amounts payable to such Purchaser as a result of such Purchaser’s failure to comply with Section 2.5(d) other than as a result of such Purchaser’s legal inability to comply with Section 2.5(d) as a result of a change in law occurring subsequent to the date such Purchaser became a party to this Agreement, or (d) any United States withholding Tax imposed on amounts payable to such Purchaser due to such Purchaser’s non-compliance under FATCA.

“Excluded Transaction” means any of the following transactions:

The entering into any collaborative arrangement, licensing, joint venture, partnership, royalty agreement or similar agreements or other research, development, manufacturing or other commercial exploitation arrangements of the Borrower’s or any Subsidiary’s products and services, including, without limitation, the Products, the Intellectual Property or other assets (*provided*, that the Borrower has a reasonable basis for believing that the downstream economics potentially to be received by the Borrower or any Subsidiary in connection with such collaborative arrangement, licensing, joint venture, partnership, royalty agreement or similar agreements or other research, development, manufacturing or other commercial exploitation arrangements involving the Borrower’s or any Subsidiary’s products, services or IP, when combined with the potential downstream economics of rights in the Borrower’s or any Subsidiary’s products, services and the IP retained by the Borrower or any Subsidiary are adequate to enable the Borrower to timely satisfy all obligations under this Agreement), including, without limitation (1) any grant to any entity engaged in, or owned by an entity engaged in, the pharmaceutical or biotechnology industry of a license or option to obtain a license to any of the Borrower’s or any Subsidiary’s Intellectual Property or other assets, *provided* that the Borrower or a Subsidiary (and not any third party or any of the Borrower’s equity holders) directly receives from such entity all consideration paid or payable by such entity in consideration of such grant, which consideration may, but need not, include (without limitation) upfront, milestone, royalty and profit-sharing payments, (2) any grant of a license or option to obtain a license to any entity that intends to research, develop, commercialize or manufacture products or services covered by such Intellectual Property or other assets whether directly or through the Borrower, any Subsidiary or another entity, and (3) any arrangement or transfers of assets for the manufacture, research, promotion and development of the Borrower’s or any Subsidiary’s products and clinical trial management, and data analysis and similar activities in support of Borrower’s or any Subsidiary’s development programs.

“FATCA” means Sections 1471 through 1474 of the Code, any regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code and any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the foregoing.

“FDA” means the United States Food and Drug Administration.

“Final Payment” means such amount as may be necessary to repay the outstanding principal amount of the Notes and any other Obligations owing by the Borrower to the Purchasers pursuant to the Note Documents.

“Foreign Subsidiary” means any direct or indirect Subsidiary of the Borrower that is not a Domestic Subsidiary.

“Funding Date” shall have the meaning set forth in Section 2.2.

“GAAP” means generally accepted accounting principles consistently applied as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the accounting profession).

“Governmental Authority” means any government, governmental department, ministry, cabinet, commission, board, bureau, agency, tribunal, regulatory authority, instrumentality, judicial, legislative, fiscal, or administrative body or entity, whether domestic or foreign, federal, state or local, having jurisdiction over the matter or matters and Person or Persons in question.

“Indebtedness” means the following:

- (i) all indebtedness for borrowed money;
- (ii) the deferred purchase price of assets or services (other than trade payables, obligations in respect of benefit plans and employment and severance agreements and other deferred compensation obligations to employees or directors arising in the ordinary course of business) which in accordance with GAAP would be shown to be a liability (or on the liability side of a balance sheet);
- (iii) all guarantees of Indebtedness;
- (iv) all letters of credit issued or acceptance facilities established for the account of the Borrower and any of its Subsidiaries, including without duplication, all drafts drawn thereunder;
- (v) all capitalized lease obligations;
- (vi) all indebtedness of another Person secured by any Lien on any property of the Borrower or any of its Subsidiaries, whether or not such indebtedness has been assumed or is recourse (with the amount thereof, in the case of any such indebtedness that has not been assumed by the Borrower or any of its Subsidiaries, being measured as the lower of (x) fair market value of such property and (y) the amount of the indebtedness secured); and
- (vii) indebtedness created or arising under any conditional sale or title retention agreement;

provided that any operating leases as such an instrument would be determined in accordance with GAAP on the Agreement Date shall be deemed not to constitute Indebtedness.

“Indemnified Person” has the meaning given to it in Section 6.11.

“Indemnified Taxes” means all Taxes including Other Taxes, other than Excluded Taxes.

“Indemnity” has the meaning given to it in Section 6.11.

“Interest Rate” means 1.75% per annum.

“IP” and “Intellectual Property” have the meanings given to them in Section 3.1(n).

“IRS” means the United States Internal Revenue Service.

“Lien” means any lien, pledge, preferential arrangement, mortgage, security interest, deed of trust, charge, assignment, hypothecation, title retention, or other encumbrance on or with respect to property or interest in property having the practical effect of constituting a security interest, in each case with respect to the payment of any obligation with, or from the proceeds of, any asset or revenue of any kind.

“Loss” has the meaning given to it in Section 6.11.

“Major Transaction” has the meaning set forth in the Notes.

“Major Transaction Conversion Period” has the meaning set forth in the Notes.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, condition (financial or otherwise) or assets of the Borrower or its Subsidiaries, (b) the validity or enforceability of any provision of any Note Document, (c) the ability of the Borrower to timely perform the Obligations or (d) the rights and remedies of the Purchasers under any Note Document.

“Material Contract” means any contract of the Borrower that has been filed or was required to have been filed as an exhibit to the SEC Reports pursuant to Item 601(b)(4) or Item 601(b)(10) of Regulation S-K.

“Note Documents” means this Agreement, the Notes, the Security Agreement and any other document or instrument delivered in connection with any of the foregoing and dated the Agreement Date or subsequent thereto, whether or not specifically mentioned herein or therein.

“Notes” means the Senior Secured Convertible Notes issued by the Borrower to the Purchasers in the aggregate principal amount of One Hundred Twenty-Five Million Dollars (\$125,000,000), in the form attached hereto as Exhibit A.

“Obligations” means all obligations and liabilities (monetary or otherwise) of the Borrower arising under or in connection with this Agreement and the other Note Documents.

“Organizational Documents” means the Certificate of Incorporation, Bylaws or similar documents, each as amended to date, of the Borrower or its Subsidiaries, as the context may require.

“Other Connection Taxes” means with respect to any Purchaser, Taxes imposed on (or measured by) such Purchaser’s net income (however denominated), franchise Taxes imposed in lieu of net income Taxes and branch profit Taxes that are in each case imposed as a result of a present or former connection between such Purchaser and the jurisdiction imposing such Tax (except a connection arising from such Purchaser having executed, delivered or performed its obligations under the Note Documents).

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, duties, other charges or similar levies, and all liabilities with

respect thereto, together with any interest, additions to tax or penalties applicable thereto (including by reason of any delay in payment) arising from any payment made hereunder or from the execution, delivery, registration or enforcement of, or otherwise with respect to, any Note Document except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment made in connection with the exercise of remedies following an Event of Default).

“PBGC” means the Pension Benefit Guaranty Corporation created by Section 4002 of ERISA and any successor entity or entities having similar responsibilities.

“Permitted Indebtedness” means:

- (i) the Obligations;
- (ii) Indebtedness to employees in respect of benefit plans and employment and severance arrangements;
- (iii) Indebtedness under item (ii) of the definition of Indebtedness (including any adjustment of purchase price, earn out, indemnification and other similar obligations incurred in an acquisition), together with Indebtedness permitted by clauses (viii) and (ix) below, (***)
- (iv) Indebtedness under item (v) of the definition of Indebtedness;
- (v) Indebtedness in respect of netting services, overdraft protections and other similar and customary services in connection with deposit accounts and cash management;
- (vi) letters of credit, performance bonds, surety bonds and similar instruments incurred in the ordinary course of business;
- (vii) guarantees with respect to any Permitted Indebtedness;
- (viii) Indebtedness in respect of purchase money financing and equipment financing facilities covering existing and newly-acquired property, plant or equipment, including for the acquisition, installation, repair, improvement, qualification and validation of such property, plant or equipment up to an aggregate amount, together with Indebtedness permitted by clause (iii) above and clause (ix) below, (***)
- (ix) Indebtedness acquired or assumed pursuant to or incurred in connection with or in contemplation of an acquisition up to an aggregate amount, together with Indebtedness permitted by clauses (iii) and (viii) above, (***)

(x) a working capital facility (“Working Capital Facility”) secured by Liens on inventory, accounts receivables and the proceeds and products thereof and in which the borrowing base thereunder is limited to not more than the sum of (a) seventy percent (70%) of the outstanding face amount of accounts receivables (other than accounts receivables that are not paid within 90 days of their invoice due date) and (b) seventy percent (70%) of the lower of cost or market value of inventory, and which provides Purchasers the option to purchase such Indebtedness at par after the occurrence of an event of default under the Working Capital Facility;

(xi) Indebtedness incurred at any time if the conditions to release of all of Purchasers’ Liens have been satisfied pursuant to Section 6.15 of this Agreement;

(xii) Indebtedness of (a) the Borrower to any Subsidiary or (b) any Subsidiary to Borrower or any other Subsidiary;

(xiii) Indebtedness consisting of (a) the financing of insurance premiums or (b) take-or-pay obligations contained in supply agreements incurred as the ordinary course of business; and

(xiv) any refinancings, renewals, extensions, increases (subject to the dollar limitation set forth in clauses (iii), (viii) and (ix) above) or replacements of Indebtedness listed above.

“Permitted Liens” means:

(i) Liens in favor of the Purchasers and Deerfield Management Company, L.P., as agent for the Purchasers;

(ii) statutory Liens created by operation of applicable law;

(iii) Liens arising in the ordinary course of business and securing obligations (other than Indebtedness) that are not more than 60 days past due or are being contested in good faith by appropriate proceedings;

(iv) Liens for taxes, assessments or governmental charges or levies not past due and payable or that are being contested in good faith by appropriate proceedings;

(v) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default;

(vi) Liens in favor of financial institutions arising in connection with the Borrower’s or any of its Subsidiaries’ accounts maintained in the ordinary course held at such institutions to secure standard fees for services charged by, but not financing made available by, such institutions;

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- (vii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;
 - (viii) easements, rights of way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially interfere with the conduct of the business of the applicable Person;
 - (ix) Liens of a collection bank arising under Section 4-210 of the Uniform Commercial Code (or equivalent in foreign jurisdictions) on items in the course of collection;
 - (x) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's or lessor's liens;
 - (xi) Liens on property (including capital interests) of a person existing at the time such Person is merged with or into or consolidated with the Borrower or becomes a direct or indirect Subsidiary of the Borrower to the extent securing Indebtedness permitted pursuant to clause (ix) of the definition of Permitted Indebtedness;
 - (xii) to the extent it is a Lien, any grant, license, sublicense or option to obtain a license that falls within the scope of the Excluded Transaction definition; and
 - (xiii) Liens securing Indebtedness pursuant to clauses (iii), (iv), (vi) (viii), (x), (xi) and (xiv) of the definition of Permitted Indebtedness.

“Person” means and includes any natural person, individual, partnership, joint venture, corporation, trust, limited liability company, limited company, joint stock company, unincorporated organization, government entity or any political subdivision or agency thereof, or any other entity.

“Principal Trading Market” means the Trading Market on which the Common Stock is primarily listed on and quoted for trading, which, as of the date of this Agreement, shall be the NASDAQ Global Market.

“Products” means Rhopressa and Roclatan.

“Register” has the meaning set forth in Section 1.4 (b).

“Required Purchasers” means, at any time, Purchasers holding Notes representing more than 50% of the aggregate principal amount of the Notes outstanding.

“Restricted Transferee” shall have the meaning provided therefor in the Notes.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“SEC Reports” shall have the meaning set forth in Section 3.1(j).

“Securities” means the Notes and the Conversion Shares.

“Securities Act” means the Securities Act of 1933, as amended, including the rules and regulations promulgated thereunder.

“Security Agreement” means the Security Agreement, dated as of the Agreement Date, among the Borrower, Deerfield Management Company, L.P., as agent for the Purchasers, and the Purchasers.

“Subsidiary or Subsidiaries” means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned or controlled by Borrower.

“Stock” means any corporate stock, including any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, any partnership or membership interests (whether general or limited) and any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

“Stock Equivalents” means any instruments or rights which would entitle the holder thereof to acquire at any time Stock, including, without limitation, any debt, rights, options, warrants or other instrument that is at any time convertible into or exchangeable for, or otherwise entitles the holder thereof to receive Stock or other securities that entitle the holder to receive, directly or indirectly, Stock.

“Tax Affiliate” means (a) the Borrower and its Subsidiaries and (b) any Affiliate of the Borrower with which the Borrower files or is required to file consolidated, combined or unitary tax returns.

“Taxes” means all present or future taxes, levies, imposts, stamp or other duties, deductions, charges or withholdings imposed by any Governmental Authority and all liabilities with respect thereto (including by reason of any delay in payment).

“Trading Market” means whichever of the New York Stock Exchange, the NYSE Alternext (formerly the American Stock Exchange), the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market or the OTC Bulletin Board on which the Common Stock is listed or quoted for trading on the date in question.

“U.S. Foreign Holdco” means any Domestic Subsidiary substantially all the direct or indirect assets of which consist of Stock or Stock Equivalents of one or more Foreign Subsidiaries.

“Yield Enhancement Payment” means an amount equal to one-half percent (0.5%) of the original principal amount of the Notes.

Section 1.2 Interpretation. In this Agreement, unless the context otherwise requires, all words and personal pronouns relating thereto shall be read and construed as the number and gender of the party or parties requires and the verb shall be read and construed as agreeing with the required word and pronoun; the division of this Agreement into Articles and Sections and the use of headings and captions is for convenience of reference only and shall not modify or affect the interpretation or construction of this Agreement or any of its provisions; the words “herein,” “hereof,” “hereunder,” “hereinafter” and “hereto” and words of similar import refer to this Agreement as a whole and not to any particular Article or Section hereof; the words “include,” “including,” and derivations thereof shall be deemed to have the phrase “without limitation” attached thereto unless otherwise expressly stated; references to a specified Article, Exhibit, Section or Schedule shall be construed as a reference to that specified Article, Exhibit, Section or Schedule of this Agreement; and any reference to any of the Note Documents means such document as the same shall be amended, supplemented or modified and from time to time in effect.

Section 1.3 Business Day Adjustment. If the day by which any payment or other performance is due to be made is not a Business Day, that payment or performance shall be made by the next succeeding Business Day.

Section 1.4

(a) The Borrower shall record on its books and records the amount of the Notes, the interest rate applicable, all payments of principal and interest thereon and the principal balance thereof from time to time outstanding. Such record shall, absent manifest error, be conclusive evidence of the principal amount of the Notes outstanding and the interest and payments thereon.

(b) The Borrower shall establish and maintain at its address referred to in Section 6.1, a record of ownership (the “Register”) in which the Borrower agrees to register by book entry the interests (including any rights to receive payment hereunder) of each Purchaser in the Notes, and any assignment of any such interest, and (ii) accounts in the Register in accordance with its usual practice in which it shall record (1) the names and addresses of the Purchasers (and any change thereto pursuant to this Agreement), (2) the amount of the Notes and each funding of any participation therein, (3) the amount of any principal or interest due and payable or paid, and (4) any other payment received by the Purchasers from the Borrower and its application to the Notes.

(c) Notwithstanding anything to the contrary contained in this Agreement, the Notes are registered obligations, the right, title and interest of the Purchasers and their assignees in and to the Notes shall be transferable only upon notation of such transfer in the Register and no assignment thereof shall be effective until recorded therein. This Section 1.4 shall be construed so that the Notes are at all times maintained in “registered form” within the meaning of Sections 163(f), 871(h)(2) and 881(c)(2) of the Code.

(d) The Borrower and the Purchasers shall treat each Person whose name is recorded in the Register as a Purchaser for all purposes of this Agreement. Information contained in the Register with respect to any Purchaser shall be available for access by the Borrower or such Purchasers at any reasonable time and from time to time upon reasonable prior notice.

ARTICLE 2

AGREEMENT FOR THE PURCHASE OF THE NOTES

Section 2.1 Use of Proceeds. The proceeds of the issuance of the Notes will be used for working capital and general corporate purposes.

Section 2.2 Purchase. Subject to the conditions set forth in Article 4 and this Section 2.2, the Purchasers shall purchase Notes in the aggregate principal amount of One Hundred Twenty-Five Million Dollars (\$125,000,000) on a date ("Funding Date") not less than fifteen (15) Business Days following the Agreement Date, or such earlier date as mutually agreed by the Parties. Borrower agrees to pay Purchasers on the Funding Date, the Yield Enhancement Payment, and Purchasers shall deduct from the purchase price of the Notes an amount equal to the Yield Enhancement Payment, which shall be deemed to be fully earned by and paid to Purchasers on the Funding Date. Purchasers shall fulfill the purchase of the Notes in accordance with their respective allocations set forth on Schedule 1 hereto.

Section 2.3 Payment.

(a) Borrowers shall make the Final Payment on the seventh anniversary of the Funding Date; provided that such date shall be extended to the extent the Major Transaction Conversion Period extends beyond the seventh anniversary of the Funding Date pursuant to the terms of the Note. Except as specifically provided herein, the Notes shall not be prepayable. Following the Agreement Date, the Parties will make a good faith effort to reach an agreement on an amendment to this Agreement that will permit the Borrower to prepay the Notes in whole or in part while preserving Purchasers' economic value. The failure to reach such agreement shall not affect any Parties' rights or obligations hereunder.

(b) Purchasers shall have the right to convert all or any part of the principal amount of their Notes into Common Stock in accordance with the terms of the Notes.

Section 2.4 Payments. All payments by the Borrower under any of the Note Documents shall be made without setoff or counterclaim. Payments of any amounts due to the Purchasers under this Agreement shall be made in Dollars in immediately available funds prior to 11:00 a.m. New York City time on such date that any such payment is due, at such financial institution as the Purchasers shall from time to time designate in writing at least five (5) Business Days prior to the date such payment is due. The Borrower shall pay all and any costs (administrative or otherwise) imposed by banks, clearing houses, or any other financial institution, in connection with making any payments under any of the Note Documents, except for any costs imposed by the Purchasers' banking institutions.

Section 2.5 Taxes.

(a) Any and all payments hereunder or under any other Note Document shall be made, in accordance with this Section 2.5, free and clear of and without deduction for any and all present or future Indemnified Taxes except as required by applicable law. If Borrower shall be required by law to deduct any Indemnified Taxes from or in respect of any sum payable hereunder or under any other Note Document, (i) the sum payable shall be increased by as much as shall be necessary so that after making all required deductions (including deductions for Indemnified Taxes applicable to additional sums payable under this Section 2.5), each Purchaser shall receive an amount equal to the sum it would have received had no such deductions been made (any and all such additional amounts payable shall hereafter be referred to as the "Additional Amounts"). (ii) Borrower shall make such deductions, and (iii) Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law. Within thirty (30) days after the date of any payment of such Taxes, Borrower shall furnish to the applicable Purchaser the original or a certified copy of a receipt evidencing payment thereof or other evidence of such payment reasonably satisfactory to such Purchaser.

(b) Borrower agrees to pay and authorizes each Purchaser to pay in its name (but without duplication), all Other Taxes. Within 30 days after the date of any payment of Other Taxes, Borrower shall furnish to the applicable Purchaser the original or a certified copy of a receipt evidencing payment thereof or other evidence of such payment reasonably satisfactory to such Purchaser.

(c) Borrower shall reimburse and indemnify, within ten (10) days after receipt of demand therefor, each Purchaser for all Indemnified Taxes (including all Indemnified Taxes imposed on amounts payable under this Section 2.5(c)) paid by such Purchaser, whether or not such Indemnified Taxes were correctly or legally asserted. A certificate of the applicable Purchaser(s) setting forth the amounts to be paid thereunder and delivered to Borrower shall be conclusive, absent manifest error.

(d) Each Purchaser that is a United States person (as such term is defined in Section 7701(a)(30) of the Code) for United States federal income tax purposes shall, on or before the date on which the Purchaser becomes a party to this Agreement, provide to Borrower a properly completed and executed IRS Form W-9 certifying that such Purchaser is not subject to backup withholding tax. Each Purchaser that is not a United States Person (as such term is defined in Section 7701(a)(30) of the Code) for U.S. federal income tax purposes (a "Foreign Purchaser") and is entitled to an exemption from or reduction of U.S. withholding tax with respect to payments under this Agreement shall, on or before the date on which the Purchaser becomes a party to this Agreement, provide Borrower with a properly completed and executed IRS Form W-8ECI, W-8BEN-E or W-8IMY or other applicable forms (together with any required supporting documentation), or any other applicable certificate or document reasonably

requested by the Borrower, and, if such Foreign Purchaser is relying on the portfolio interest exception of Section 871(h) or Section 881(c) of the Code (or any successor provision thereto), shall also provide the Borrower with a certificate (the “Portfolio Interest Certificate”) representing that such Foreign Purchaser is not a “bank” for purposes of Section 881(c) of the Code (or any successor provision thereto), is not a 10% holder of the Borrower described in Section 871(h)(3)(B) of the Code (or any successor provision thereto), and is not a controlled foreign corporation receiving interest from a related person (within the meaning of Sections 881(c)(3)(C) and 864(d)(4) of the Code, or any successor provisions thereto). Each Purchaser shall provide new forms (or successor forms), certificates and documentation as reasonably requested by Borrower from time to time and shall notify Borrower in writing within a reasonable time after becoming aware of any event requiring a change in the most recent forms, certificates or documentation previously delivered by such Purchaser to Borrower.

