SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-QSB

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2004.

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 O-8092

OXIS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-1620407**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6040 N. Cutter Circle, Suite 317, Portland, Oregon	**97217**
(Address of principal executive offices)	**(Zip Code)**

(503) 283-3911

(Registrant's telephone number, including area code)

Indicate by check mark whether the issuer (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 ☐

At October 22, 2004, the issuer had outstanding the indicated number of shares of common stock: 27,106,118.

Transitional Small Business Disclosure Format YES ☐ NO ☒

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	September 30, 2004 (unaudited)	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 786	$ 372
Accounts receivable, net of allowance of $6 and $4, respectively	370	251
Inventories	349	295
Deferred financing fees	25	—
Prepaid expenses and other current assets	120	139
Total current assets	1,650	1,057
Property, plant and equipment, net	43	42
Technology for developed products, net	—	101
Patents and patents pending, net	969	733
Other assets	—	30
Total assets	$ 2,662	$ 1,963

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

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS – CONTINUED
(In thousands of dollars)

	September 30, 2004 (unaudited)	December 31, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Note payable to shareholders	$ 1,360	$ 160
Accounts payable	536	609
Convertible bridge loans, net of debt discount	404	—
Accrued liabilities	604	220
Accrued payroll	59	104
Total current liabilities	2,963	1,093
Commitments and contingencies	—	—
Shareholders' equity (deficit):		
Convertible preferred stock - $0.01 par value; 15,000,000 shares authorized:		
Series B – 428,389 shares issued and outstanding (aggregate liquidation preference of $1,000)	4	4
Series C – 96,230 shares issued and outstanding	1	1
Common stock - $0.001 par value; 95,000,000 shares authorized; 26,970,118 and 26,427,920 shares issued and outstanding at September 30, 2004 and December 31, 2003	27	26
Stock options	121	123
Warrants	395	236
Beneficial conversion rights	411	—
Additional paid-in capital	60,496	60,365
Accumulated deficit	(61,333)	(59,494)
Accumulated other comprehensive loss	(423)	(391)
Total shareholders' equity (deficit)	(301)	870
Total liabilities and shareholder's equity (deficit)	$ 2,662	$ 1,963

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

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands of dollars, except earnings per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 (unaudited)	2003 (unaudited)	2004 (unaudited)	2003 (unaudited)
Product revenues	$ 504	$ 560	$ 1,504	$ 1,770
License revenues	450	—	450	—
Total revenue	954	560	1,954	1,770
Cost of product revenues	282	255	835	933
Gross profit	672	305	1,119	837
Operating expenses:				
Research and development	43	86	200	262
Selling, general and administrative	469	359	1,459	1,144
Foreign legal proceedings	16	—	183	—
Restructuring charges	—	—	605	—
Total operating expenses	528	445	2,447	1,406
Operating income (loss)	144	(140)	(1,328)	(569)
Other income and expenses:				
Other income	—	—	—	8
Interest income	1	—	1	1
Financing fees	(164)	—	(464)	—
Other	—	—	19	—
Interest expense	(34)	(4)	(67)	(11)
Total other income and expenses	(197)	(4)	(511)	(2)
Loss before income taxes	(53)	(144)	(1,839)	(571)
Income taxes	—	—	—	—
Net loss	(53)	(144)	(1,839)	(571)
Other comprehensive income/(loss)				
Foreign currency translation adjustment	2	(2)	(32)	23
Comprehensive loss	$ (51)	$ (146)	$ (1,871)	$ (548)
Net loss per common share – basic and diluted	$ (.00)	$ (.01)	$ (.07)	$ (.04)
Weighted average number of shares used in computation – basic and diluted	26,739,887	25,941,132	26,654,218	15,465,095

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

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)

	Nine Months Ended	
	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)
Cash flows from operating activities:		
Net loss	$ (1,839)	$ (571)
Adjustments to reconcile net loss to cash used for operating activities:		
Depreciation and amortization	129	141
Stock issued for services	47	—
Amortization of deferred financing costs	464	—
Gain on sale of investment	—	(8)
Changes in assets and liabilities:		
Accounts receivable	(119)	(77)
Inventories	(59)	(53)
Other current assets	19	