(e) If a payment to a Purchaser under this Agreement would be subject to U.S. withholding tax imposed by FATCA if such Purchaser were to fail to comply with the applicable reporting requirements of FATCA, such Purchaser shall deliver to Borrower, at the times prescribed by law or as reasonably requested by Borrower, such documentation as is required by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower in order for Borrower to comply with its obligations under FATCA, to determine that such Purchaser has or has not complied with its obligations under FATCA, or to determine the amount to deduct and withhold from such payment.

(f) If any Purchaser determines, in its sole discretion exercised in good faith, that it has received a refund of any Indemnified Taxes as to which it has been indemnified pursuant to Section 2.5 (including by the payment of Additional Amounts pursuant to Section 2.5(a)), it shall pay to the indemnifying party an amount equal to such refund (but only up to the amount of indemnity payments previously made under this Section with respect to the Indemnified Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this paragraph (f) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (f), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph (f) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

Section 2.6 Fee and Costs. The Borrower will reimburse the Purchasers for reasonable, documented expenses for attorneys, accountants and other professional advisors, and other out-of-pocket expenses incurred by Purchasers in connection with their due diligence, negotiation and documentation of the transactions contemplated by the Note Documents up to an aggregate amount of \$250,000. At Purchasers' election, such reimbursed amounts may be deducted from the purchase price for the Notes.

Section 2.7 Interest. The outstanding principal amount of the Notes shall bear interest at the Interest Rate (calculated on the basis of the actual number of days elapsed in each month). Interest shall be paid quarterly in arrears commencing on January 1, 2015 and on the first Business Day of each January, April, July and October thereafter (each, an "Interest Payment Date").

Section 2.8 Interest on Late Payments. Without limiting the remedies available to the Purchasers under the Note Documents or otherwise, to the maximum extent permitted by applicable law, if the Borrower fails (i) to make a required payment of principal or interest with respect to the Notes when due (after the expiration of any applicable cure periods) or (ii) to comply with Section 5.1(e) (regardless of any cure period provided in Section 5.4(b)), the Borrower shall pay interest, in respect of such principal and interest, at the rate per annum equal to the Interest Rate plus ten percent (10%) for so long as such payment remains outstanding or such covenant is not cured. Such interest shall be payable on demand.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of the Borrower. The Borrower represents and warrants as of (except as provided in Section 3.2 below) the Agreement Date that except as set forth in the Schedules to this Agreement:

(a) The Borrower is conducting its business in compliance with its Organizational Documents, which are in full force and effect.

(b) No Default or Event of Default has occurred.

(c) The Borrower (i) is capable of paying its debts as they fall due, has not admitted its inability to pay its debts as they fall due, (ii) is not bankrupt or insolvent and (iii) has not taken action, and no such action has been taken by a third party, for the Borrower's winding up, dissolution, or liquidation or similar executory or judicial proceeding or for the appointment of a liquidator, custodian, receiver, trustee, administrator or other similar officer for the Borrower or any or all of its assets or revenues.

(d) No Lien exists on the Borrower's assets, except for Permitted Liens.

(e) The obligation of the Borrower to make any payment under this Agreement (together with all charges in connection therewith) is absolute and unconditional.

(f) No Indebtedness of the Borrower exists other than Permitted Indebtedness.

(g) The Borrower is validly existing as a corporation in good standing under the laws of the state of Delaware. The Borrower has full power and authority to own its properties and conduct its business, and is duly qualified to do business as a foreign entity and is in good standing in each jurisdiction in which the conduct of its business makes such qualification necessary except where the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(h) There is not pending or, to the knowledge of the Borrower, threatened, any action, suit or other proceeding before any Governmental Authority (a) to which the Borrower is a party or (b) which has as the subject thereof any assets owned by the Borrower, except, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. There are no current or, to the knowledge of the Borrower, pending, legal, governmental or regulatory enforcement actions, suits or other proceedings to which the Borrower or any of its assets is subject, except, as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(i) The Borrower has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by each of the Note Documents to which it is a party and otherwise to carry out its obligations hereunder and thereunder. The Borrower's execution and delivery of each of the Note Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby (including, but not limited to, the sale and delivery of the Notes and the reservation for issuance and the subsequent issuance of the Conversion Shares upon exercise of the Notes) have been duly authorized by all necessary corporate action on the part of the Borrower, and no further corporate action is required by the Borrower, its Board of Directors or its stockholders in connection therewith other than in connection with the Required Approvals (as defined below). Each of the Note Documents to which it is a party has been (or upon delivery will have been) duly executed by the Borrower and is, or when delivered in accordance with the terms hereof, will constitute the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application. The execution, delivery and performance of the Note Documents by the Borrower and the consummation of the transactions therein contemplated (including, but not limited to, the sale and delivery of the Notes and the reservation for issuance and subsequent issuance of the Conversion Shares) will not (A) conflict with or result in a breach or violation of any of the terms or provisions of, or

constitute a default under, or result in the creation or imposition of any Lien (other than Permitted Liens) upon any assets of the Borrower pursuant to, any agreement to which the Borrower is a party or by which the Borrower is bound or to which any of the assets of the Borrower is subject, (B) result in any violation of or conflict with the provisions of the Organizational Documents, (C) result in the violation of any Applicable Law or (D) result in the violation of any judgment, order, rule, regulation or decree of any Governmental Authority, except in the case of clauses (A), (C) and (D) above, for any such conflict, violation or breach that would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No consent, approval, authorization or order of, or registration or filing with any Governmental Authority is required for the execution, delivery and performance of any of the Note Documents or for the consummation by the Borrower of the transactions contemplated thereby except for such registrations and filings in connection with (i) filings required by applicable state securities laws, (ii) the filing of a Notice of Sale of Securities on Form D with the Commission under Regulation D of the Securities Act, (iii) the filing of any requisite notices and/or application(s) to the Principal Trading Market for the issuance and sale of the Securities and the listing of the Conversion Shares for trading or quotation, as the case may be, thereon in the time and manner required thereby, (iv) filings contemplated by the Security Agreement and (v) those that have been made or obtained prior to the date of this Agreement (the "Required Approvals").

(j) Since October 24, 2013 the Borrower has filed all reports, schedules, forms, statements and other documents required to be filed by it under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports") on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Reports prior to the expiration of any such extension. As of their respective filing dates, or to the extent corrected by a subsequent restatement, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Company has never been an issuer subject to Rule 144(i) under the Securities Act. Each of the Material Contracts to which the Company is a party or to which the property or assets of the Company are subject has been filed as an exhibit to the SEC Reports.

(k) No Authorization is required for (i) the execution and delivery of this Agreement, the other Note Documents, or (ii) the consummation of the transactions contemplated hereby and thereby. The Borrower holds, and is operating in compliance in all material respects with, all franchises, grants, authorizations, licenses, permits, easements, consents, certificates and orders of any Governmental Authority (collectively, "Necessary Documents") required for the conduct of its business, and all Necessary Documents are valid and in full force and effect, except where the same would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect; and the Borrower has not received written notice of any revocation or

modification of any of the Necessary Documents and the Borrower has no reason to believe that any of the Necessary Documents will not be renewed in the ordinary course, except where such notice or failure to renew would not, individually or in the aggregate, reasonably be expected to have Material Adverse Effect, and the Borrower is in compliance in all material respects with all applicable federal, state, local and foreign laws, regulations, orders and decrees applicable to the conduct of its business.

(l) The Borrower has good and marketable title to all of its material assets free and clear of all Liens except Permitted Liens. The material property held under lease by the Borrower is held under valid, subsisting and enforceable leases with only such exceptions with respect to any particular lease as do not interfere in any material respect with the conduct of the business of the Borrower.

(m) The Borrower owns or has the right to use pursuant to a valid and enforceable written license, implied license or other legally enforceable right, all of the Intellectual Property (as defined below) that is necessary for the conduct of its business as currently conducted and the manufacture, importation and sale of products being developed by Borrower (the "IP"), except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The IP that is registered with or issued by a Governmental Authority is valid and enforceable; there is no outstanding, pending, or threatened action, suit, other proceeding or claim by any third person challenging or contesting the validity, scope, use, ownership, enforceability, or other rights of the Borrower in or to any IP and the Borrower has not received any written notice regarding, any such action, suit, or other proceeding. To the Borrower's knowledge, the Borrower has not infringed or misappropriated any material rights of others. There is no pending or threatened action, suit, other proceeding or claim by others that the Borrower infringes upon, violates or uses the Intellectual Property rights of others without authorization, and the Borrower has not received any written notice regarding, any such action, suit, other proceeding or claim. The Borrower is not a party to or bound by any options, licenses, or agreements with respect to IP other than licenses for computer software acquired in the ordinary course of business. The term "Intellectual Property" as used herein means (i) all patents, patent applications, patent disclosures and inventions (whether patentable or unpatentable and whether or not reduced to practice), (ii) all trademarks, service marks, trade dress, trade names, slogans, logos, and corporate names and Internet domain names, together with all of the goodwill associated with each of the foregoing, (iii) copyrights, copyrightable works, and licenses, (iv) registrations and applications for registration for any of the foregoing, (v) computer software (including but not limited to source code and object code), data, databases, and documentation thereof, (vi) trade secrets and other confidential information, (vii) other intellectual property, and (viii) copies and tangible embodiments of the foregoing (in whatever form and medium).

(n) The Borrower is not in violation of the Organizational Documents, or in breach of or otherwise in default, and no event has occurred which, with notice or lapse of time or both, would constitute such breach or other default in the performance of any Material Agreement or condition contained in any agreement under which it may be bound, or to which any of its assets is subject, except for such breaches or defaults as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(o) All federal income tax returns, and all material state, local and foreign income, franchise and other Tax returns, reports and statements (collectively, the “Tax Returns”) required to be filed by any Tax Affiliates have been filed with the appropriate Governmental Authorities, all such Tax Returns are true and correct in all material respects, and all Taxes, assessments and other governmental charges and impositions reflected therein and all other material Taxes, assessments and other governmental charges otherwise due and payable have been paid prior to the date on which any liability may be added thereto for non-payment thereof except, in each case, for those contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves are maintained on the books of the appropriate Tax Affiliate in accordance with GAAP. As of the Agreement Date, no Tax Return is under audit or examination by any Governmental Authority, no Tax Affiliate has received written notice from any Governmental Authority of any audit or examination or any assertion of any material claim for Taxes and no Tax Affiliate has participated in a “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4(b) or has been a member of an affiliated, combined or unitary group other than the group of which a Tax Affiliate is the common parent.

(p) The Borrower has not granted rights to market or sell its products or services to any other Person, and is not bound by any agreement that affects the exclusive right of the Borrower to develop, license, market or sell its products or services.

(q) Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the Borrower: (A) at all times has complied with all Applicable Laws; (B) has not received any warning letter or other correspondence or notice from any Governmental Authority alleging or asserting noncompliance with any Applicable Laws or any licenses, certificates, approvals, clearances, authorizations, permits and supplements or amendments thereto required in connection with the business of the Borrower by any Applicable Laws (together, the “Authorizations”); (C) possesses and complies with the Authorizations, which are valid and in full force and effect; (D) has not received written notice that any Governmental Authority has taken, is taking or intends to take action to limit, suspend, modify or revoke any Authorization and has no knowledge that any Governmental Authority is considering such action; (E) has filed, obtained, maintained or submitted all reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any Applicable Laws or Authorizations.

(r) The audited financial statements of the Borrower for the year ended December 31, 2013 and the unaudited financial statements of the Borrower for the quarter ended June 30, 2014, each as filed with the Commission, together with the related notes, fairly present in all material respects the financial condition of the Borrower as of the dates indicated and the results of operations and changes in cash flows for the periods therein specified in conformity with GAAP (except as disclosed

therein) consistently applied throughout the periods involved, subject, in the case of unaudited financial statements, to year-end adjustments; and, except as disclosed therein, there are no material off-balance sheet arrangements with unconsolidated entities or other persons, that may have a material current or, to the Borrower's knowledge, material future effect on the Borrower's financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenue or expenses.

(s) The Borrower maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(t)(i) To the knowledge of the Borrower, no "prohibited transaction" as defined under Section 406 of ERISA or Section 4975 of the Code that is not exempt under ERISA Section 408 or Section 4975 of the Code, under any applicable regulations and published interpretations thereunder or under any applicable prohibited transaction, individual or class exemption issued by the Department of Labor, has occurred with respect to any Employee Benefit Plan, except as for such transaction that would not have a Material Adverse Effect, (ii) at no time within the last seven (7) years has the Borrower or any ERISA Affiliate maintained, sponsored, participated in, contributed to or has or had any liability or obligation in respect of any Employee Benefit Plan subject to Section 302 of ERISA, Title IV of ERISA, or Section 412 of the Code or any "multiemployer plan" as defined in Section 3(37) of ERISA or any multiple employer plan for which the Borrower or any ERISA Affiliate has incurred or could incur liability under Section 4063 or 4064 of ERISA, (iii) no Employee Benefit Plan represents any current or future liability for retiree health, life insurance, or other retiree welfare benefits that represent a material liability of the Borrower, except as may be required by the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, or similar state law, (iv) each Employee Benefit Plan is and has been operated in compliance with its terms and all applicable laws, including but not limited to ERISA and the Code, except for such failures to comply that would not have a Material Adverse Effect, (v) no event has occurred (including a "reportable event" as such term is defined in Section 4043 of ERISA, excluding, however, such events as to which the PBGC by regulation has waived the requirements of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event or with respect to which it is not reasonably likely to result in a liability to the Borrower of at least \$1,000,000.00) and no condition exists that would subject the Borrower or any ERISA Affiliate to any tax, fine, lien, penalty or liability imposed by ERISA, the Code or other applicable law, except for any such tax, fine, lien, penalty or liability that would not, individually or in the aggregate, have a Material Adverse Effect, (vi) the Borrower does not maintain any Foreign Benefit Plan, (vii) the Borrower does not have any obligations under any collective bargaining agreement. As used in this clause (t), "Employee Benefit Plan" means any material

“employee benefit plan” within the meaning of Section 3(3) of ERISA maintained for employees of the Borrower or any ERISA Affiliate or any such Employee Benefit Plan to which the Borrower or any ERISA Affiliate is required to contribute on behalf of any of its employees; “ERISA” means the Employee Retirement Income Security Act of 1974, as amended; “ERISA Affiliate” means any member of the Borrower’s controlled group as defined in Code Section 414 (b), (c), (m) or (o); and “Foreign Benefit Plan” means any retirement, death or disability plan, program or arrangement voluntarily established or contributed to by the Borrower in respect of employees employed outside the United States.

(u) The Borrower has no Subsidiaries.

(v) Subsequent to January 1, 2014 through the Agreement Date, the Borrower has not declared or paid any dividends or made any distribution of any kind with respect to its capital stock; and other than as set forth on Schedule 3.1(v), there has not been any change in its capital stock (other than a change in the number of outstanding shares of Common Stock), or any issuance of options, warrants, convertible securities or other rights to purchase the capital stock, of the Borrower except pursuant to equity incentive plans and employee stock purchase plans.

(w) All of the issued and outstanding shares of capital stock of the Borrower are duly authorized and validly issued, fully paid and nonassessable, have been issued in compliance with all federal and state and foreign securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities that have not been waived in writing; the Notes and Conversion Shares have been duly authorized and, and the Conversion Shares, when issued and delivered in accordance with the terms of the Notes will have been validly issued and will be fully paid and nonassessable. Borrower has reserved from its duly authorized capital stock a sufficient number of shares of Common Stock to issue the Conversion Shares, free and clear of all encumbrances and restrictions, except for restrictions on transfer set forth in the Note Documents or imposed by applicable securities laws. Assuming the accuracy of the representations and warranties of the Purchasers in this Agreement, the Notes will be issued in compliance with all applicable federal and state securities laws. Except as set forth in Schedule 3.1(w), there are no preemptive rights or other rights to subscribe for or to purchase, or any restriction upon the voting or transfer of any shares of Common Stock pursuant to the Organizational Documents or any agreement to which the Borrower is a party or by which the Borrower is bound. The Borrower’s outstanding shares of capital stock, options and warrants as set forth in Schedule 3.1(v) to this Agreement is accurate, and except as set forth in Schedule 3.1(w) there are no other options issuable or issued under the Borrower’s equity incentive plans or employee stock purchase plans. Except as set forth in Schedule 3.1(v) there are no options, warrants, agreements, contracts or other rights in existence to purchase or acquire from the Borrower any shares of capital stock of the Borrower.

(x) The issuance of the Notes and the Conversion Shares will not obligate the Borrower to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Borrower

securities to adjust the exercise, conversion, exchange or reset price under any of such securities. Except as set forth in Schedule 3.1(w), there are no stockholders' agreements, voting agreements or other similar agreements with respect to the Borrower's capital stock to which the Borrower is a party or, to the Borrower's knowledge, between or among any of the Borrower's stockholders.

(y) Assuming the accuracy of the representations and warranties of the Purchasers set forth in Section 3.3, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers under the Note Documents. The issuance and sale of the Securities hereunder complies in all material respects with and does not contravene the rules and regulations of the Principal Trading Market.

(z) The Borrower is not, and immediately after issuance of the Notes will not be, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(aa) Except as set forth on Schedule 3.1(w), no Person has any right to cause the Borrower to effect the registration under the Securities Act of any securities of the Borrower.

(bb) The Borrower's Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Borrower has taken no action designed to terminate the registration of the Common Stock under the Exchange Act nor has the Borrower received any notification that the Commission is contemplating terminating such registration. The Borrower is in compliance in all material respects with all listing and maintenance requirements of the Principal Trading Market on the Agreement Date.

(cc) Assuming the accuracy of the representations and warranties of the Purchasers set forth in Section 3.3, none of the Borrower, nor, to the Borrower's knowledge, any of its Affiliates or any Person acting on its behalf has, directly or indirectly, at any time within the past six (6) months, made any offers or sales of any Borrower security or solicited any offers to buy any security under circumstances that would (i) eliminate the availability of the exemption from registration under Regulation D under the Securities Act in connection with the offer and sale by the Borrower of the Securities as contemplated hereby or (ii) cause the offering of the Securities pursuant to the Note Documents to be integrated with prior offerings by the Borrower for purposes of any applicable law, regulation or stockholder approval provisions, including, without limitation, under the rules and regulations of the Principal Trading Market.

(dd) Neither the Borrower nor, to the Borrower's knowledge, any person acting on behalf of the Borrower, has offered or sold any of the Securities by any form of general solicitation or general advertising.

(ee) The Borrower has not, and to the Borrower's knowledge no one acting on its behalf has, (i) taken, directly or indirectly, any action designed to cause or to result in the stabilization or manipulation of the price of any security of the Borrower

to facilitate the sale or resale of any of the Securities, (ii) sold, bid for, purchased, or paid any compensation for soliciting purchases of any of the securities of the Borrower or (iii) paid or agreed to pay to any Person any compensation for soliciting another to purchase any other securities of the Borrower.

(ff) The Borrower is in compliance in all material respects with all of the provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it. The Borrower has established disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) for the Borrower and designed such disclosure controls and procedures to ensure that information required to be disclosed by the borrower in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Borrower's certifying officers have evaluated the effectiveness of the Borrower's disclosure controls and procedures as of the end of the period covered by the Borrower's most recently filed periodic reports under the Exchange Act (such date, the "Evaluation Date"). The Borrower presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the Borrower's internal control over financial reporting (as such term is defined in the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Borrower's internal controls over financial reporting.

Section 3.2 Borrower Acknowledgment. The Borrower acknowledges that it has made the representations and warranties in Section 3.1 with the intention of persuading the Purchasers to enter into the Note Documents and that the Purchasers have entered into the Note Documents on the basis of, and in full reliance on, each of such representations and warranties, each of which shall survive the execution of this Agreement until the Obligations are paid in full and each representation or warranty related to the Conversion Shares, including the representations and warranties set forth in Sections 3.1 (w), (x), (y) and (bb) shall be deemed to be continuously made at all times until the Obligations are paid in full or the Notes are fully converted.

Section 3.3 Representations and Warranties of the Purchasers. Each Purchaser, severally and not jointly, represents and warrants to the Borrower as of the Agreement Date that:

(a) Such Purchaser is duly organized and validly existing under the laws of the jurisdiction of its formation.

(b) Each Note Document to which it is a party has been duly authorized, executed and delivered by such Purchaser and constitutes the valid and legally binding obligation of such Purchaser, enforceable in accordance with its terms, except as such enforceability may be limited by (i) applicable insolvency, bankruptcy, reorganization, moratorium or other similar laws affecting creditors' rights generally, and (ii) applicable equitable principles (whether considered in a proceeding at law or in equity).

(c) Such Purchaser has full power and authority to purchase the Notes and to enter into and perform its other obligations under each of the Note Documents and carry out the other transactions contemplated thereby.

(d) Each of the Notes and Conversion Shares to be received by such Purchaser hereunder will be acquired for such Purchaser's own account, and not with a view to the resale or distribution of any part thereof in violation of the Securities Act, except pursuant to sales registered or exempted under the Securities Act, and such Purchaser has no agreement or understanding, directly or indirectly, or present intention of selling, granting any participation in, or otherwise distributing the Notes or Conversion Shares in violation of applicable federal and state securities laws. Nothing contained herein shall be deemed a representation or warranty by such Purchaser to hold the Securities for any period of time and such Purchaser reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. Notwithstanding anything herein to the contrary, the Purchasers may not sell, dispose of or transfer the Notes, except as provided in Section 6.5 and in accordance with the terms of the Notes.

(e) Such Purchaser can bear the economic risk and complete loss of its investment in the Securities and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of the investment contemplated hereby.

(f) Such Purchaser understands that the Securities are characterized as "restricted securities" under the U.S. federal securities laws inasmuch as they are being acquired from the Borrower in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act only in certain limited circumstances.

(g) Such Purchaser understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Borrower is relying in part upon the truth and accuracy of, and such Purchasers' compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of such Purchaser to acquire the Securities.

(h) Such Purchaser did not learn of the investment in the Securities as a result of any general solicitation or general advertising.

(i) Such Purchaser is an "accredited investor" as such term is defined in Regulation D promulgated under the Securities Act.

ARTICLE 4

CONDITIONS OF PURCHASE OF THE NOTES.

Section 4.1 Conditions to the Purchase of the Notes. The obligation of the Purchasers to purchase the Notes shall be subject to the fulfillment of the following conditions:

- (a) The Purchasers shall have received executed counterparts of the Note Documents from the Borrower, including the executed Notes dated as of the Funding Date, a certificate as to Organizational Documents, resolutions, incumbency and an opinion of its counsel dated as of the Funding Date, reasonably acceptable to the Purchasers;
- (b) As of the Agreement Date, no Default or Event of Default shall have occurred;
- (c) As of the Agreement Date, all of the representations and warranties set forth in Section 3.1 shall be true and correct; and
- (d) The Disbursement Condition shall have been satisfied.

ARTICLE 5

PARTICULAR COVENANTS AND EVENTS OF DEFAULT

Section 5.1 Affirmative Covenants. Unless the Required Purchasers shall otherwise agree:

- (a) The Borrower shall and shall cause its Subsidiaries to maintain their existence and qualify and remain qualified to do their business as currently conducted, except for any merger or dissolution of a Subsidiary in accordance with Section 5.2(a) or where the failure to maintain such qualification would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.
- (b) The Borrower shall and shall cause its Subsidiaries to comply in all material respects with all Applicable Laws, except where the necessity of compliance therewith is contested in good faith by appropriate proceedings or where the failure to comply would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.
- (c) The Borrower shall obtain and shall cause its Subsidiaries to make and keep in full force and effect all Authorizations required to conduct their business, except where the failure to do so would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.
- (d) The Borrower shall promptly notify the Purchasers of the occurrence of (i) any Default or Event of Default and (ii) each event which, at the giving of notice, lapse of time, determination of materiality or fulfillment of any other applicable condition (or any combination of the foregoing), would constitute an event of default (however described) under any Note Document.

(e) The Borrower will timely file with the Commission (subject to appropriate extensions made under Rule 12b-25 of the Exchange Act) any annual reports, quarterly reports and other periodic reports required to be filed pursuant to Section 13 or 15(d) of the Exchange Act.

(f) Borrower shall, so long as any of the Notes are outstanding, take all action necessary to reserve and keep available out of its authorized and unissued capital stock, solely for the purpose of effecting the conversion of the Notes, the number of shares of Common Stock issuable upon such conversion (without taking into account any limitations on the conversion of the Notes as set forth in the Notes).

Section 5.2 Negative Covenants. Unless the Required Purchasers shall otherwise agree:

(a) The Borrower shall not and shall not permit any Subsidiary to (i) liquidate, provided that a Subsidiary may merge into the Borrower or any other Subsidiary or (ii) enter into any merger, consolidation or reorganization, unless (x) the Borrower is the surviving corporation or (y) subject to Section 5.3 and the terms of the Notes, if the survivor is a Person other than the Borrower, such Person assumes the Notes and the Obligations of the Borrower under the Note Documents. The Borrower (1) shall not establish any Subsidiary unless, within twenty (20) days, such Subsidiary executes and delivers to the Purchasers a joinder to this Agreement and the Security Agreement in form acceptable to the Purchasers and takes all steps necessary to create and perfect a first priority Lien in favor of Purchasers on all of its assets; provided, that Foreign Subsidiaries taxed as a corporation, Subsidiaries owned directly or indirectly through one or more Foreign Subsidiaries taxed as a corporation and U.S. Foreign Holdcos shall not be required to execute a joinder agreement or to guaranty the Obligations, and (2) shall, and shall cause each of its Domestic Subsidiaries (other than Domestic Subsidiaries owned directly or indirectly through one or more Foreign Subsidiaries taxed as a corporation) to, pledge all of the Stock and Stock Equivalents of each of its Domestic Subsidiaries (other than Domestic Subsidiaries owned directly or indirectly through one or more Foreign Subsidiaries taxed as a corporation) and Foreign Subsidiaries taxed as a corporation (provided that with respect to any such Foreign Subsidiary or any U.S. Foreign Holdco, such pledge shall be limited to sixty-five percent (65%) of such Subsidiary's outstanding voting Stock and Stock Equivalents and one hundred percent (100%) of such Subsidiary's outstanding non-voting Stock and Stock Equivalents and none of the Stock or Stock Equivalents of any Subsidiary thereof) to the Purchasers to secure the Obligations. In connection with each pledge of Stock or Stock Equivalents, the Borrower shall deliver, or cause to be delivered to Purchasers, irrevocable proxies and stock powers and/or assignments, as applicable, duly executed in blank.

(b) The Borrower shall not and shall not permit any Subsidiary to (i) enter into any partnership, joint venture, syndicate, pool, profit-sharing or royalty agreement or other combination, or engage in any transaction with an Affiliate (other than a Subsidiary), whereby its income or profits are or might be, shared with another Person (other than a Subsidiary), (ii) enter into any management contract or similar agreement whereby a substantial part of its business is managed by another Person; or (iii) make any cash dividend or distribute, or permit the dividend or distribution of, any of its assets, including its intangibles, to any of its shareholders in such capacity or its Affiliates (other than to the Company or a Subsidiary), (except for (x) distributions in which Purchasers participate pursuant to Section 6 of the Notes or pursuant to a shareholder rights plan; (y) in the case of any Domestic Subsidiary that files a consolidated, combined, unitary or similar income Tax return with the Borrower, such Domestic Subsidiary may make distributions to the Borrower to permit the Borrower to pay federal and state income Taxes then due and payable and franchise Taxes incurred in the ordinary course of business, but such distributions shall be limited to the amount of such Taxes that would have been due and payable by the Borrower and such Domestic Subsidiary had they not filed a consolidated, combined, unitary or similar income Tax return); and (z) in the case of any Subsidiary owned by the Borrower and/or its other Subsidiaries that is treated as a disregarded entity or partnership for U.S. federal income tax purposes, such Subsidiary may make distributions to the Borrower and/or the Borrower's other Subsidiaries, as applicable, to permit them to pay federal and state income and franchise Taxes then due and payable by them on their allocable share of the taxable income of such Subsidiary. Notwithstanding anything herein to the contrary, (x) Borrower and any of its Subsidiaries may enter into an Excluded Transaction and (y) there shall be no restriction with respect to any changes to officers or directors of Borrower or any of its Subsidiaries, including no restriction on the freedom of Borrower or any of its Subsidiaries to enter into employment contracts or to engage directors or advisors.

(c) The Borrower shall not and shall not permit any Subsidiary to create, incur or suffer any Lien upon any of its assets, except Permitted Liens.

(d) The Borrower shall not and shall not permit any Subsidiary to create, incur, assume, guarantee or be liable with respect to any Indebtedness, except for Permitted Indebtedness.

(e) The Borrower shall not and shall not permit any Subsidiary to sell or otherwise transfer the Products or any assets primarily associated therewith, other than (x) pursuant to or in connection with an Excluded Transaction or (y) subject to Section 5.3 and the terms of the Notes, any sale or transfer that otherwise constitutes a Major Transaction.

(f) The Borrower shall not issue any equity securities (i) senior to its Common Stock or (ii) convertible or exercisable for equity securities senior to its Common Stock. Notwithstanding anything herein to the contrary, there shall be

no restriction upon any issuance of Common Stock or upon distributions pursuant to any shareholder rights plan; provided, that the Purchasers shall participate in any such distribution pursuant to Section 6 of the Notes.

Section 5.3 Major Transaction. The Borrower shall give the Purchasers notice of a Major Transaction at least thirty (30) days prior to the consummation thereof but in any event not later than five (5) business days following the first public announcement thereof. Each Purchaser, within the Major Transaction Conversion Period (as defined in the Note), in the exercise of its sole discretion, may deliver a notice to the Borrower (the “Put Notice”) that the Final Payment shall be due and payable in cash (collectively, the “Major Transaction Payment”). If any of the Purchasers deliver a Put Notice, then simultaneously with consummation of such Major Transaction, the Borrower shall make such Major Transaction Payment to each such Purchaser. The Borrower shall not consummate any Major Transaction without complying with the provisions of this Section 5.3.

Section 5.4 General Acceleration Provision upon Events of Default. If one or more of the events specified in this Section 5.4 shall have happened and be continuing beyond the applicable cure period (each, an “Event of Default”), the Required Purchasers, by written notice to the Borrower, may declare the principal of, and accrued and unpaid interest on, all of the Notes or any part of any of them (together with any other Obligations accrued or payable) to be, and the same shall thereupon become, immediately due and payable, without any further notice and without any presentment, demand, or protest of any kind, all of which are hereby expressly waived by the Borrower, and take any further action available at law or in equity, including, without limitation, the sale of the Notes and all other rights acquired in connection with the Notes:

(a) The Borrower shall have failed to make payment of (i) principal when due, or (ii) interest or any other amounts due under the Notes or any other Obligations within five (5) Business Days of their due date.

(b)(i) The Borrower shall have failed to comply with the due observance or performance of any covenant contained in this Agreement (other than the covenant described in (a) above or as otherwise expressly provided in this Section 5.4) or in the other Note Documents and such default is not remedied by the Borrower or waived by the Purchasers within thirty (30) days (inclusive of any extension periods or cure periods contained in any such covenant or provided by Applicable Law) after the earlier of (A) receipt by the Borrower of notice from the Required Purchasers of such default, or (B) in the case of Section 5.1(d), the actual knowledge of Borrower of such default.

(c) Any representation or warranty made by the Borrower in any Note Document shall be incorrect, false or misleading in any material respect (except to the extent that such representation or warranty is qualified by reference to materiality or Material Adverse Effect, to which extent it shall be incorrect, false or misleading in any respect) as of the date it was made or deemed made.

(d)(i) The Borrower shall generally be unable to pay its debts as such debts become due, or shall admit in writing its inability to pay its debts as they come due or shall make a general assignment for the benefit of creditors; (ii) the Borrower shall declare a moratorium on the payment of its debts; (iii) the commencement by the Borrower of proceedings to be adjudicated bankrupt or insolvent, or the consent by it to the commencement of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization, intervention or other similar relief under any applicable law, or the consent by it to the filing of any such petition or to the appointment of an intervenor, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of all or substantially all of its assets; (iv) the commencement against the Borrower of a proceeding in any court of competent jurisdiction under any bankruptcy or other applicable law (as now or hereafter in effect) seeking its liquidation, winding up, dissolution, reorganization, arrangement, adjustment, or the appointment of an intervenor, receiver, liquidator, assignee, trustee, sequestrator (or other similar official), and any such proceeding shall continue undismissed, or any order, judgment or decree approving or ordering any of the foregoing shall continue unstayed or otherwise in effect, for a period of sixty (60) days; or (v) any other event shall have occurred which under any applicable law would have an effect analogous to any of those events listed above in this subsection.

(e) One or more judgments against the Borrower or any Subsidiary or attachments against any of their respective property, which in the aggregate exceed \$5,000,000 (net of any anticipated insurance proceeds), and such judgment(s) remains unstayed on appeal, undischarged, unbonded or undismissed for a period of sixty (60) days from the date of entry of such judgment.

(f) Any Authorization held by the Borrower or any Subsidiary shall have been suspended, cancelled or revoked, and such suspension, cancellation or revocation would reasonably be expected to have a Material Adverse Effect, and such suspension, cancellation or revocation shall not have been cured within 30 days.

(g) Any Authorization necessary for the execution, delivery or performance of any Note Document or for the validity or enforceability of any of the Obligations is not given or is withdrawn or ceases to remain in full force or effect.

(h) There is a default in the payment of any Indebtedness to which the Borrower is a party with a third party, such third party accelerates the maturity of any such Indebtedness, the principal amount of such Indebtedness is in an amount in excess of \$2,500,000 and such acceleration is not rescinded or such Indebtedness is not contested in good faith or paid or otherwise discharged.

(i) The validity of any Note Document shall be contested by the Borrower or any Subsidiary, or any Applicable Law shall purport to render any material provision of any Note Document invalid or unenforceable or shall purport to prevent or materially delay the performance or observance by the Borrower of the Obligations.

(j) The Common Stock of Borrower ceases to be listed on the Principal Trading Market or the Common Stock ceases to be registered under Section 12 of the Exchange Act.

(k) The occurrence of a Conversion Failure.

Section 5.5 Automatic Acceleration on Dissolution or Bankruptcy. Notwithstanding any other provisions of this Agreement, if an Event of Default under Section 5.4(d) shall occur, the principal of the Notes (together with any interest accrued or payable under this Agreement) shall thereupon become immediately due and payable without any presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrower.

Section 5.6 Recovery of Amounts Due. If any amount payable hereunder is not paid as and when due (after the expiration of any applicable cure periods), the Borrower hereby authorizes the Purchasers to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien or counterclaim, against any moneys or other assets of the Borrower to the full extent of all amounts payable to the Purchasers.

ARTICLE 6

MISCELLANEOUS

Section 6.1 Notices. Any notices required or permitted to be given under the terms hereof shall be sent by certified or registered mail (return receipt requested) or delivered personally or by courier (including a recognized overnight delivery service) or by facsimile or by electronic mail and shall be effective five (5) days after being placed in the mail, if mailed by regular United States mail, or upon receipt, if delivered personally or by courier (including a recognized overnight delivery service) or by facsimile, or when received by electronic mail in each case addressed to a party. The addresses for such communications shall be:

If to the Borrower:

Aerie Pharmaceuticals, Inc.
135 US Highway 206, Suite
15 Bedminster, NJ 07921
Fax: (909) 470-4329
E-mail: rrubino@eriepharma.com
Attention: Richard J. Rubino

With a copy to:

Fried, Frank, Harris, Shriver & Jacobson LLP
One New York Plaza
New York, NY 10004
Fax: (212) 859-4000
Email: andrew.barkan@friedfrank.com
Attn: Andrew B. Barkan, Esq.

If to the Purchasers:

Deerfield Management Company, L.P.
780 Third Avenue, 37th Floor
New York, NY 10017
Fax: (212) 599-3075
Email: dclark@deerfield.com
Attn: David J. Clark

With a copy to:

Katten Muchin Rosenman LLP
575 Madison Avenue
New York, New York 10022
Fax: (212) 940-8776
Email: mark.fisher@kattenlaw.com
Attn: Mark I. Fisher, Esq.

Section 6.2 Waiver of Notice. Whenever any notice is required to be given to the Purchasers or the Borrower under any of the Note Documents, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

Section 6.3 Reimbursement of Legal and Other Expenses. If any amount owing to the Purchasers under any Note Document shall be collected through enforcement of any Note Document or restructuring of the Notes in the nature of a work-out, settlement, negotiation, or any process of law, or shall be placed in the hands of third Persons for collection, the Borrower shall pay (in addition to all monies then due in respect of the Obligations) all reasonable and documented external attorneys' and other fees and out-of-pocket expenses incurred in respect of such collection.

Section 6.4 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed in such State. Each Party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a Party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of New York. Each Party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or other proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each Party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or other proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of

delivery) to such party at the address in effect for 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 other manner permitted by law. The Parties hereby waive all rights to a trial by jury.

Section 6.5 Successors and Assigns. This Agreement shall bind and inure to the respective successors and assigns of the Parties, except that (a) the Borrower may not assign or otherwise transfer all or any part of its rights under the Note Documents without the prior written consent of the Required Purchasers, except in connection with Section 5.2(a)(y), and (b) a Purchaser may assign its Note upon three (3) days prior notice to Borrower; provided, that, in no event may a Purchaser assign its Note to a Restricted Transferee without the prior written consent of Borrower; provided further, that, such Purchaser shall have complied with the transfer provisions in Section 12 of the Note. Upon a Purchaser's assignment of a Note such Purchaser shall provide notice of the transfer to Borrower for recordation in the Register pursuant to Section 1.4. Upon receipt of a notice of a transfer of an interest in a Note, Borrower shall record the identity of the transferee and other relevant information in the Register and the transferee shall (to the extent of the interests transferred to such transferee) have all the rights and obligations of, and shall be deemed, a Purchaser hereunder.

Section 6.6 Entire Agreement. The Note Documents contain the entire understanding of the Parties with respect to the matters covered thereby and supersede any and all other written and oral communications, negotiations, commitments and writings with respect thereto. Except as otherwise provided herein, the provisions of this Agreement may be waived, modified, supplemented or amended only by an instrument in writing signed by the authorized officer of each Party.

Section 6.7 Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.8 Counterparts. This Agreement may be executed in several counterparts, and by each Party on separate counterparts, each of which and any photocopies, facsimile copies or other electronic transmission (including by PDF) thereof shall be deemed an original, but all of which together shall constitute one and the same agreement.

Section 6.9 Survival.

(a) This Agreement and all agreements, representations and warranties made in the Note Documents, and in any document, certificate or statement delivered pursuant thereto or in connection therewith shall be considered to have been relied upon by the other Parties and shall survive the execution and delivery of this Agreement and the purchase of the Notes hereunder regardless of any investigation made by any such other Party or on its behalf, and shall continue in force until all amounts payable under the Note Documents shall have been fully paid in accordance with the provisions thereof, and the Purchasers shall not be deemed to have waived, by reason of purchasing the Notes, any Event of Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding

that the Purchasers may have had notice of any such Event of Default or may have had notice that such representation or warranty was false or misleading at the time the Notes were purchased.

(b) The obligations of the Borrower under Sections 1.4 and 2.5 and the obligations of the Borrower and the Purchasers under this Article 6 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Obligations, or the termination of this Agreement or any provision hereof.

Section 6.10 No Waiver. Neither the failure of, nor any delay on the part of, any Party in exercising any right, power or privilege under any Note Document, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any Note Document preclude other or further exercise thereof or the exercise of any other right, power or privilege; nor shall any waiver of any right, power, privilege or default under any Note Document constitute a waiver of any other right, power, privilege or default under any Note Document. No course of dealing and no delay in exercising, or omission to exercise, any right, power or remedy accruing to the Purchasers upon any default under this Agreement shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence therein; nor shall the action of the Purchasers in respect of any such default, or any acquiescence by it therein, affect or impair any right, power or remedy of the Purchasers in respect of any other default. All rights and remedies herein provided are cumulative and not exclusive of any rights or remedies otherwise provided by law.

Section 6.11 Indemnity.

(a) The Borrower shall, at all times, indemnify and hold each Purchaser harmless (the "Indemnity") and each of their respective directors, partners, officers, employees, agents, counsel and advisors (each, an "Indemnified Person") in connection with any losses, claims (including the reasonable attorneys' fees incurred in defending against such claims), damages, liabilities, penalties, or other expenses arising out of, or relating to, the Note Documents, the purchase of the Notes or the use or intended use of the proceeds of the purchase of the Notes, which an Indemnified Person may incur or to which an Indemnified Person may become subject, but excluding (i) Taxes (other than Taxes that represent losses, claims, damages, liabilities or penalties arising from any non-Tax claims) and (ii) Excluded Taxes (each, a "Loss"). The Indemnity shall not apply to the extent that a court or arbitral tribunal of competent jurisdiction issues a final judgment that such Loss resulted from the bad faith, gross negligence or willful misconduct of the Indemnified Person. The Indemnity is independent of and in addition to any other agreement of Borrower under any Note Document to pay any amount to the Purchasers, and any exclusion of any obligation to pay any amount under this subsection shall not affect the requirement to pay such amount under any other section hereof or under any other agreement. For the avoidance of doubt, this Section 6.11 shall not apply to Indemnified Taxes.

(b) Promptly after receipt by an Indemnified Person under this Section 6.11 of notice of the commencement of any action (including any governmental

action), such Indemnified Person shall, if a Loss in respect thereof is to be made against Borrower under this Section 6.11, deliver to Borrower a written notice of the commencement thereof, and Borrower shall have the right to participate in, and, to the extent Borrower so desires, to assume control of the defense thereof with counsel satisfactory to Borrower.

(c) An Indemnified Person shall have the right to retain its own counsel with the documented reasonable fees and out-of-pocket expenses to be paid by the Borrower, if, in the reasonable opinion of counsel for the Indemnified Person, the representation by such counsel of the Indemnified Person and Borrower would be inappropriate due to actual or potential differing interests between such Indemnified Person and any other party represented by such counsel in such proceeding. The Borrower shall pay for only one separate legal counsel for the Indemnified Persons. The failure of an Indemnified Person to deliver written notice to the Borrower within a reasonable time of the commencement of any such action shall not relieve the Borrower of any liability to the Indemnified Person under this Section 6.11, except to the extent that Borrower is actually prejudiced in its ability to defend such action. The indemnification required by this Section 6.11 shall be made by periodic payments of the amount thereof as such expense, loss, damage or liability is incurred and is due and payable.

Section 6.12 No Usury. The Note Documents are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration or otherwise, shall the amount paid or agreed to be paid to the Purchaser for the proceeds of the purchase of the Notes exceed the maximum amount permissible under applicable law. If from any circumstance whatsoever fulfillment of any provision hereof, at the time performance of such provision shall be due, shall involve transcending the limit of validity prescribed by law, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of such validity, and if from any such circumstance the Purchasers shall ever receive anything which might be deemed interest under applicable law, that would exceed the highest lawful rate, such amount that would be deemed excessive interest shall be applied to the reduction of the principal amount owing on account of the Notes, or if such deemed excessive interest exceeds the unpaid balance of principal of the Notes, such deemed excess shall be refunded to the Borrower. All sums paid or agreed to be paid to the Purchasers with respect to the Notes shall, to the extent permitted by applicable law, be deemed to be amortized, prorated, allocated and spread throughout the full term of the Notes until payment in full so that the deemed rate of interest on account of the Notes is uniform throughout the term thereof. The terms and provisions of this Section 6.12 shall control and supersede every other provision of this Agreement and the Notes.

Section 6.13 Several Obligations. The obligations of the Purchasers under the Note Documents shall be several and not joint.

Section 6.14 Further Assurances. From time to time, each Party shall perform any and all acts and execute and deliver to the other Party such additional documents as may be necessary or as requested by the other Party to carry out the purposes of any Note Document or to preserve and protect the rights of such other Party as contemplated therein.

Section 6.15 Release of Collateral. Upon entry into a Working Capital Facility, upon the delivery of notice by Borrower to Purchasers, Purchasers shall release their Liens on Borrower's accounts receivable, inventory and the proceeds and products thereof. Upon Borrower incurring any Indebtedness permitted by clause (viii) of the definition of Permitted Indebtedness, secured by a Lien on the asset acquired with such Indebtedness, upon the delivery of notice by Borrower to Purchasers, Purchasers shall release their Lien on such asset. Upon the delivery of notice by Borrower to Purchasers, Purchasers shall release any and all liens they hold on the Collateral and the Security Agreement shall terminate upon occurrence of the following: (i) beginning one month after FDA approval of either of the Products, shares of the Common Stock have traded on the Principal Trading Market at a price above \$30 per share subject to appropriate adjustment to reflect any subdivision of outstanding Common Stock (by any stock split, stock dividend, recapitalization or otherwise) or combination of outstanding Common Stock (by combination, reverse stock split or otherwise) for 30 consecutive trading days, and (ii) Borrower is prepared to close a financing (described in clause (xi) of the definition of Permitted Indebtedness) to be secured by a Lien on the Borrower's assets, subject only to the release of Purchasers' Lien.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Purchasers and the Borrower have caused this Agreement to be duly executed as of the 8th day of September, 2014.

BORROWER:

AERIE PHARMACEUTICALS, INC.

By: /s/ Richard J. Rubino
Name: Richard J. Rubino
Title: Chief Financial Officer

PURCHASERS:

DEERFIELD PARTNERS, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

DEERFIELD INTERNATIONAL MASTER FUND, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

DEERFIELD PRIVATE DESIGN FUND III, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

DEERFIELD SPECIAL SITUATIONS FUND, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

**DEERFIELD SPECIAL SITUATIONS
INTERNATIONAL MASTER FUND, L.P.**

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

SCHEDULE 1

<u>PURCHASER</u>	<u>ALLOCATION OF NOTES</u>
Deerfield Partners, L.P.	8.88%
Deerfield International Master Fund, L.P.	11.12%
Deerfield Private Design Fund III, L.P.	72.00%
Deerfield Special Situations Fund, L.P.	4.37%
Deerfield Special Situations International Master Fund, L.P.	3.63%

SCHEDULE 3.1(v)

	<u>Total Outstanding as of September 8, 2014</u>
Shares of Common Stock*	23,953,535
Options	3,785,959
Warrants	717,801
Unvested restricted stock	150,738

* As of September 8, 2014, the total number of shares of Common Stock issuable under the Borrower's equity incentive plan and employee stock purchase plan was 2,686,741.

SCHEDULE 3.1(w)

1. Amended and Restated Investors' Rights Agreement by and among Aerie Pharmaceuticals, Inc. and TPG Biotechnology Partners, L.P., ACP N, L.P., Sofinnova Venture Partners VII, L.P., Clarus Lifesciences II, L.P., Osage University Partners I, L.P., Thomas J. van Haarlem, M.D. and Casey Kopczynski, M.D., dated February 23, 2011.
2. First Amendment to Amended and Restated Investors' Rights Agreement by and among Aerie Pharmaceuticals, Inc. and TPG Biotechnology Partners, L.P., ACP N, L.P., Sofinnova Venture Partners VII, L.P., Clarus Lifesciences II, L.P. and Osage University Partners I, L.P., dated December 7, 2012.

Exhibit A

NOTE

FORM OF NOTE

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER SAID ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SAID ACT INCLUDING, WITHOUT LIMITATION, PURSUANT TO RULES 144 OR 144A UNDER SAID ACT OR PURSUANT TO A PRIVATE SALE EFFECTED UNDER APPLICABLE FORMAL OR INFORMAL SEC INTERPRETATION OR GUIDANCE, SUCH AS A SO-CALLED "4(a)(1 1/2)" SALE.

SENIOR SECURED CONVERTIBLE NOTE

Issuance Date: September , 2014

Principal: U.S. \$

FOR VALUE RECEIVED, AERIE PHARMACEUTICALS, INC., a Delaware corporation (the “**Company**”), hereby promises to pay to Deerfield Partners, L.P., or its registered assigns (the “**Holder**”) the principal amount of (\$) (the “**Principal**”) pursuant to, and in accordance with, the terms of that certain Note Purchase Agreement, dated as of September , 2014, by and among the Company and the Purchasers party thereto (together with all exhibits and schedules thereto and as may be amended, restated, modified and supplemented from time to time, the “**Note Purchase Agreement**”). The Company hereby promises to pay accrued and unpaid Interest (as defined below) and premium, if any, on the Principal on the dates, at the rates and in the manner provided for in the Note Purchase Agreement. This Senior Secured Convertible Note (including all Senior Secured Convertible Notes issued in exchange, transfer or replacement hereof, and as any of the foregoing may be amended, restated, supplemented or otherwise modified from time to time, this “**Note**”) is one of the Senior Secured Convertible Notes issued pursuant to the Note Purchase Agreement (collectively, including all Senior Secured Convertible Notes issued in exchange, transfer or replacement thereof, and as any of the foregoing may be amended, restated, supplemented or otherwise modified from time to time, the “**Notes**”). All capitalized terms used and not otherwise defined herein shall have the respective meanings set forth in the Note Purchase Agreement.

Except as expressly provided in the Note Purchase Agreement, the Company has no right, but under certain circumstances may have an obligation, to make payments of Principal prior to the seventh anniversary of the Funding Date (as defined in the Note Purchase Agreement). At any time an Event of Default exists, the Principal of this Note, together with all accrued and unpaid Interest and any applicable premium due, if any, may be declared, or shall otherwise become, due and payable in the manner, at the price and with the effect provided in the Note Purchase Agreement.

1. Definitions.

(a) Certain Defined Terms. For purposes of this Note, the following terms shall have the following meanings:

(i) “**Affiliate**” means any person or entity that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a person or entity, as such terms are used in and construed under Rule 144 under the Securities Act. With respect to a Holder, any investment fund or managed account that is managed on a discretionary basis by the same investment manager as such Holder will be deemed to be an Affiliate of such Holder. As used in this definition of “Affiliate,” the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or partnership or other ownership interest, by contract, or otherwise.

(ii) “**Capital Stock**” means, for any entity, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that entity, but for the avoidance of doubt, excluding any debt securities convertible into such stock.

(iii) “**Common Equity**” of any Person means Capital Stock of such Person that is generally entitled (a) to vote, in the election of directors of such person or (b) if such Person is not a corporation, to vote or otherwise participate in the election of the governing body, partners, managers or others that will control the management or policies of such person.

(iv) “**Common Stock**” means the common stock, par value \$0.001 per share, of the Company.

(v) “**Conversion Amount**” means the Principal to be converted, redeemed or otherwise with respect to which this determination is being made.

(vi) “**Conversion Price**” means, as of any Conversion Date or other date of determination, \$24.80 per Share, subject to adjustment as provided herein and subject to appropriate adjustment to reflect any subdivision of outstanding Common Stock (by any stock split, stock dividend, recapitalization or otherwise) or combination of outstanding Common Stock (by combination, reverse stock split or otherwise).

(vii) “**Dollars**” or “**\$**” means United States Dollars.

(viii) “**Eligible Market**” means the NASDAQ Global Market, the NASDAQ Global Select Market, the New York Stock Exchange, the NYSE Alternext or the Nasdaq Capital Market.

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

(x) “**Interest**” means any interest (including any default interest) accrued on the Principal pursuant to the terms of this Note and the Note Purchase Agreement.

(xi) “**Issuance Date**” means September , 2014, regardless of any exchange or replacement hereof.

(xii) “**Major Transaction**” means any of the following events:

(A) a consolidation, merger, exchange of shares, recapitalization, reorganization, business combination or other similar event, (1) following which the holders of Common Stock immediately preceding such consolidation, merger, exchange,

recapitalization, reorganization, combination or event either (a) no longer hold a majority of the shares of Common Stock or (b) no longer have the ability to elect a majority of the board of directors of the Company or (2) as a result of which shares of Common Stock shall be changed into (or the shares of Common Stock become entitled to receive) the same or a different number of shares of the same or another class or classes of stock or securities of the Company or another entity (other than to the extent the Common Stock is changed or exchanged solely to reflect a change in the Company's jurisdiction of incorporation); or

(B) the sale or transfer (other than to a wholly owned subsidiary of the Company) of (i) all or substantially all of the assets of the Company or (ii) assets of the Company for a purchase price equal to more than 50% of the Enterprise Value (as defined below) of the Company. For purposes of this clause (B), "**Enterprise Value**" shall mean (I) the product of (x) the number of issued and outstanding shares of Common Stock on the date the Company delivers the Major Transaction Notice (as defined below in Section 3(c)) multiplied by (y) the per share closing price of the Common Stock on such date plus (II) the amount of the Company's debt as shown on the latest financial statements filed with the SEC (the "**Current Financial Statements**") less (III) the amount of cash and cash equivalents of the Company as shown on the Current Financial Statements; or

(C) a "person" or "group" within the meaning of Section 13(d) of the Exchange Act, other than the Company, files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect "beneficial owner" as defined in Rule 13d-3 under the Exchange Act of the Company's Common Equity representing more than 50% of the voting power of the Company's Common Equity.

(xiii) "**Major Transaction Conversion Period**" means the period beginning upon receipt by the Holder of a Major Transaction Notice (as defined below) and ending (1) in the case of a Successor Major Transaction (as defined below), five (5) Trading Days prior to consummation of the Major Transaction and (2) in the case of a Company Share Major Transaction (as defined below), any time until the later of (x) the seven (7) year anniversary of the Funding Date and (y) the one-year anniversary of the applicable Company Share Major Transaction.

(xiv) "**Person**" means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or agency or a political subdivision thereof.

(xv) "**Principal**" means the outstanding principal amount of this Note as of any date of determination.

(xvi) "**Required Note Holders**" means Holders of at least 50.1% of the aggregate principal amount of the Notes outstanding.

(xvii) "**Restricted Transferee**" means any entity that is a transferee of in excess of five million dollars (\$5,000,000) principal amount of Notes (i) whose

last filed beneficial ownership report with respect to the Company with the SEC was in the form of a Schedule 13D, (ii) that is principally engaged in the development or marketing of a non-service related tangible product (an “**Operating Company**”), provided, however, that (1) any entity that operates as a brokerage, insurance business, pension fund (or other benefit fund), investment banking, investment management, investment advisory, lobbying or publishing business or (2) any non-profit research or non-profit enterprise, shall not constitute an Operating Company, whether or not such entity or enterprise owns an interest in an Operating Company or (iii) identified by name in writing to the Holder on or prior to the date of the Note Purchase Agreement.

(xviii) “**SEC**” means the Securities and Exchange Commission.

(xix) “**Securities Act**” means the Securities Act of 1933, as amended.

(xx) “**Shares**” means shares of Common Stock.

(xxi) “**Successor Entity**” means any Person purchasing the Company’s assets or Common Stock in a Major Transaction, or any successor entity resulting from such Major Transaction.

(xxii) “**Trading Day**” means any day on which the Common Stock is traded for any period on the Eligible Market or the other principal securities exchange or other securities market or quotation system on which the Common Stock is then being traded.

(xxiii) “**Volume Weighted Average Price**” for any security as of any date means the volume weighted average sale price of such security on the principal securities exchange, trading market or quotation system where such security is listed or traded as reported by Bloomberg Financial Markets or an equivalent, reliable reporting service mutually acceptable to and hereinafter designated by the Required Note Holders and the Company (“**Bloomberg**”) or, if no volume weighted average sale price is reported for such security, then the last closing trade price of such security as reported by Bloomberg, or, if no last closing trade price is reported for such security by Bloomberg, the average of the bid prices of any market makers for such security that are listed in the over the counter market by the Financial Industry Regulatory Authority, Inc. or on the “over the counter” Bulletin Board (or any successor) or in the “pink sheets” (or any successor) by the OTC Markets Group, Inc. If the Volume Weighted Average Price cannot be calculated for such security on such date in the manner provided above, the Volume Weighted Average Price shall be the fair market value as mutually determined by the Company and the Holders of a majority in interest of the Notes being converted for which the calculation of the Volume Weighted Average Price is required in order to determine the Conversion Price of such Notes.

2. Conversion Rights. This Note may be converted into Shares on the terms and conditions set forth in this Section 2 and, where applicable, Section 3.

(a) Conversion at Option of the Holder. On or after the date hereof, the Holder shall be entitled to convert all or any part of the Principal into fully paid and

nonassessable Shares (the “**Conversion Shares**”) in accordance with this Section 2 and, if applicable, Section 3, at the Conversion Rate (as defined in Section 2(b)). The Company shall not issue any fraction of a Share upon any conversion. If the issuance would result in the issuance of a fraction of a Share, then the Company shall round such fraction of a Share up or down to the nearest whole share (with 0.5 rounded up). Notwithstanding anything herein to the contrary, the Company shall not issue to the Holder, and the Holder may not acquire, a number of Shares upon conversion of this Note or otherwise issue any shares of Common Stock pursuant hereto or the Note Purchase Agreement to the extent that, upon such conversion, the number of Shares then beneficially owned by the Holder and its Affiliates and any other persons or entities whose beneficial ownership of Common Stock would be aggregated with the Holder’s for purposes of Section 13(d) of the Exchange Act (including shares held by any “group” of which the Holder is a member, but excluding shares beneficially owned by virtue of the ownership of securities or rights to acquire securities that have limitations on the right to convert, exercise or purchase similar to the limitation set forth herein) would exceed 9.985% of the total number of shares of Common Stock then issued and outstanding (the “**9.985% Cap**”). For purposes hereof, “group” has the meaning set forth in Section 13(d) of the Exchange Act and applicable regulations of the SEC, and the percentage held by the Holder shall be determined in a manner consistent with the provisions of Section 13(d) of the Exchange Act. Upon the written request of the Holder, the Company shall, within two (2) Trading Days, confirm orally and in writing to the Holder the number of Shares then outstanding. Notwithstanding anything herein to the contrary, the Company shall have no obligation to the Holder to pay the value of the Conversion Shares in cash, except as otherwise provided in Section 3.

(b) Conversion Rate. The number of Conversion Shares issuable upon a conversion of any portion of this Note pursuant to Section 2 shall be determined according to the following formula (the “**Conversion Rate**”):

$$\frac{\text{Conversion Amount}}{\text{Conversion Price}}$$

The Conversion Rate shall be subject to adjustment in connection with a Major Transaction Conversion (as defined below) in accordance with and subject to the provisions of Section 3 hereof.

(c) Mechanics of Conversion. The conversion of this Note shall be conducted in the following manner:

(i) Holder’s Delivery Requirements. To convert a Conversion Amount into Conversion Shares on any date (the “**Conversion Date**”), the Holder shall (A) transmit by facsimile or electronic mail (or otherwise deliver), for receipt on or prior to 5:00 p.m. New York City time on such date, a copy of an executed conversion notice in the form attached hereto as Exhibit A or, in the case of a Major Transaction Conversion for Major Transaction Company Shares (as defined below), a Major Transaction Conversion Notice (such applicable notice, the “**Conversion Notice**”) to the Company (Attention: Richard J. Rubino, 135 U.S. Highway 206, Suite 15, Bedminster, NJ 07921, Fax: (908) 470-4329, Email: rrubino@aeriepharma.com), and (B) if required by Section 2(c)(vi), surrender to a common

carrier for delivery to the Company, no later than three (3) Business Days after the Conversion Date, the original Note being converted (or an indemnification undertaking in customary form with respect to this Note in the case of its loss, theft or destruction).

(ii) Company's Response. Upon receipt or deemed receipt by the Company of a copy of a Conversion Notice, the Company (I) shall immediately send, via facsimile, a confirmation of receipt of such Conversion Notice to the Holder and the Company's designated transfer agent (the "**Transfer Agent**"), which confirmation shall constitute an instruction to the Transfer Agent to process such Conversion Notice in accordance with the terms herein and (II) on or before the second (2nd) Business Day following the date of receipt or deemed receipt by the Company of such Conversion Notice or, in the case of Major Transaction Company Shares, within the period provided in Section 3(d) (the "**Share Delivery Date**"); (A) provided that the Transfer Agent is participating in The Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program and provided that the Holder is eligible to receive Shares through DTC, credit such aggregate number of Conversion Shares to which the Holder shall be entitled to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (B) if the foregoing shall not apply, issue and deliver to the address as specified in the Conversion Notice, a stock certificate, registered in the name of the Holder or its designee, for the number of Conversion Shares to which the Holder shall be entitled. If notwithstanding the provisions of Section 2(c)(vi), the Holder elects to physically surrender this Note for conversion, and the Principal represented by this Note is greater than the Principal being converted, then the Company shall, as soon as practicable and in no event later than three (3) Business Days after receipt of this Note (the "**Note Delivery Date**") and at its own expense, issue and deliver to the Holder a new Note representing the Principal not converted and cancel this Note. This Note and the Conversion Shares will be free-trading, and freely transferable, and will not contain a legend restricting the resale or transferability of the Conversion Shares if the Unrestricted Conditions (as defined below) are met.

(iii) Dispute Resolution. In the case of a dispute as to the determination of the Conversion Price or the arithmetic calculation of the Conversion Rate, the Company shall instruct the Transfer Agent to issue to the Holder the number of Conversion Shares that is not disputed and shall transmit an explanation of the disputed determinations or arithmetic calculations to the Holder via facsimile within two (2) Business Days of receipt or deemed receipt of the Holder's Conversion Notice or other date of determination. If the Holder and the Company are unable to agree upon the determination of the Conversion Price or arithmetic calculation of the Conversion Rate within one (1) Business Day of such disputed determination or arithmetic calculation being transmitted to the Holder, then the Company shall promptly (and in any event within two (2) Business Days) submit via facsimile (A) the disputed determination of the Conversion Price to an independent, reputable investment banking firm agreed to by the Company and the Required Note Holders, or (B) the disputed arithmetic calculation of the Conversion Rate to the Company's independent registered public accounting firm, as the case may be. The Company shall direct the investment bank or the accounting firm, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than two (2) Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accounting firm's determination or calculation, as the case may be, shall be binding upon all parties absent

manifest error. Notwithstanding anything herein to the contrary, any such final determination in respect of a dispute in connection with a Major Transaction in which the Company is not the surviving parent entity, shall be made prior to consummation of such Major Transaction.

(iv) Record Holder. The person or persons entitled to receive the Conversion Shares issuable upon a conversion of this Note shall be treated for all purposes as the legal and record holder or holders of such Shares upon delivery of the Conversion Notice via facsimile, electronic mail, or otherwise in accordance with the terms hereof.

(v) Company's Failure to Timely Convert.

(A) Cash Damages. If within three (3) Business Days after the Company's receipt of the facsimile or electronic mail copy of a Conversion Notice or deemed receipt of a Conversion Notice the Company shall fail to issue and deliver a certificate to the Holder for, or credit the Holder's or its designee's balance account with DTC with, the number of Conversion Shares (free of any restrictive legend if the Unrestricted Conditions (as defined below) are met) to which the Holder is entitled upon the Holder's conversion of any Conversion Amount (subject to Section 2(c)(iii)), then in addition to all other available remedies that the Holder may pursue hereunder and under the Note Purchase Agreement, the Company shall pay additional damages to the Holder for each 30-day period (such additional damages to be prorated for any partial period) after the Share Delivery Date such conversion is not timely effected in an amount equal to one percent (1%) of the product of (I) the number of Conversion Shares not issued to the Holder or its designee on or prior to the Share Delivery Date and to which the Holder is entitled and (II) the Volume Weighted Average Price of the Common Stock on the Share Delivery Date (such product is referred to herein as the "**Share Product Amount**"). Alternatively, subject to Section 2(c)(iii), at the election of the Holder made in the Holder's sole discretion, the Company shall pay to the Holder, in lieu of the additional damages referred to in the preceding sentence (but in addition to all other available remedies that the Holder may pursue hereunder and under the Note Purchase Agreement), 107.5% of the amount by which (A) the Holder's total purchase price (including brokerage commissions, if any) for the Shares purchased to make delivery in satisfaction of a sale by the Holder of the Conversion Shares to which the Holder is entitled but has not received upon a conversion exceeds (B) the net proceeds received by the Holder from the sale of the Shares to which the Holder is entitled but has not received upon such conversion. If the Company fails to pay the additional damages set forth in this Section 2(c)(v)(A) within five (5) Business Days of the date incurred, then the Holder entitled to such payments shall have the right at any time, so long as the Company continues to fail to make such payments, to require the Company, upon written notice, to immediately issue, in lieu of such cash damages, the number of Shares equal to the quotient of (X) the aggregate amount of the damages payments described herein divided by (Y) the Conversion Price in effect on such Conversion Date as specified by the Holder in the Conversion Notice.

(B) Void Conversion Notice. If for any reason the Holder has not received all of the Conversion Shares prior to the tenth (10th) Business Day after the Share Delivery Date with respect to a conversion of this Note (a "**Conversion Failure**"), then the Holder, upon written notice to the Company (a "**Void Conversion Notice**"), may void its Conversion Notice with respect to, and retain or have returned, as the case may be, any

portion of this Note that has not been converted pursuant to the Holder's Conversion Notice; provided, that the voiding of the Holder's Conversion Notice shall not affect the Company's obligations to make any payments that have accrued prior to the date of such notice pursuant to Section 2(c)(v)(A) or otherwise.

(C) Event of Default. A Conversion Failure shall constitute an Event of Default under the Note Purchase Agreement and entitle the Purchasers to all payments and remedies provided under the Note Purchase Agreement upon the occurrence of an Event of Default.

(vi) Book-Entry. Notwithstanding anything to the contrary set forth herein, upon conversion or redemption of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Company unless all of the Principal is being converted or redeemed. The Holder and the Company shall maintain records showing the Principal converted or redeemed and the dates of such conversions or redemptions or shall use such other method, reasonably satisfactory to the Holder and the Company, so as not to require physical surrender of this Note upon any such partial conversion or redemption. Notwithstanding the foregoing, if this Note is converted or redeemed as aforesaid, the Holder may not transfer this Note unless the Holder first physically surrenders this Note to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Note of like tenor, registered as the Holder may request, representing in the aggregate the remaining Principal represented by this Note. The Holder and any assignee, by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion or redemption of any portion of this Note, the Principal of this Note may be less than the principal amount stated on the face hereof.

(d) [RESERVED]

(e) Legends.

(i) Restrictive Legend. The Holder understands that until such time as this Note or the Conversion Shares have been registered under the Securities Act or otherwise may be sold pursuant to Rule 144 under the Securities Act or an exemption from registration under the Securities Act without any restriction as to the number of securities as of a particular date that can then be immediately sold, this Note and the Conversion Shares, as applicable, may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such securities):

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER SAID ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SAID ACT INCLUDING, WITHOUT LIMITATION, PURSUANT TO RULES 144 OR 144A

UNDER SAID ACT OR PURSUANT TO A PRIVATE SALE EFFECTED UNDER APPLICABLE FORMAL OR INFORMAL SEC INTERPRETATION OR GUIDANCE, SUCH AS A SO-CALLED “4(a)(1 1/2)” SALE.”

(ii) Removal of Restrictive Legends. This Note and the certificates evidencing the Conversion Shares (including any Major Transaction Company Shares), as applicable, shall not contain any legend restricting the transfer thereof (including the legend set forth above in subsection 2(e)(i)): (A) while a registration statement covering the sale or resale of such security is effective under the Securities Act, or (B) following any sale of such Note and/or Conversion Shares pursuant to Rule 144, or (C) if such Note or Conversion Shares, as the case may be, are eligible for sale under Rule 144(b)(1), or (D) if the holder of this Note or the Conversion Shares, as applicable, certifies, on or after the date that is six (6) months after the Funding Date, that such holder is not an “affiliate” of the Company (as defined in Rule 144), or (E) if such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the SEC) (collectively, the “**Unrestricted Conditions**”). The Company shall cause its counsel to issue a legal opinion to the Transfer Agent promptly after the date that a registration statement covering the resale of the Notes and/or Conversion Shares has been declared effective by the SEC (the “**Effective Date**”), or at such other time as any of the Unrestricted Conditions have been satisfied, if required by the Company’s transfer agent to effect the issuance of this Note or the Conversion Shares, as applicable, without a restrictive legend or removal of the legend hereunder. If any of the Unrestricted Conditions are met at the time of issuance of any of the Conversion Shares, then such Conversion Shares shall be issued free of all legends. The Company agrees that following the Effective Date or at such time as any of the Unrestricted Conditions are met or such legend is otherwise no longer required under this Section 2(e), it will, no later than three (3) Trading Days following the delivery (the “**Unlegended Shares Delivery Deadline**”) by the Holder to the Company or the Transfer Agent of this Note and a certificate representing Conversion Shares, as applicable, issued with a restrictive legend (such third Trading Day, the “**Legend Removal Date**”), deliver or cause to be delivered to such Holder this Note and/or a certificate (or electronic transfer) representing such shares that is free from all restrictive and other legends. The Company acknowledges that the remedy at law for a breach of its obligations under this Section 2(e)(ii) will be inadequate and agrees that, in the event of a breach or threatened breach of this Section 2(e)(ii), the holder of this Note and/or the Conversion Shares, as applicable, shall be entitled, in addition to all other available remedies, to an injunctive order and/or injunction restraining any breach and requiring immediate issuance and transfer, without the necessity of showing economic loss and without any bond or other security being required.

(iii) Sale of Unlegended Shares. Holder agrees that the removal of the restrictive legend from this Note and any certificates representing securities as set forth in Section 2(e) above is predicated upon the Company’s reliance that the Holder will sell this Note or any Conversion Shares, as applicable, pursuant to either the registration requirements of the Securities Act, including any applicable prospectus delivery requirements, or an exemption therefrom, and that if such securities are sold pursuant to a Registration Statement, they will be sold in compliance with the plan of distribution set forth therein.

(f) Dividend, Subdivision, Combination or Reclassification. If the Company shall, at any time or from time to time, (A) declare a dividend on the Common Stock payable in shares of its capital stock (including Common Stock) (other than a dividend for which the Holder would be entitled to participate pursuant to Section 6 hereof), (B) subdivide the outstanding Common Stock into a larger number of shares of Common Stock, (C) combine the outstanding Common Stock into a smaller number of shares of its Common Stock, or (D) issue any shares of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then in each such case, the Conversion Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Holder of this Note upon conversion after such date shall be entitled to receive the aggregate number and kind of shares of capital stock which, if this Note had been converted immediately prior to such date, such holder would have owned upon such conversion and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Any such adjustment shall become effective immediately after the record date of such dividend or the effective date of such subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur. If a dividend on the Common Stock payable in shares of its capital stock (including Common Stock) is declared and such dividend is not paid, the Conversion Price shall again be adjusted to be the Conversion Price, in effect immediately prior to such record date (giving effect to all adjustments that otherwise would be required to be made pursuant to this Section 2 from and after such record date).

3. Rights Upon Major Transaction. In the event that a Major Transaction occurs, then the Holder, at its option, may (i) require the Company to repay all or a portion of the principal amount outstanding on the Holder's Notes plus all accrued and unpaid Interest thereon, in accordance with Section 5.3 of the Note Purchase Agreement or (ii) convert all or a portion of the principal amount outstanding in accordance with the provisions of this Section 3 (a "**Major Transaction Conversion**") and cause the Company to pay to the Holder all accrued and unpaid Interest under this Note. The Holder shall have the right to waive its rights under this Section 3 with respect to such Major Transaction.

(a) Major Transaction Conversion. In the event that a Major Transaction occurs, then (1) in the case of a transaction covered by the provisions of clause (A) of the definition of "Major Transaction" in which the shares of Common Stock of the Company are converted into the right to receive cash, securities of another entity and/or other assets (a "**Successor Major Transaction**"), the Holder, at its option, may convert, in whole or in part, the outstanding principal amount under this Note into the right to receive upon consummation of the Major Transaction, the amount of cash and other assets and the number of securities or other property of the Successor Entity or other entity that the Holder would have received had such Holder converted the Major Transaction Conversion Amount (as defined below) into Base Conversion Shares and Additional Conversion Shares (as defined below and without regard to the 9.985% Cap) immediately prior to the consummation of such Major Transaction (the "**Successor Consideration**") and (2) in the case of all other Major Transactions (a "**Company Share Major Transaction**"), the Holder shall have the right to convert, in whole or in part, and from time to time, the outstanding principal amount under this Note into Base Conversion Shares and Additional Conversion Shares ("**Major Transaction Company Shares**").

(b) Base Conversion Shares and Additional Conversion Shares. Notwithstanding anything herein to the contrary, with respect to any conversion or deemed conversion effected in connection with a Major Transaction pursuant to this Section 3, the aggregate total number of Major Transaction Company Shares into which all or any portion of the principal amount of this Note may be converted or, the aggregate number of conversion shares to be used for calculating the Successor Consideration, as applicable, shall be calculated to be the sum of (a) the number of shares of the Common Stock into which the principal amount of this Note then being converted would otherwise be converted as calculated under Section 2 hereof (such number of shares, the “**Base Conversion Shares**”), plus (b) the number of shares of Common Stock equal to the product of (x) the Additional Share Coefficient (as such term is defined and determined for each \$1,000 of principal amount of this Note on Schedule 1 attached hereto and made a part hereof) for such Major Transaction and (y) a fraction the numerator of which is the amount of the principal amount of this Note then being converted and the denominator of which is \$1,000 (such number of shares of Common Stock calculated in accordance with this clause (b)), the **Additional Conversion Shares**

(c) Notice; Major Transaction Conversion Election. At least thirty (30) days prior to the consummation of any Major Transaction (other than a transaction described in clause (C) of the definition of “Major Transaction”), but, in any event, within five (5) Business Days following the first to occur of (x) the date of the public announcement of such Major Transaction if such announcement is made before 4:00 p.m., New York City time, or (y) the day following the public announcement of such Major Transaction if such announcement is made on and after 4:00 p.m., New York City time, the Company shall deliver written notice thereof via facsimile and overnight courier to the Holder (a “**Major Transaction Notice**”). At any time during the Major Transaction Conversion Period, the Holder may elect to effect a Major Transaction Conversion by delivering written notice thereof (“**Major Transaction Conversion Notice**”) to the Company, which Major Transaction Conversion Notice shall indicate the portion of the Note (the “**Major Transaction Conversion Amount**”), calculated with reference to the principal amount outstanding that the Holder is electing to treat as a Major Transaction Conversion. For the avoidance of doubt, the Holder shall be permitted to make successive conversions and send successive Major Transaction Conversion Notices in respect of a Company Share Major Transaction from time to time at any time during the Major Transaction Conversion Period.

(d) Settlement of Major Transaction Conversion. Following the receipt of a Major Transaction Conversion Notice from the Holder, the Company shall not effect a Successor Major Transaction that is being treated as a Major Transaction Conversion unless at the time of the execution of the definitive documentation relating to such Major Transaction it obtains the written agreement of the Successor Entity that payment or issuance of the Successor Consideration, plus accrued and unpaid interest through the date of payment, shall be made to the Holder prior to consummation of such Major Transaction and such payment or issuance, as the case may be, shall be a condition precedent to consummation of such Major Transaction. Concurrently upon closing of such Successor Major Transaction, the Company shall pay or

issue, as the case may be, or shall instruct any escrow agent for the transaction to pay or issue, and will cause the Successor Entity to issue and/or pay, the applicable Successor Consideration, plus accrued and unpaid interest through the date of payment. The Major Transaction Company Shares issuable in respect of a Company Share Major Transaction shall be issued or paid, as applicable, to the Holder within three (3) Trading Days following the date of each Major Transaction Conversion Notice.

(e) Injunction. Following the receipt of a Major Transaction Conversion Notice from the Holder, in the event that the Company attempts to consummate a Successor Major Transaction without obtaining the written agreement of the Successor Entity described in subsection (d) above, the Holder shall have the right to apply for an injunction in any state or federal courts sitting in the City of New York, borough of Manhattan to prevent the closing of such Major Transaction until the Successor Consideration is satisfied to the Holder, in full.

Notwithstanding anything to the contrary contained herein and without derogating any obligations or rights herein, until the Holder receives its appropriate payment or securities, plus any accrued and unpaid interest under this Note, in accordance with the provisions of this Section 3, this Note may be converted, in whole or in part, by the Holder into Shares, or in the event that such payments and/or shares have not been delivered prior to the consummation of the Successor Major Transaction in which the Company is not the surviving parent entity, shares of common stock (or their equivalent) of the Successor Entity at an appropriate conversion price based upon the prevailing Conversion Rate (as adjusted hereunder) at the time of such Major Transaction and price per share or conversion ratio received by holders of Common Stock in the Major Transaction. The parties hereto agree that in the event of the early termination of any portion of the Note under this Section 3, the Holder's damages would be uncertain and difficult to estimate because of the parties' inability to predict future interest rates and the uncertainty of the availability of a suitable substitute investment opportunity for the Holder.

4. [RESERVED]

5. Voting Rights. Except as required by law, the Holder shall have no voting rights with respect to any of the Conversion Shares until delivery of the Conversion Notice relating to the conversion of this Note upon which such Conversion Shares are issuable.

6. Participation. The Holder, as the holder of this Note, shall be entitled to receive such dividends paid and distributions of any kind made to the holders of Common Stock of the Company to the same extent as if the Holder had converted this Note into Common Stock (without regard to any limitations on exercise herein or elsewhere and without regard to whether or not a sufficient number of shares are authorized and reserved to effect any such exercise and issuance) and had held such shares of Common Stock on the record date for such dividends and distributions. Payments under the preceding sentence shall be made concurrently with the dividend to the holders of Common Stock.

7. Amendment; Waiver. The terms and provisions of this Note shall not be amended or waived except in a writing signed by the Company and the Holder.

8. Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note, the Note Purchase Agreement, at law or in equity (including a decree of specific performance and/or other injunctive relief). No remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy, and nothing herein shall limit the Holder's right to pursue actual damages for any failure by the Company to comply with the terms of this Note. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

9. Specific Shall Not Limit General; Construction. No specific provision contained in this Note shall limit or modify any more general provision contained herein. This Note shall be deemed to be jointly drafted by the Company and all purchasers of Notes pursuant to the Note Purchase Agreement and shall not be construed against any Person as the drafter hereof.

10. Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

11. Notices. Whenever notice is required to be given under this Note, unless otherwise provided herein, such notice shall be given in accordance with Section 6.1 of the Note Purchase Agreement.

12. Restrictions on Transfer.

(a) Registration or Exemption Required. This Note has been issued in a transaction exempt from the registration requirements of the Securities Act by virtue of Regulation D. None of the Note or the Conversion Shares may be pledged, transferred, sold, assigned, hypothecated or otherwise disposed of except pursuant to an effective registration statement or an exemption to the registration requirements of the Securities Act and applicable state laws including, without limitation, a so-called "4(a)(1 1/2)" transaction.

(b) Assignment. Subject to Section 12(a), the Holder may sell, transfer, assign, pledge, hypothecate or otherwise dispose of this Note, in whole or in part, provided that (i) the Holder shall deliver three (3) days' prior written notice to the Company, substantially in the form of the Assignment attached hereto as Exhibit B, indicating the Person or

Persons to whom the Note shall be assigned and the respective principal amount of the Note to be assigned to each assignee, (ii) other than an assignment or transfer pursuant to an effective registration statement filed with the SEC covering the disposition of the Note or pursuant to Rule 144, the Holder shall deliver to the Company a legal opinion reasonably acceptable to the Company which in the case of a so called “4(a)(1 1/2)” transaction shall be substantially in the form attached hereto as Exhibit C, (iii) no assignment or transfer shall be permitted to any Restricted Transferee, and (iv) the Holder shall otherwise comply with Section 6.5 of the Note Purchase Agreement. The Company shall effect the assignment within three (3) business days (the “**Transfer Delivery Period**”), and shall deliver to the assignee(s) designated by Holder a Note or Notes of like tenor and terms for the appropriate principal amount. This Note and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Holder. The provisions of this Note are intended to be for the benefit of all Holders from time to time of this Note, and shall be enforceable by any such Holder. For avoidance of doubt, in the event Holder notifies the Company that such sale or transfer is a so called “4(a)(1 1/2)” transaction, the parties hereto agree that a legal opinion from outside counsel for the Holder delivered to counsel for the Company substantially in the form attached hereto as Exhibit C shall be the only requirement to satisfy an exemption from registration under the Securities Act to effectuate such “4(a)(1 1/2)” transaction. The 9.985% Cap shall remain in place upon assignment of this Note.

13. Payment of Collection, Enforcement and Other Costs. If (a) this Note is placed in the hands of an attorney for collection or enforcement or is collected or enforced through any legal proceeding; or (b) an attorney is retained to represent the Holder in any bankruptcy, reorganization, receivership of the Company or other proceedings affecting Company creditors’ rights and involving a claim under this Note, then the Company shall pay the costs incurred by the Holder for such collection, enforcement or action, including reasonable attorneys’ fees and disbursements.

14. Cancellation. After all Principal, Interest and other amounts at any time owed under, or on account of, this Note have been paid in full or converted into Shares in accordance with the terms hereof, this Note shall automatically be deemed cancelled, shall be surrendered to the Company for cancellation and shall not be reissued.

15. [RESERVED]

16. Waiver of Notice. To the extent permitted by law, the Company hereby waives demand, notice, presentment, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note and the Note Purchase Agreement.

17. Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to contracts made and to be performed in such State. The Company agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Note shall be commenced exclusively in the state and federal courts sitting in the City of New York. The

Company hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of New York, borough of Manhattan for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or other proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. The Company hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or other proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under the Note Purchase 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 other manner permitted by law. The Company hereby waive all rights to a trial by jury.

18. Interpretative Matters. Unless the context otherwise requires, (a) all references to Sections or Exhibits are to Sections or Exhibits contained in or attached to this Note, (b) each accounting term not otherwise defined in this Note has the meaning assigned to it in accordance with GAAP, (c) words in the singular or plural include the singular and plural and pronouns stated in either the masculine, the feminine or neuter gender shall include the masculine, feminine and neuter and (d) the use of the word “including” in this Note shall be by way of example rather than limitation. If a stock split, stock dividend, stock combination or other similar event occurs during any period over which an average price is being determined, then an appropriate adjustment will be made to such average to reflect such event.

19. Execution. A facsimile, telecopy, PDF or other reproduction of this Note may be delivered by the Company, and an executed copy of this Note may be delivered by the Company by facsimile, e-mail or other similar electronic transmission device pursuant to which the signature of or on behalf of the Company can be seen, and such execution and delivery shall be considered valid, binding and effective for all purposes. The Company hereby agrees that it shall not raise the execution of facsimile, PDF or other reproduction of this Note, or the fact that any signature was transmitted by facsimile, e-mail or other similar electronic transmission device, as a defense to the Company’s execution of this Note. Notwithstanding the foregoing, the Company shall be required to deliver an originally executed Note to the Holder.

[Signature page follows]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed as of the date first set forth above.

COMPANY:

AERIE PHARMACEUTICALS, INC.

By:
Name:
Title:

Exhibit A

CONVERSION NOTICE

Reference is made to the Senior Secured Convertible Note (the "Note") of **AERIE PHARMACEUTICALS, INC.**, a Delaware corporation (the "**Company**"), in the original principal amount of \$[]. In accordance with and pursuant to the Note, the undersigned hereby elects to convert the Conversion Amount (as defined in the Note) of the Note indicated below into Shares of Common Stock, par value \$0.001 per share (the "**Common Stock**"), of the Company, as of the date specified below.

Date of Conversion: _____

Aggregate Conversion Amount to be converted at the Conversion Price (as defined in the Note): _____

Principal, applicable thereto, to be converted: _____

Please confirm the following information:

Conversion Price: _____

Number of shares of Common Stock to be issued: _____

Please issue the Common Stock into which the Note is being converted in the following name and to the following address:

Issue to: _____

Facsimile Number: _____

Authorization: _____

By: _____

Title: _____

Dated: _____

DTC Participant Number and Name (if electronic book entry transfer): _____

Account Number (if electronic book entry transfer): _____

Exhibit B

ASSIGNMENT

(To be executed by the registered holder
desiring to transfer the Note)

FOR VALUE RECEIVED, the undersigned holder of the attached Senior Secured Convertible Note (the "**Note**") hereby sells, assigns and transfers unto the person or persons below named the right to receive the principal amount of \$ _____ from Aerie Pharmaceuticals, Inc., a Delaware corporation, evidenced by the attached Note and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Note on the books of the Company, with full power of substitution in the premises.

Dated:

Signature

Fill in for new registration of Note:

Name

Address

Please print name and address of assignee
(including zip code number)

NOTICE

The signature to the foregoing Assignment must correspond to the name as written upon the face of the attached Note in every particular, without alteration or enlargement or any change whatsoever.

Exhibit C

FORM OF OPINION

____, 20__

[_____]

Re: Aerie Pharmaceuticals, Inc. (the "Company")

Dear Sir:

[_____] ("["_____]") intends to transfer its Senior Secured Convertible Note in the principal amount of \$ _____ (the "Note") of the Company to _____ ("_____"") without registration under the Securities Act of 1933, as amended (the "Securities Act"). In connection herewith, we have examined such documents and issues of law as we have deemed relevant.

Based on and subject to the foregoing, we are of the opinion that the transfer of the Note by _____ to _____ may be effected without registration under the Securities Act, provided, however, that the Note to be transferred to contain a legend restricting its transferability pursuant to the Securities Act and that transfer of the Note is subject to a stop order.

The foregoing opinion is furnished only to _____ and may not be used, circulated, quoted or otherwise referred to or relied upon by you for any purposes other than the purpose for which furnished or by any other person for any purpose, without our prior written consent.

Very truly yours,

Schedule 1

Additional Share Coefficient

The **Additional Share Coefficient** shall mean the number of additional shares of Common Stock issuable per \$1,000 of principal amount of the Note in connection with a Major Transaction and shall be the additional share number set forth on the chart with respect to the "Share Price Result" on the "y" axis and the corresponding "Remaining Note Life" on the "x" axis; provided, however, that to the extent the actual Share Price Result (as defined below) falls between two data points on the "y" axis and/or the actual date of the Major Transaction falls between two data points on the "x" axis, the "Additional Share Coefficient" shall be determined by calculating the arithmetic mean between (i) the result obtained for the Share Price Result based on the linear interpolation between the additional share numbers corresponding to the two Share Price Result data points and (ii) the result obtained for the Remaining Note Life based on the linear interpolation between the two additional share numbers corresponding to the two Remaining Note Life data points; and provided further, however, that in the event of any adjustment to the Conversion Price pursuant to Section 2 of this Note, the numbers of additional shares of Common Stock issuable per \$1,000 of principal amount of this Note as set forth in the chart below shall be deemed adjusted pro rata with any adjustment resulting from the adjustment to the Conversion Price that would be made to the number of shares of Common Stock then convertible with respect to \$1,000 of principal amount of this Note as calculated under Section 2 of this Note. For purposes of the chart below, the "Share Price Result" shall be the greater of:

- (i) the last closing sales price per share of the Common Stock on NASDAQ, or, if that is not the principal trading market for the Common Stock, such principal market on which the Common Stock is traded or listed (the **Closing Market Price**) immediately prior to the consummation of the Major Transaction or
- (ii) in the case of a Major Transaction in which holders of Common Stock receive solely cash consideration in connection with such Major Transaction, the cash amount payable per share of Common Stock in such Major Transaction. If the actual Share Price Result is greater than \$100 per share (subject to adjustment in the same manner as the Conversion Price as provided in Section 2 of this Note), or if the actual Share Price Result is less than \$10 per share (subject to adjustment in the same manner as the Conversion Price as provided in Section 2 of this Note), then the Additional Share Coefficient shall be equal to the amount applicable to \$100 and \$10, respectively.

Additional Shares

Remaining Note Life (Yrs)

Y	7	6	5	4	3	2	1	0	X
	10.00	12.067	12.067	12.067	9.646	6.925	3.984	1.121	0
15.00	12.067	12.067	12.067	12.067	10.877	7.592	3.581	0	
20.00	12.067	12.067	12.067	12.067	12.067	10.966	6.730	0	
25.00	12.067	12.067	12.067	12.067	12.067	12.067	9.637	0	
30.00	12.067	12.067	12.067	12.067	12.067	9.478	5.963	0	
35.00	12.067	12.067	12.067	11.124	9.216	6.886	3.860	0	
40.00	12.067	11.691	10.415	8.950	7.234	5.174	2.602	0	
45.00	10.895	9.863	8.697	7.364	5.820	3.998	1.822	0	
50.00	9.411	8.459	7.388	6.171	4.777	3.163	1.323	0	
55.00	8.236	7.354	6.365	5.251	3.988	2.554	0.995	0	
60.00	7.285	6.465	5.551	4.527	3.378	2.100	0.773	0	
65.00	6.504	5.739	4.890	3.946	2.898	1.755	0.619	0	
70.00	5.853	5.137	4.346	3.473	2.514	1.488	0.509	0	
75.00	5.303	4.631	3.893	3.082	2.202	1.278	0.430	0	
80.00	4.835	4.202	3.510	2.757	1.946	1.111	0.370	0	
85.00	4.431	3.835	3.185	2.482	1.734	0.976	0.326	0	
90.00	4.081	3.517	2.906	2.248	1.556	0.865	0.291	0	
95.00	3.774	3.240	2.664	2.048	1.405	0.774	0.263	0	
100.00	3.504	2.998	2.453	1.875	1.276	0.698	0.241	0	

SECURITY AGREEMENT

among

AERIE PHARMACEUTICALS, INC.

and

**DEERFIELD PARTNERS, L.P., DEERFIELD INTERNATIONAL MASTER FUND, L.P.,
DEERFIELD PRIVATE DESIGN FUND III, L.P., DEERFIELD SPECIAL SITUATIONS FUND,
L.P. AND DEERFIELD SPECIAL SITUATIONS INTERNATIONAL MASTER FUND, L.P.
as Purchasers**

and

**DEERFIELD MANAGEMENT COMPANY, L.P.
as Agent for the Purchasers**

September 8, 2014

SECURITY AGREEMENT

THIS SECURITY AGREEMENT dated as of September 8, 2014 (this "Agreement") is entered into among AERIE PHARMACEUTICALS, INC., a Delaware corporation ("Borrower", together with any other Person that becomes a party hereto as provided herein, the "Grantors" and each, a "Grantor"), and DEERFIELD PARTNERS, L.P., DEERFIELD INTERNATIONAL MASTER FUND, L.P., DEERFIELD PRIVATE DESIGN FUND III, L.P., DEERFIELD SPECIAL SITUATIONS FUND, L.P., AND DEERFIELD SPECIAL SITUATIONS INTERNATIONAL MASTER FUND, L.P. (the "Purchasers") and DEERFIELD MANAGEMENT COMPANY, L.P., as Agent for the Purchasers ("Agent").

RECITALS

A. Purchasers have agreed to purchase the Notes from the Borrower pursuant to the Note Purchase Agreement (defined below). Borrower is affiliated with each other Grantor.

B. Borrower and the other Grantors are engaged in interrelated businesses, and each Grantor will derive substantial direct and indirect benefit from extensions of credit under the Note Purchase Agreement.

C. It is a condition precedent to Purchasers' obligation to purchase the Notes under the Note Purchase Agreement that the Grantors shall have executed and delivered this Agreement to Purchasers.

In consideration of the premises and to induce Purchasers to enter into the Note Purchase Agreement and to induce Purchasers to extend credit thereunder, each Grantor hereby agrees with Purchasers as follows:

SECTION 1 DEFINITIONS.

1.1 Unless otherwise defined herein, terms defined in the Note Purchase Agreement and used herein shall have the meanings given to them in the Note Purchase Agreement, and the following terms are used herein as defined in the UCC: Accounts, Certificated Security, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, Electronic Chattel Paper, Equipment, Farm Products, Goods, Health Care Insurance Receivables, Instruments, Inventory, Leases, Letter-of-Credit Rights, Money, Payment Intangibles, Supporting Obligations, Tangible Chattel Paper.

1.2 When used herein the following terms shall have the following meanings:

"Agreement" has the meaning set forth in the preamble of this Agreement.

"Borrower Obligations" means all Obligations of the Borrower.

"Collateral" means any and all property or other assets, now existing or hereafter acquired or created, real or personal, tangible or intangible, wherever located, and whether owned by, consigned to, or held by, or under the care, custody or control of Grantors (or any of them), including:

(a) money, cash, and cash equivalents;

(b) Accounts and all of each Grantor's rights and benefits under the Accounts, including, but not limited to, each Grantor's right to receive payment in full of the obligations owing to such Grantor thereunder, whether now or hereafter existing, together with any and all guarantees, other Supporting Obligations and/or security therefore;

(c) Deposit Accounts, other bank and deposit accounts (including any bank accounts maintained by Grantors (or any of them)), and all sums on deposit in any of them, and any items in such accounts;

(d) Investment Property;

(e) Inventory, Equipment, Fixtures, and other Goods;

(f) Chattel Paper, Documents, and Instruments;

(g) letters of credit and Letter of Credit Rights;

(h) Supporting Obligations;

(i) Commercial Tort Claims and all other Identified Claims;

(j) Books and Records pertaining to any property described in this definition of "Collateral";

(k) General Intangibles (including all Intellectual Property, Claims, Payment Intangibles, contract rights, choses in action, and Software);

(l) all of each Grantor's other interests in personal property of every kind and description, and the products, profits, rents of, dividends or distributions on, or accessions to such personal property; and

(m) all Proceeds (including insurance claims and insurance proceeds) of any of the foregoing, regardless of whether the Collateral, or any of it, is property as to which the UCC provides the perfection of a security interest, and all rights and remedies applicable to such property.

Where the context requires, terms relating to the Collateral or any part thereof, when used in relation to a Grantor, shall refer to such Grantor's Collateral or the relevant part thereof. Notwithstanding the foregoing, "Collateral" shall not include Excluded Property.

"Control Agreement" means an agreement among a Grantor, Purchasers and (i) the issuer of uncertificated securities with respect to uncertificated securities in the name of such Grantor, (ii) a securities intermediary with respect to securities, whether certificated or uncertificated, securities entitlements and other financial assets held in a securities account in the name of such Grantor, (iii) a futures commission merchant or clearing house, as applicable, with respect to commodity accounts and commodity contracts held by such Grantor, or (iv) a bank with respect to a Deposit Account (except (A) Deposit Accounts the balance of which consists exclusively (x) withheld income taxes and federal, state or local employment and sales taxes in such amounts as are required in the reasonable judgment of the Borrower to be paid to the Internal Revenue Service or state or local government agencies within the following two months with respect to employees of any of the Grantors of their subsidiaries and (y) amounts requirement to be paid over to an employee benefit plan pursuant to DOL Reg. Sec. 2510.3-102 on behalf or for the benefit of employees of one or more of the Grantors, (B) all segregated Deposit Accounts constituting (and the balance of which consists solely of funds set aside in connection with) tax accounts, payroll accounts and escrow, trust or fiduciary accounts, and (C) petty cash accounts funded in

the ordinary course of business holding balances at any time not in excess of the aggregate sum of \$200,000), whereby, among other things, the issuer, securities intermediary or futures commission merchant, or bank limits any Lien that it may have in the applicable financial assets or Deposit Account in a manner reasonably satisfactory to Purchasers, acknowledges the Lien of Purchasers on such financial assets or Deposit Account, and agrees to follow the instructions or entitlement orders of Purchasers without further consent by such Grantor.

“Dollars” and “\$” each mean lawful money of the United States of America.

“Domestic Subsidiary” means any Person organized pursuant to the laws of any state in the United States of America of which more than a majority of the equity interests are owned directly or indirectly by Borrower.

“Excluded Equity” means, equity interests which would not be required to be pledged pursuant to Section 5.2(a) of the Note Purchase Agreement.

“Excluded Property” means, collectively, (a) any permit, license or agreement entered into by any Grantor (i) to the extent that any such permit, license or agreement or any requirement of law applicable thereto prohibits the creation of a Lien thereon, but only to the extent, and for as long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the UCC or any other requirement of law, (ii) which would be abandoned, invalidated or unenforceable as a result of the creation of a Lien in favor of Purchasers or (iii) to the extent that the creation of a Lien in favor of Purchasers would result in a breach or termination pursuant to the terms of or a default under any such permit, license or agreement (other than to the extent that any such term would be rendered ineffective pursuant to the Sections 9-406, 9-407, 9-408 or 9-409 of the UCC or any other applicable law (including the Bankruptcy Code) or principles of equity), (b) property owned by any Grantor that is subject to a purchase money Lien or a capital lease permitted under the Note Purchase Agreement if the agreement pursuant to which such Lien is granted (or in the document providing for such capital lease) prohibits or requires the consent of any Person other than a Grantor and its Affiliates which has not been obtained as a condition to the creation of any other Lien on such property, (c) any “intent to use” trademark applications for which a statement of use has not been filed (but only until such statement is filed), (d) Excluded Equity, (e) motor vehicles, (f) leasehold interests in real property, (g) Commercial Tort Claims not in excess of \$200,000 individually or \$500,000 in the aggregate and (h) any property of a Grantor with respect to which the Purchasers and the Grantors shall agree that the cost of granting a security interest in such property is excessive in relation to the value of the security to be afforded thereby; provided, however, “Excluded Property” shall not include any proceeds, products, substitutions or replacements of Excluded Property (unless such proceeds, products, substitutions or replacements would otherwise constitute Excluded Property).

“Excluded Subsidiary” means any direct or indirect Subsidiary of the Borrower that is (i) a Foreign Subsidiary, (ii) a direct or indirect Domestic Subsidiary of a Foreign Subsidiary or (iii) a Subsidiary substantially all of the direct or indirect assets of which consist of equity interests in one or more Foreign Subsidiaries.

“Foreign Subsidiary” means a Subsidiary that is not a Domestic Subsidiary.

“Grantor” has the meaning set forth in the preamble of this Agreement.

“Identified Claims” means the Commercial Tort Claims described on Schedule 7 as such schedule shall be supplemented from time to time in accordance with the terms and conditions of this Agreement.

“Investment Property” means the collective reference to (a) all “investment property” as such term is defined in Section 9-102(a)(49) of the UCC, (b) all “financial assets” as such term is defined in Section 8-102(a)(9) of the UCC, and (b) whether or not constituting “investment property” as so defined, all Pledged Notes and all Pledged Equity. Notwithstanding the foregoing, “Investment Property” shall not include Excluded Equity.

“Issuers” means the collective reference to each issuer of any Investment Property.

“Lien” means any pledge, hypothecation, assignment, charge, deposit arrangement, encumbrance, easement, lien (statutory or otherwise), security interest or other security arrangement of any kind or nature whatsoever, including any conditional sale contract or other title retention agreement.

“Note Purchase Agreement” means the Note Purchase Agreement of even date herewith between Borrower and Purchasers, as amended, supplemented, restated or otherwise modified from time to time.

“Paid in Full” means (a) all Secured Obligations (other than contingent claims for indemnification or reimbursement not then asserted) have been indefeasibly repaid in full in cash and have been fully performed and (b) all commitments of Purchasers, if any, to extend credit that would constitute Borrower Obligations have been terminated or have expired.

“Pledged Equity” means the equity interests listed on Schedule 1, together with any other equity interests, certificates, options or rights of any nature whatsoever in respect of the equity interests of any Person that may be issued or granted to, or held by, any Grantor while this Agreement is in effect. Notwithstanding the foregoing, “Pledge Equity” shall not include Excluded Equity.

“Pledged Notes” means all promissory notes listed on Schedule 1, all intercompany notes at any time issued to any Grantor and all other promissory notes issued to or held by any Grantor (other than promissory notes issued in connection with extensions of trade credit by any Grantor in the ordinary course of business). Notwithstanding the foregoing, “Pledge Equity shall not include Excluded Equity.

“Proceeds” means all “proceeds” as such term is defined in Section 9-102(a)(64) of the UCC and, in any event, shall include all dividends or other income from the Investment Property, collections thereon or distributions or payments with respect thereto.

“Public Equity Securities” means equity securities of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

“Receivable” means any right to payment for goods sold or leased or for services rendered, whether or not such right is evidenced by an Instrument or Chattel Paper and whether or not it has been earned by performance (including any Accounts).

“Secured Obligations” means, collectively, the Borrower Obligations and each Grantor’s obligations hereunder.

“Securities Act” means the Securities Act of 1933, as amended.

“UCC” means the Uniform Commercial Code as the same may, from time to time, be enacted and in effect in the State of New York; provided that, to the extent that the Uniform Commercial Code is used to define any term herein or in any Note Document and such term is defined differently in different Articles or Divisions of the Uniform Commercial Code, the definition of such term contained in Article or Division 9 shall govern; provided further that, in the event that, by reason of mandatory provisions of law,

any or all of the attachment, perfection or priority of, or remedies with respect to, Purchasers' Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions.

SECTION 2 GRANT OF SECURITY INTEREST.

2.1 Grant. Each Grantor hereby assigns and transfers to Agent and Purchasers, and hereby grants to Agent and Purchasers and (to the extent provided herein) their Affiliates, a continuing security interest in all of its Collateral, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Secured Obligations. Notwithstanding the foregoing, no Lien or security interest is hereby granted on any Excluded Property.

2.2 Each Purchaser hereby appoints and authorizes Agent to enter into this Agreement and to take all actions as Agent on its behalf and to exercise such powers under the this Agreement on behalf of Purchasers, together with all such powers as are reasonably incidental thereto, for purposes of any and all matters associated with the perfection of security interests in the Collateral granted hereunder or under the other Note Documents, including, but not limited to, entering into Control Agreements on behalf of, and for the benefit of, the Purchasers. In performing its functions and duties under this Agreement, Agent shall act solely as agent of Purchasers and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for any Purchaser.

SECTION 3 REPRESENTATIONS AND WARRANTIES.

To induce Purchasers to enter into the Note Purchase Agreement and to induce Purchasers to make extensions of credit to Borrower thereunder, each Grantor jointly and severally hereby represents and warrants to Purchasers that:

3.1 Title; No Other Liens. Except for Permitted Liens, the Grantors own each item of the Collateral free and clear of any and all Liens of others. As of the Closing Date, no effective financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office, except filings evidencing Permitted Liens.

3.2 Perfected Liens. The security interests granted pursuant to this Agreement (a) in the case of all Collateral in which a security interest may be perfected by filing a financing statement under the UCC (and, with respect to Commercial Tort Claims, to the extent any Commercial Tort Claims are sufficiently identified herein), upon completion of the filings and other actions specified on Schedule 2 (which filings and other documents referred to on Schedule 2, have been delivered to Purchasers in completed form) will constitute valid perfected security interests in all of the Collateral in favor of Purchasers as collateral security for the Secured Obligations, enforceable in accordance with the terms hereof and in accordance with the terms of the Note Purchase Agreement and (b) shall be prior to all other Liens on the Collateral except for Permitted Liens having priority over Purchasers' Lien by operation of law or permitted pursuant to the Note Purchase Agreement upon (i) in the case of all pledged certificated stock, Pledged Notes, Pledged Equity and other pledged Investment Property, the delivery thereof to Purchasers of such pledged certificated stock, Pledged Notes, Pledged Equity and other pledged Investment Property consisting of instruments and certificates, in each case properly endorsed for transfer to Purchasers or in blank, (ii) in the case of all pledged Investment Property not in certificated form and Deposit Accounts, the execution of Control Agreements with respect to such Investment Property and

Deposit Accounts, (iii) in the case of all other instruments and tangible chattel paper that are not pledged certificated stock, Pledged Notes, Pledged Equity and other pledged Investment Property, the delivery thereof to Purchasers of such instruments and tangible chattel paper, (iv) in the case of Letter-of-Credit Rights, the consent of the issuer of such Letter-of-Credit Rights), (v) in the case of Intellectual Property, to the extent not subject to Article 9 of the UCC, recordation of the security interest granted hereunder in such Intellectual Property in the applicable intellectual property registries, including but not limited to, the United States Patent and Trademark Office and the United States Copyright Office, and (vi) in the case of cash, upon the Purchasers taking possession of such cash.. Except as set forth in this Section 3.2, all actions by each Grantor necessary to perfect the Lien granted hereunder on the Collateral have been duly taken. As of the date hereof, in the case of all Collateral in which a security interest may be perfected by filing a financing statement under the UCC, the filings and other actions specified on Schedule 2 constitute all of the filings and other actions necessary to perfect all security interests granted hereunder in such Collateral.

3.3 Grantor Information. On the date hereof, Schedule 3 sets forth (a) each Grantor's jurisdiction of organization, (b) the location of each Grantor's chief executive office, (c) each Grantor's exact legal name as it appears on its organizational documents and (d) each Grantor's organizational identification number (to the extent a Grantor is organized in a jurisdiction which assigns such numbers) and federal employer identification number.

3.4 Collateral Locations. On the date hereof, Schedule 4 sets forth (a) each place of business of each Grantor (including its chief executive office), (b) all locations where all Inventory and Equipment with a book value in excess of \$100,000 owned by each Grantor is kept (other than Inventory or Equipment that is otherwise in transit or out for repair, refurbishment or processing in the ordinary course of business or otherwise disposed of in a transaction permitted by the Note Purchase Agreement) and (c) whether each such Collateral location and place of business (including each Grantor's chief executive office) is owned or leased (and if leased, specifies the complete name and notice address of each lessor). On the Closing Date, no Collateral (other than Inventory or Equipment that is otherwise in transit or out for repair, refurbishment or processing in the ordinary course of business or otherwise disposed of in a transaction permitted by the Note Purchase Agreement) with a book value greater than \$100,000 is located outside the United States or in the possession of any lessor, bailee, warehouseman or consignee, except as indicated on Schedule 4.

3.5 Certain Property. None of the Collateral constitutes, or is the Proceeds of, (a) Farm Products, or (b) vessels, aircraft or any other personal property subject to any certificate of title or other registration statute of the United States, any State or other jurisdiction, except for motor vehicles owned by the Grantors and used by employees of the Grantors in the ordinary course of business with an aggregate fair market value of less than \$100,000 (in the aggregate for all Grantors).

3.6 Investment Property.

(a) The Pledged Equity pledged by each Grantor hereunder constitutes all the issued and outstanding equity interests of each Issuer owned by such Grantor.

(b) All of the Pledged Equity has been duly and validly issued and, in the case of shares of capital stock and membership interests, is fully paid and nonassessable.

(c) Each of the Pledged Notes constitutes the legal, valid and binding obligation of the obligor with respect thereto, enforceable in accordance with its terms (subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing).

3.7 As of the date hereof, Schedule 1 lists all Investment Property owned by each Grantor with a value greater than \$100,000. Each Grantor is the record and beneficial owner of, and has good and valid title to, the Investment Property pledged by it hereunder, free of any and all Liens or options in favor of, or claims of, any other Person, except Permitted Liens.

3.8 Receivables.

(a) No material amount payable to such Grantor under or in connection with any Receivable is evidenced by any Instrument or Chattel Paper which has not been delivered to Purchasers.

(b) No obligor on any Receivable is a Governmental Authority.

(c) The amounts represented by such Grantor to Purchasers from time to time as owing to such Grantor in respect of the Receivables will at all such times be accurate in all material respects.

3.9 Intellectual Property. As of the date hereof, Schedule 5 lists all Intellectual Property that is registered or is the subject of an application to register and owned by such Grantor in its own name on the date hereof. Except as set forth in Schedule 5 and except for non-exclusive licenses of software and other Intellectual Property licensed in the ordinary course of business, none of the Intellectual Property of any Grantor is the subject of any licensing or franchise agreement pursuant to which such Grantor is the licensor or franchisor.

3.10 Depository and Other Accounts. As of the date hereof, Schedule 6 lists all banks and other financial institutions at which any Grantor maintains deposit or other accounts as of the Closing Date and such Schedule 6 correctly identifies the name, address and telephone number of each depository, the name in which the account is held, a description of the purpose of the account, and the complete account number therefor.

3.11 Note Purchase Agreement. Each Grantor makes each of the representations and warranties made by Borrower in Section 3.1 of the Note Purchase Agreement to the extent applicable to it on the date such Grantor becomes a party hereto. Such representations and warranties shall be incorporated herein by this reference as if fully set forth herein.

SECTION 4 COVENANTS.

Each Grantor covenants and agrees with Purchasers that, from and after the date of this Agreement until the Secured Obligations shall have been Paid in Full:

4.1 Delivery of Instruments, Certificated Securities and Chattel Paper. In the event that an Event of Default shall have occurred and be continuing, upon the request of Purchasers, any Instrument, certificated security or Chattel Paper not theretofore delivered to Purchasers and at such time being held by any Grantor shall be promptly (and, in any event, within five (5) Business Days) delivered to Purchasers, duly indorsed in a manner satisfactory to Purchasers, to be held as Collateral pursuant to this Agreement and in the case of Electronic Chattel Paper, the applicable Grantor shall cause Purchasers to have control thereof within the meaning set forth in Section 9-105 of the UCC.

4.2 Maintenance of Perfected Security Interest; Further Documentation.

(a) Such Grantor shall maintain the security interest created by this Agreement as perfected security interests having at least the priority described in Section 3.2, and shall take all commercially reasonable actions to defend such security interest against the claims and demands of all Persons whomsoever.

(b) Such Grantor will furnish to Purchasers from time to time statements and schedules further identifying and describing the assets and property of such Grantor and such other reports in connection therewith as Purchasers may reasonably request, all in reasonable detail.

(c) At any time and from time to time, upon the written request of Purchasers, and at the sole expense of such Grantor, such Grantor will promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as Purchasers may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including (i) filing any financing or continuation statements under the UCC (or other similar laws) in effect in any jurisdiction with respect to the security interests created hereby and (ii) in the case of Investment Property and any other relevant Collateral, taking any such requested actions necessary to enable Purchasers to obtain "control" (within the meaning of the applicable UCC) with respect to such Investment Property or other Collateral to the extent required to be pledged hereunder.

4.3 Changes in Locations, Name, etc. Such Grantor shall not, except upon 10 Business Days' prior written notice to Purchasers (or such lesser notice as Purchasers may agree in their sole discretion) and delivery to Purchasers of (a) all additional financing statements and other documents reasonably requested by Purchasers as to the validity, perfection and priority of the security interests provided for herein and (b) if applicable, a written supplement to Schedule 4 showing any additional location at which Inventory or Equipment with a book value in excess of \$100,000 shall be kept (other than Inventory or Equipment that is otherwise in transit or out for repair, refurbishment or processing in the ordinary course of business or otherwise disposed of in a transaction permitted by the Note Purchase Agreement):

(i) permit any of the Inventory or Equipment with a book value greater than \$100,000 in the aggregate to be kept at a location other than those listed on Schedule 4, other than the Inventory or Equipment that is otherwise in transit or out for repair, refurbishment or processing in the ordinary course of business or otherwise disposed of in a transaction permitted by the Note Purchase Agreement;

(ii) change its jurisdiction of organization or the location of its chief executive office from that specified on Schedule 3 or in any subsequent notice delivered pursuant to this Section 4.3; or

(iii) change its name, identity or corporate structure.

4.4 Notices. Such Grantor will advise Purchasers promptly, in reasonable detail, of:

(a) any Lien (other than Permitted Liens) on any of the Collateral; and

(b) the occurrence of any other event which would reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the Liens created hereby.

4.5 Investment Property.

(a) If such Grantor shall become entitled to receive or shall receive any certificate, option or rights in respect of the equity interests of any Issuer, whether in addition to, in substitution of, as a conversion of, or in exchange for, any of the Pledged Equity, or otherwise in respect thereof, such Grantor shall accept the same as the agent of Purchasers, hold the same in trust for Purchasers and deliver the same forthwith to Purchasers in the exact form received, duly indorsed by such Grantor to Purchasers, if required, together with an undated instrument of transfer covering such certificate duly executed in blank by such Grantor and with, if Purchasers so request, signature guaranteed, to be held by Purchasers, subject to the terms hereof, as additional Collateral for the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default and at the request of the Agent or Purchasers, (i) any sums paid upon or in respect of the Investment Property upon the liquidation or dissolution of any Issuer shall be paid over to Purchasers to be held by it hereunder as additional Collateral for the Secured Obligations, and (ii) in case any distribution of capital shall be made on or in respect of the Investment Property or any property shall be distributed upon or with respect to the Investment Property pursuant to the recapitalization or reclassification of the capital of any Issuer or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected Lien in favor of Purchasers, be delivered to Purchasers to be held by them hereunder as additional Collateral for the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default and at the request of the Agent or Purchasers, if any sums of money or property so paid or distributed in respect of the Investment Property shall be received by such Grantor, such Grantor shall, until such money or property is paid or delivered to Purchasers, hold such money or property in trust for Purchasers, segregated from other funds of such Grantor, as additional Collateral for the Secured Obligations.

(b) Without the prior written consent of Purchasers, such Grantor will not (i) vote (other than with respect to Public Equity Securities in another issuer) to enable, or take any other action to permit, any Issuer to issue any equity interests of any nature or to issue any other securities or interests convertible into or granting the right to purchase or exchange for any equity interests of any nature of any Issuer, except, in each case, as permitted by the Note Purchase Agreement, (ii) sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Investment Property or Proceeds thereof (except pursuant to a transaction expressly permitted by the Note Purchase Agreement) other than, with respect to Investment Property not constituting Pledged Equity or Pledged Notes, any such action which is not prohibited by the Note Purchase Agreement, (iii) create, incur or permit to exist any Lien or option in favor of, or any claim of any Person with respect to, any of the Investment Property or Proceeds thereof, or any interest therein, except for Permitted Liens, or (iv) enter into any agreement or undertaking restricting the right or ability of such Grantor or Purchasers to sell, assign or transfer any of the Investment Property or Proceeds thereof, except, any such action which is not prohibited by the Note Purchase Agreement.

(c) In the case of each Grantor which is an Issuer, such Issuer agrees that (i) it will be bound by the terms of this Agreement relating to the Investment Property issued by it and will comply with such terms insofar as such terms are applicable to it, (ii) it will notify Purchasers promptly in writing of the occurrence of any of the events described in Section 4.5(a) of this Agreement with respect to the Investment Property issued by it and (iii) the terms of Sections 5.3(c) and 5.7 of this Agreement shall apply to such Grantor with respect to all actions that may be required of it pursuant to Section 5.3(c) or 5.7 of this Agreement regarding the Investment Property issued by it.

4.6 Receivables.

Other than in the ordinary course of business consistent with its past practice or with respect to amounts which are not material to such Grantor, such Grantor will not (i) grant any extension of the time of payment of any Receivable, (ii) compromise or settle any Receivable for less than the full amount thereof, (iii) release, wholly or partially, any Person liable for the payment of any Receivable, (iv)

allow any credit or discount whatsoever on any Receivable or (v) amend, supplement or modify any Receivable in any manner that would reasonably be expected to adversely affect the value thereof in any material respect.

4.7 Intellectual Property. Except as expressly permitted by the Note Purchase Agreement,

(a) Such Grantor (either itself or through licensees) will (i) continue to use each trademark (owned by such Grantor) material to its business, in order to maintain such material trademark in full force free from any claim of abandonment for non-use, (ii) maintain as in the past the quality of products and services offered under such trademark, (iii) use such material trademark with the appropriate notice of registration and all other notices and legends required by applicable law, (iv) not adopt or use any mark which is confusingly similar or a colorable imitation of such material trademark unless Purchasers shall obtain a perfected security interest in such mark pursuant to this Agreement and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby such material trademark becomes invalidated or impaired in any way.

(b) Such Grantor (either itself or through licensees) will not do any act, or omit to do any act, whereby any patent owned by such Grantor material to its business may become forfeited, abandoned or dedicated to the public.

(c) Such Grantor (either itself or through licensees) (i) will employ each copyright owned by such Grantor material to its business and (ii) will not (and will not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material portion of such copyrights may become invalidated or otherwise impaired, and (iii) will not (either itself or through licensees) do any act whereby any material portion of such copyrights may fall into the public domain.

(d) Such Grantor (either itself or through licensees) will not knowingly do any act that uses any Intellectual Property material to its business to infringe the intellectual property rights of any other Person.

(e) Such Grantor will notify Purchasers promptly if it knows, or has reason to know, that any application or registration relating to any material Intellectual Property may become forfeited, abandoned or dedicated to the public, or of any determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or any court or tribunal in any country) regarding, such Grantor's ownership of, or the validity of, any material Intellectual Property or such Grantor's right to register the same or to own and maintain the same would reasonably be expected to have a Material Adverse Effect.

(f) Whenever such Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency in any other country or any political subdivision thereof, such Grantor shall promptly report such filing to Purchasers. Upon the request of Purchasers, such Grantor shall execute and deliver, and have recorded, any and all agreements, instruments, documents, and papers as Purchasers may request to evidence Purchasers' security interest in any copyright, patent or trademark and the goodwill and general intangibles of such Grantor relating thereto or represented thereby.

(g) Such Grantor will take all reasonable and necessary steps to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of all material Intellectual Property owned by it.

(h) In the event that any material Intellectual Property is infringed upon or misappropriated or diluted by a third party, such Grantor shall (i) take such actions as such Grantor shall reasonably deem appropriate under the circumstances to protect such Intellectual Property and (ii) if such Intellectual Property is of material economic value, sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.

4.8 Depository and Other Deposit Accounts. No Grantor shall open any depository or other deposit accounts unless such Grantor shall have given to Purchasers 10 calendar days' prior written notice (or such lesser notice as Purchasers may agree in its sole discretion) of its intention to open any such new deposit accounts.

4.9 Other Matters.

(a) Each Grantor authorizes Purchasers to, at any time and from time to time, file financing statements, continuation statements, and amendments thereto that describe the Collateral as "all assets" of each Grantor, or words of similar effect, and which contain any other information required pursuant to the UCC for the sufficiency of filing office acceptance of any financing statement, continuation statement or amendment, and each Grantor agrees to furnish any such information to Purchasers promptly upon request. Any such financing statement, continuation statement or amendment may be signed by Purchasers on behalf of any Grantor and may be filed at any time in any jurisdiction.

(b) Each Grantor shall, at any time and from time and to time, take such steps as Purchasers may reasonably request for Purchasers to insure the continued perfection and priority of Purchasers' security interest in any of the Collateral and of the preservation of its rights therein.

(c) If any Grantor shall at any time, acquire a "commercial tort claim" (as such term is defined in the UCC) in an amount reasonably estimated to be in excess of \$200,000, such Grantor shall promptly notify Purchasers thereof in writing and supplement Schedule 7, therein providing a reasonable description and summary thereof, and upon delivery thereof to the Purchasers, such Grantor shall be deemed to thereby grant to Purchasers (and such Grantor hereby grants to Purchasers) a Lien in and to such commercial tort claim and all proceeds thereof, all upon the terms of and governed by this Agreement.

4.10 Note Purchase Agreement. Each of the Grantors covenants that it will, and, if necessary, will cause or enable Borrower to, fully comply with each of the covenants and other agreements set forth in the Note Purchase Agreement.

4.11 Insurance. Grantors shall:

(a) Keep the Collateral properly housed and insured for the full insurable value thereof against loss or damage by fire, theft, explosion, sprinklers, collision (in the case of motor vehicles) and such other risks as are customarily insured against by Persons engaged in businesses similar to that of Borrower, with such companies, in such amounts, with such deductibles, and under policies in such form, as shall be reasonably satisfactory to Purchasers. Original (or certified) copies of certificates of insurance have been or shall be, within thirty (30) days following the date of this Agreement, delivered to Purchasers, together with evidence of payment of all premiums therefor, and shall contain an

endorsement, in form and substance reasonably acceptable to Purchasers, showing loss under such insurance policies payable to Purchasers. Such endorsement, or an independent instrument furnished to Purchaser, shall provide that the insurance company shall give Purchaser at least fifteen (15) days written notice before any such policy of insurance is canceled for non-payment of premium, and that no act, whether willful or negligent, or default of Grantors or any other Person shall affect the right of Purchasers to recover under such policy of insurance in case of loss or damage. In addition, Grantors shall cause to be executed and delivered to Purchasers an assignment of proceeds of their business interruption insurance policies. After the occurrence and during the continuance of an Event of Default, Grantors hereby direct all insurers under all policies of insurance required under this Section 4.11 to pay all proceeds payable thereunder directly to Purchasers.

(b) Maintain, at their expense, such public liability and third party property damage insurance as is customary for Persons engaged in businesses similar to that of Grantors with such companies and in such amounts, with such deductibles and under policies in such form as shall be reasonably satisfactory to Purchasers and original (or certified) copies of certificates of insurance have been or shall be, within thirty (30) days after the date of this Agreement, delivered to Purchasers, together with evidence of payment of all premiums therefor; each such policy shall include an endorsement showing Purchasers as additional insured thereunder and providing that the insurance company shall give Purchasers at least fifteen (15) days written notice before any such policy shall be canceled for nonpayment of premium.

4.12 Purchasers May Purchase Insurance. If Grantors at any time or times hereafter shall fail to obtain or maintain any of the policies of insurance required above under Section 4.11 (and provide evidence thereof to Purchasers promptly following receipt of written request therefor from Purchasers) or to pay any premium relating thereto, then Purchasers, without waiving or releasing any obligation or default by Grantors hereunder, may (but shall be under no obligation to) obtain and maintain such policies of insurance and pay such premiums and take such other actions with respect thereto as Purchaser deems advisable upon notice to Grantors. Such insurance, if obtained by Purchasers, may, but need not, protect Grantors' interests or pay any claim made by or against Grantors with respect to the Collateral. Such insurance may be more expensive than the cost of insurance Grantors may be able to obtain on its own and may be cancelled only upon Grantors providing evidence that it has obtained the insurance as required above. All sums disbursed by Purchasers in connection with any such actions, shall constitute Secured Obligations payable upon demand.

Notwithstanding any disclosure obligation of Grantors or information rights of Purchasers, Grantors will not deliver to Agent or Purchaser any information that Grantors deem to be material non-public information of Grantors or information of a third party as to which Grantors owe a duty of confidentiality. Any such information that would otherwise require disclosure or notice shall be provided to such outside counsel of Agent or Purchasers, as Agent or Purchasers may designate for the purpose of evaluating such information without disclosing it to Agent or Purchasers.

SECTION 5 REMEDIAL PROVISIONS.

5.1 Certain Matters Relating to Receivables.

(a) At any time and from time to time after the occurrence and during the continuance of an Event of Default, Purchasers shall have the right to make test verifications of the Receivables in any manner and through any medium that they reasonably consider advisable, and each Grantor shall furnish all such assistance and information as Purchasers may reasonably require in

connection with such test verifications. At any time and from time to time after the occurrence and during the continuance of an Event of Default, upon Purchasers' request and at the expense of the relevant Grantor, such Grantor shall cause independent public accountants or others satisfactory to Purchaser to furnish to Purchasers reports showing reconciliations, agings and test verifications of, and trial balances for, the Receivables.

(b) Purchasers hereby authorize each Grantor to collect such Grantor's Receivables, and Purchasers may curtail or terminate such authority at any time after the occurrence and during the continuance of an Event of Default. If required by Purchasers at any time after the occurrence and during the continuance of an Event of Default, any payments of Receivables, when collected by any Grantor, (i) shall be forthwith (and, in any event, within two Business Days) deposited by such Grantor in the exact form received, duly indorsed by such Grantor to Purchasers if required and upon notice to such Grantor, in a collateral account maintained under the sole dominion and control of Purchasers, subject to withdrawal by Purchasers only as provided in Section 5.5, and (ii) until so turned over after such request by Purchasers, shall be held by such Grantor in trust for Purchasers, segregated from other funds of such Grantor. Each such deposit of Proceeds of Receivables shall be accompanied by a report identifying in reasonable detail the nature and source of the payments included in the deposit.

(c) At any time and from time to time after the occurrence and during the continuance of an Event of Default, at Purchasers' request, each Grantor shall deliver to Purchasers all original and other documents evidencing, and relating to, the agreements and transactions which gave rise to the Receivables, including all original orders, invoices and shipping receipts.

(d) Each Grantor hereby irrevocably authorizes and empowers Purchasers, in Purchasers' sole discretion, at any time after the occurrence and during the continuance of an Event of Default, following Purchasers' concurrent notice to such Grantor, to assert, either directly or on behalf of such Grantor, any claim such Grantor may from time to time have against the sellers under or with respect to any agreements assigned or collaterally assigned to Purchasers and to receive and collect any and all damages, awards and other monies resulting therefrom and to apply the same to the Secured Obligations in such order as Purchasers may determine in its discretion. After the occurrence and during the continuance of an Event of Default, each Grantor hereby irrevocably makes, constitutes and appoints Purchasers as their true and lawful attorney in fact for the purpose of enabling Purchasers to assert and collect such claims and to apply such monies in the manner set forth above, which appointment, being coupled with an interest, is irrevocable.

5.2 Communications with Obligors; Grantors Remain Liable.

(a) Purchasers in their own name or in the name of others may at any time after the occurrence and during the continuance of an Event of Default communicate with obligors under the Receivables to verify with them to Purchasers' satisfaction the existence, amount and terms of any Receivables.

(b) Upon the written request of Purchasers at any time after the occurrence and during the continuance of an Event of Default, each Grantor shall notify obligors (with the exception of Governmental Authority obligors) on the Receivables that the Receivables have been assigned to Purchasers and that payments in respect thereof shall be made directly to Purchasers.

(c) Anything herein to the contrary notwithstanding, each Grantor shall remain liable in respect of each of the Receivables to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise thereto. Purchasers shall have no obligation or liability under any Receivable (or any agreement giving

rise thereto) by reason of or arising out of this Agreement or the receipt by Purchasers of any payment relating thereto, nor shall Purchasers be obligated in any manner to perform any of the obligations of any Grantor under or pursuant to any Receivable (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by them or as to the sufficiency of any performance by any party thereunder, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to them or to which they may be entitled at any time or times.

(d) After the occurrence and during the continuance of an Event of Default, for the purpose of enabling Purchasers to exercise rights and remedies under this Agreement, each Grantor hereby grants to Purchasers an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to such Grantor) to use, license or sublicense any Intellectual Property now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof.

5.3 Investment Property.

(a) Unless an Event of Default shall have occurred and be continuing and Purchasers shall have given written notice to the relevant Grantor of Purchasers' intent to exercise their corresponding rights pursuant to Section 5.3(b), each Grantor shall be permitted to receive all cash dividends and distributions paid in respect of the Pledged Equity and all payments made in respect of the Pledged Notes, to the extent permitted in the Note Purchase Agreement, and to exercise all voting and other rights with respect to the Investment Property; provided, that no vote shall be cast or other right exercised or action taken which would reasonably be expected to materially impair the Collateral or which would be inconsistent with or result in any violation of any provision of the Note Purchase Agreement, this Agreement or any other Note Document.

(b) If an Event of Default shall occur and be continuing and Purchasers shall give notice of Purchasers' intent to exercise such rights to the relevant Grantor or Grantors, (i) Purchasers shall have the right to receive any and all cash dividends and distributions, payments or other Proceeds paid in respect of the Investment Property and make application thereof to the Secured Obligations in such order as Purchasers may determine in their discretion, (ii) Purchasers shall have the right to cause any or all of the Investment Property to be registered in the name of Purchasers or their nominee and (iii) Purchasers or their nominee may exercise (x) all voting and other rights pertaining to such Investment Property at any meeting of holders of the equity interests of the relevant Issuer or Issuers or otherwise (or by written consent) and (y) any and all rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to such Investment Property as if they were the absolute owner thereof (including the right to exchange at its discretion any and all of the Investment Property upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or other structure of any Issuer, or upon the exercise by any Grantor or Purchasers of any right, privilege or option pertaining to such Investment Property, and in connection therewith, the right to deposit and deliver any and all of the Investment Property with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as Purchasers may determine), all without liability except to account for property actually received by it, but Purchasers shall have no duty to any Grantor to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

(c) After the occurrence and during the continuance of an Event of Default, each Grantor hereby authorizes and instructs each Issuer of any Investment Property pledged by such Grantor hereunder to (i) comply with any instruction received by it from Purchasers in writing that (x) states that

an Event of Default has occurred and is continuing and (y) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from such Grantor, and each Grantor agrees that each Issuer shall be fully protected in so complying and (ii) unless otherwise expressly permitted hereby, pay any dividends, distributions or other payments with respect to the Investment Property directly to Purchasers.

5.4 Proceeds to be Turned Over to Purchasers. In addition to the rights of Purchasers specified in Section 5.1 with respect to payments of Receivables, if an Event of Default shall occur and be continuing, all Proceeds received by any Grantor consisting of cash, checks and other cash equivalent items shall be held by such Grantor in trust for Purchasers, segregated from other funds of such Grantor, and shall, upon written request of Purchasers, forthwith upon receipt by such Grantor, be turned over to Purchasers in the exact form received by such Grantor (duly indorsed by such Grantor to Purchasers, if required). All Proceeds received by Purchasers hereunder shall be held by Purchasers in a collateral account maintained under its sole dominion and control. All Proceeds, while held by Purchasers in any collateral account (or by such Grantor in trust for Purchasers) established pursuant hereto, shall continue to be held as collateral security for the Secured Obligations and shall not constitute payment thereof until applied as provided in Section 5.5.

5.5 Application of Proceeds. Purchasers may apply all or any part of Proceeds from the sale of, or other realization upon, all or any part of the Collateral in payment of the Secured Obligations in such order as Purchasers shall determine in their discretion. Any part of such funds which Purchasers elect not so to apply and deem not required as collateral security for the Secured Obligations shall be paid over from time to time by Purchasers to the applicable Grantor or to whomsoever may be lawfully entitled to receive the same. Any balance of such Proceeds remaining after the Secured Obligations shall have been Paid in Full shall be paid over to the applicable Grantor or to whomsoever may be lawfully entitled to receive the same.

5.6 Code and Other Remedies.

(a) If an Event of Default shall occur and be continuing, Purchasers may exercise, in addition to all other rights and remedies granted to them in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Secured Obligations, all rights and remedies of a secured party under the UCC or any other applicable law. Without limiting the generality of the foregoing, Purchasers, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon any Grantor or any other Person (all and each of which demands, defenses (other than defense of payment), advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of Purchasers or elsewhere upon such terms and conditions as they may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery with assumption of any credit risk. Purchasers shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in any Grantor, which right or equity is hereby waived and released. Each Grantor further agrees, at Purchasers' request, to assemble the Collateral and make it available to Purchasers at places which Purchasers shall reasonably select, whether at such Grantor's premises or elsewhere. Purchasers

shall apply the net proceeds of any action taken by them pursuant to this Section 5.6, after deducting all reasonable documented out-of-pocket costs and expenses of every kind incurred in connection therewith or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Purchasers hereunder, to the payment in whole or in part of the Secured Obligations, in such order as Purchasers may elect in their discretion, and only after such application and after the payment by Purchasers of any other amount required by any provision of law, need Purchasers account for the surplus, if any, to any Grantor. To the extent permitted by applicable law, each Grantor waives all claims, damages and demands it may acquire against Purchasers arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 calendar days before such sale or other disposition.

(b) Each Grantor recognizes that Purchasers may be unable to effect a public sale of any or all the Pledged Equity, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Each Grantor acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Purchasers shall be under no obligation to delay a sale of any of the Pledged Equity for the period of time necessary to permit the Issuer thereof to register such securities or other interests for public sale under the Securities Act, or under applicable state securities laws, even if such Issuer would agree to do so.

(c) Each Grantor agrees to use its commercially reasonable efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Equity pursuant to this Section 5.6 valid and binding and in compliance with applicable law. Each Grantor further agrees that a breach of any of the covenants contained in this Section 5.6 will cause irreparable injury to Purchasers, that Purchasers have no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 5.6 shall be specifically enforceable against such Grantor, and such Grantor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Note Purchase Agreement.

5.7 Deficiency. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Secured Obligations in full and the fees and disbursements of any attorneys employed by Purchasers to collect such deficiency.

SECTION 6 MISCELLANEOUS.

6.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 5.6 of the Note Purchase Agreement.

6.2 Notices. All notices, requests and demands to or upon Purchasers or any Grantor hereunder shall be addressed to such party and effected in the manner provided for in Section 6.1 of the Note Purchase Agreement and each Grantor hereby appoints Borrowers as its agent to receive notices hereunder.

6.3 Indemnification. The indemnification provisions of Section 6.11 of the Note Purchase Agreement are incorporated herein by reference.

6.4 Enforcement Expenses.

(a) Each Grantor agrees, on a joint and several basis, to pay or reimburse on demand Purchasers for all reasonable out-of-pocket documented costs and expenses incurred in enforcing or preserving any rights under this Agreement and the other Note Documents.

(b) Each Grantor agrees to pay, and to save Purchasers harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(c) The agreements in this Section 6.4 shall survive repayment of all (and shall be) Secured Obligations (and all commitments of Purchasers, if any, to extend credit that would constitute Borrower Obligations have been terminated or have expired), any foreclosure under, or any modification, release or discharge of, any or all of the Collateral and termination of this Agreement.

6.5 Captions. Section captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

6.6 Nature of Remedies. All Secured Obligations of each Grantor and rights of Purchasers expressed herein or in any other Note Document shall be in addition to and not in limitation of those provided by applicable law. No failure to exercise and no delay in exercising, on the part of Purchasers, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

6.7 Counterparts; Effectiveness. This Agreement and any amendments, waivers, consents or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one in the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

6.8 Severability. The invalidity, illegality or unenforceability in any jurisdiction of any provision under this Agreement or any of the other Note Documents shall not affect or impair the remaining provisions in this Agreement or any of the other Note Documents.

6.9 Entire Agreement. This Agreement and the other Note Documents to which the parties hereto are parties embody the entire agreement among the parties hereto and supersede all prior commitments, agreements, representations and understandings, whether oral or written, relating to the subject matter hereof, and may not be contradicted or varied by evidence of prior, contemporaneous, or subsequent oral agreements or discussions of the parties hereto. All Exhibits, Schedules and Annexes referred to herein are incorporated in this Agreement by reference and constitute a part of this Agreement. If any provision contained in this Agreement conflicts with any provision of the Note Purchase Agreement, then with regard to such conflicting provisions, the Note Purchase Agreement shall govern and control.

6.10 Successors; Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns except that Grantors may not assign their rights or obligations hereunder without the written consent of Purchasers and any such purported assignment without such written consent shall be void.

6.11 Applicable Law. THIS AGREEMENT AND EACH OF THE OTHER NOTE DOCUMENTS TO WHICH THE GRANTORS ARE A PARTY WHICH DOES NOT EXPRESSLY SET FORTH APPLICABLE LAW SHALL BE GOVERNED BY AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

6.12 Consent to Jurisdiction. GRANTORS HEREBY CONSENT TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN NEW YORK COUNTY, STATE OF NEW YORK AND IRREVOCABLY AGREE THAT, SUBJECT TO PURCHASERS' ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER NOTE DOCUMENTS TO WHICH THE GRANTORS ARE A PARTY SHALL BE LITIGATED IN SUCH COURTS. GRANTORS EXPRESSLY SUBMIT AND CONSENT TO THE JURISDICTION OF THE AFORESAID COURTS AND WAIVE ANY DEFENSE OF FORUM NON CONVENIENS. GRANTORS HEREBY WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS AND AGREE THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE UPON GRANTORS BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED, ADDRESSED TO GRANTORS, AT THE ADDRESS SET FORTH IN THE NOTE PURCHASE AGREEMENT AND SERVICE SO MADE SHALL BE COMPLETE TEN (10) DAYS AFTER THE SAME HAS BEEN POSTED.

6.13 Waiver of Jury Trial. GRANTORS AND PURCHASERS HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT AND THE OTHER NOTE DOCUMENTS. GRANTORS AND PURCHASERS ACKNOWLEDGE THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH HAS RELIED ON THE WAIVER IN ENTERING INTO THIS AGREEMENT AND THE OTHER TRANSACTION DOCUMENTS AND THAT EACH WILL CONTINUE TO RELY ON THE WAIVER IN THEIR RELATED FUTURE DEALINGS. GRANTORS AND PURCHASERS WARRANT AND REPRESENT THAT EACH HAS HAD THE OPPORTUNITY OF REVIEWING THIS JURY WAIVER WITH LEGAL COUNSEL, AND THAT EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS.

6.14 Set-off. Each Grantor agrees that Purchasers have all rights of set-off and bankers' lien provided by applicable law, and in addition thereto, each Grantor agrees that at any time any Event of Default exists, Purchasers may apply to the payment of any Secured Obligations in such order as Purchasers may determine in their discretion, whether or not then due, any and all balances, credits, deposits, accounts or moneys of such Grantor then or thereafter with Purchasers. Purchasers hereby agree that they shall endeavor to notify such Grantor of any such set-off or any such application, but failure to notify shall have no adverse determination or effect hereunder.

6.15 Acknowledgements. Each Grantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Note Documents to which it is a party;

(b) Neither Agent nor Purchasers have any fiduciary relationship with or duty to any Grantor arising out of or in connection with this Agreement or any of the other Note Documents, and the relationship between the Grantors, on the one hand, and Agent and Purchasers, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Note Documents or otherwise exists by virtue of the transactions contemplated hereby among the Grantors, Agent and Purchasers.

6.16 Additional Grantors. Each Person, upon its becoming a Domestic Subsidiary of a Grantor shall guaranty the Borrower Obligations pursuant to a guarantee in form and substance reasonably satisfactory to the Purchasers and grant to Agent and Purchasers a security interest in the real and personal property of such Person to secure the Borrower Obligations. Such Person shall become a party to this Agreement and become a Grantor for all purposes of this Agreement upon execution and delivery by such Person of a joinder agreement in the form of Annex I hereto.

6.17 Releases.

(a) At such time as the Secured Obligations have been Paid in Full or the conditions set forth in Section 6.15 of the Note Purchase Agreement required for the release of all Liens are satisfied, the Collateral shall be automatically released from the Liens created hereby, and this Agreement and all guarantees and obligations (other than those expressly stated to survive such termination) of Agent, Purchasers and each Grantor hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to the Collateral shall revert to the Grantors. At the request and sole expense (to the extent reasonable, documented and out-of-pocket) of any Grantor following any such termination, Agent and Purchasers shall promptly deliver to the Grantors any Collateral held by Agent or Purchasers hereunder, and execute and deliver to the Grantors such documents (including authorization to file UCC termination statements) as the Grantors shall reasonably request to evidence such termination.

(b) If any of the Collateral shall be sold, transferred or otherwise disposed of by any Grantor in a transaction permitted by the Note Purchase Agreement, then Agent and Purchasers, at the request and sole expense (to the extent reasonable, documented and out-of-pocket) of such Grantor, shall execute and deliver to such Grantor all releases or other documents reasonably necessary or desirable for the release of the Liens created hereby on such Collateral. At the request and sole expense (to the extent reasonable, documented and out-of-pocket) of Borrower, a Grantor shall be released from its obligations hereunder in the event that all the equity interests of such Grantor shall be sold, transferred or otherwise disposed of in a transaction permitted by the Note Purchase Agreement; provided that Borrower shall have delivered to Purchasers, with reasonable notice prior to the date of the proposed release, a written request for release identifying the relevant Grantor and the terms of the sale or other disposition in reasonable detail, including the price thereof and estimated expenses in connection therewith, together with a certification by Borrower stating that such transaction is in compliance with the Note Purchase Agreement and the other Note Documents. At the request and sole expense (to the extent reasonable, documented and out-of-pocket) of Borrower, a Grantor shall be released from its obligations hereunder in the event that such Grantor becomes an Excluded Subsidiary.

6.18 Obligations and Liens Absolute and Unconditional. Each Grantor understands and agrees that the obligations of each Grantor under this Agreement shall be construed as continuing, absolute and unconditional without regard to (a) the validity or enforceability of any Note Document, any of the Secured Obligations or any other collateral security therefor or guaranty or right of offset with respect thereto at any time or from time to time held by Purchasers, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by any Grantor or any other Person against Purchasers, or (c) any other circumstance

whatsoever (with or without notice to or knowledge of any Grantor) which constitutes, or might be construed to constitute, an equitable or legal discharge of any Grantor for the Secured Obligations, in bankruptcy or in any other instance. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Grantor or Guarantor, Purchasers may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against any other Grantor or any other Person or against any collateral security or guaranty for the Secured Obligations or any right of offset with respect thereto, and any failure by Purchasers to make any such demand, to pursue such other rights or remedies or to collect any payments from any other Grantor or any other Person or to realize upon any such collateral security or guaranty or to exercise any such right of offset, or any release of any other Grantor or any other Person or any such collateral security, guaranty or right of offset, shall not relieve any Grantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of Purchasers against any Grantor. For the purposes hereof “demand” shall include the commencement and continuance of any legal proceedings.

6.19 Reinstatement. In the event that any payment in respect of the Secured Obligations, or any part thereof, is rescinded, reduced, restored or returned, the Secured Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

[Signatures Immediately Follow]

IN WITNESS WHEREOF, each of the undersigned has caused this Security Agreement to be duly executed and delivered as of the date first above written.

GRANTORS:

AERIE PHARMACEUTICALS, INC.

By: /s/ Richard J. Rubino
Name: Richard J. Rubino
Title: Chief Financial Officer

PURCHASERS:

DEERFIELD PARTNERS, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

DEERFIELD INTERNATIONAL MASTER FUND, L.P.

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

DEERFIELD PRIVATE DESIGN FUND III, L.P.

By: Deerfield Mgmt III, L.P., General Partner
By: J.E. Flynn Capital III, Llc, General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

**DEERFIELD SPECIAL SITUATIONS
FUND, L.P.**

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark

Name: David J. Clark

Title: Authorized Signatory

**DEERFIELD SPECIAL SITUATIONS
INTERNATIONAL MASTER FUND, L.P.**

By: Deerfield Mgmt, L.P., General Partner
By: J.E. Flynn Capital, LLC, General Partner

By: /s/ David J. Clark

Name: David J. Clark

Title: Authorized Signatory

**DEERFIELD MANAGEMENT COMPANY,
L.P., as Agent for Purchasers**

By: Flynn Management LLC, General Partner

By: /s/ David J. Clark

Name: David J. Clark

Title: Authorized Signatory

AGENT:

SCHEDULE 1

INVESTMENT PROPERTY

A. PLEDGED EQUITY

None.

B. PLEDGED NOTES

None.

C. OTHER INVESTMENT PROPERTY

None.

SCHEDULE 2

FILINGS AND PERFECTION

See UCC Financing Statements attached.

SCHEDULE 3

GRANTOR INFORMATION

GRANTOR (exact legal name)	STATE/COUNTRY OF ORGANIZATION	FEDERAL EMPLOYER IDENTIFICATION NUMBER	CHIEF EXECUTIVE OFFICE	ORGANIZATIONAL IDENTIFICATION NUMBER
Aerie Pharmaceuticals, Inc.	Delaware	20-3109565	135 US Highway 206 Suite 15 Bedminster, NJ 07921	3989270

SCHEDULE 4

A. PLACE OF BUSINESS/LOCATIONS OF COLLATERAL

<u>Location of Property</u>	<u>Type of Property</u>	<u>Lessor Name and Address</u>
135 US Highway 206, Suite 15 Bedminster, NJ 07921	Corporate Headquarters	S/K BED ONE ASSOCIATED LLC. 520 Route 22, P.O. Box 6872 Bridgewater, NJ 08807 Aegerion Pharmaceuticals, Inc. Route 22 East, Suite 304 Bridgewater, NJ 08807
5000 Birch Street Suite 3000, West Tower Newport Beach, CA 92660	Office Space	Regus Management Group 5000 Birch Street, Suite 3000 Newport Beach, CA 92660
7020 Kit Creek Road, Suite 270 Research Triangle Park, NC 27709	Lab Space	ARE-7030 Kit Creek LLC 385 E. Colorado Boulevard Suite 299 Pasadena, CA. 91101

B. OTHER LOCATIONS OF COLLATERAL WHERE INVENTORY EXCEEDS \$100,000

None.

C. COLLATERAL IN POSSESSION OF LESSOR, BAILEE, CONSIGNEE OR WAREHOUSEMAN

None.

SCHEDULE 5

INTELLECTUAL PROPERTY

SCHEDULE 6

DEPOSITARY AND OTHER DEPOSIT ACCOUNTS

SCHEDULE 7

COMMERCIAL TORT CLAIMS

None.

ANNEX I

FORM OF JOINDER TO SECURITY AGREEMENT

This JOINDER AGREEMENT (this "Agreement") dated as of [], 20[___] is executed by the undersigned for the benefit of , as purchasers of the Notes (the "Purchasers") in connection with that certain Security Agreement dated as of , 2014 among the Grantors party thereto, Agent and Purchasers (as amended, restated, supplemented or otherwise modified from time to time, the "Security Agreement"). Capitalized terms not otherwise defined herein are being used herein as defined in the Security Agreement.

Each Person signatory hereto is required to execute this Agreement pursuant to Section 6.16 of the Security Agreement.

In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each such Person hereby agrees as follows:

1. Each such Person assumes all the obligations of a Grantor under the Security Agreement and agrees that such person or entity is a Grantor and bound as a Grantor under the terms of the Security Agreement, as if it had been an original signatory to such agreement. In furtherance of the foregoing, such Person hereby assigns, pledges and grants to Agent and Purchasers and (to the extent provided therein) its Affiliates, a security interest in all of its right, title and interest in and to the Collateral (other than Excluded Property) owned thereby to secure the Secured Obligations.

2. Schedules 1, 2, 3, 4, 5, 6 and 7 of the Security Agreement are hereby amended to add the information relating to each such Person set out on Schedules 1, 2, 3, 4, 5, 6 and 7 respectively, hereof. Each such Person hereby makes to Purchasers the representations and warranties set forth in the Security Agreement applicable to such Person and the applicable Collateral and confirms that such representations and warranties are true and correct in all material respects (without duplication of any materiality qualifier) as of the date hereof after giving effect to such amendment to such Schedules (except to the extent stated to relate to a specific earlier date).

3. In furtherance of its obligations under Section 4.2 of the Security Agreement, each such Person agrees to deliver to Purchasers appropriately complete UCC financing statements naming such person or entity as debtor and Agent and Purchasers as secured party, and describing its Collateral and such other documentation as Purchasers (or their successors or assigns) may require to evidence, protect and perfect the Liens created by the Security Agreement, as modified hereby. Each such Person acknowledges the authorizations given to Purchasers under the Section 4.9 of the Security Agreement and otherwise.

4. Each such Person's address for notices under the Security Agreement shall be the address of the Borrower set forth in the Note Purchase Agreement and each such Person hereby appoints the Company as its agent to receive notices hereunder.

5. Purchasers acknowledge that upon the effectiveness of this Agreement, the undersigned shall have the rights of a Grantor under the Security Agreement.

6. This Agreement shall be deemed to be part of, and a modification to, the Security Agreement and shall be governed by all the terms and provisions of the Security Agreement, with respect to the modifications intended to be made to such agreement, which terms are incorporated herein by reference, are ratified and confirmed and shall continue in full force and effect as valid and binding

agreements of each such person or entity enforceable against such person or entity. Each such Person hereby waives notice of Purchasers' acceptance of this Agreement. Each such Person will deliver an executed original of this Agreement to Purchasers.

[add signature block for each new Grantor]

Acknowledged and agreed to as of the year and date first written above:

PURCHASERS:

By: _____
Name: _____
Title: _____

CERTIFICATION

I, Vicente Anido, Jr., PhD, certify that:

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

Date: November 12, 2014

/s/ VICENTE ANIDO, JR., PHD

Vicente Anido, Jr., PhD
Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

CERTIFICATION

I, Richard J. Rubino, certify that:

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

Date: November 12, 2014

/s/ RICHARD J. RUBINO
Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the filing of the Quarterly Report on Form 10-Q of Aerie Pharmaceuticals, Inc., a Delaware corporation (the "Company"), for the period ended September 30, 2014 (the "Report"), the undersigned, Vicente Anido, Jr., PhD, Chief Executive Officer and Chairman of the Board of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: November 12, 2014

/s/ VICENTE ANIDO, JR., PHD
Vicente Anido, Jr., PhD
Chief Executive Officer, Chairman of the Board
(Principal Executive Officer)

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

In connection with the filing of the Quarterly Report on Form 10-Q of Aerie Pharmaceuticals, Inc., a Delaware corporation (the "Company"), for the period ended September 30, 2014 (the "Report"), the undersigned, Richard J. Rubino, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

Date: November 12, 2014

/s/ RICHARD J. RUBINO

Richard J. Rubino
Chief Financial Officer
(Principal Financial and Accounting Officer)

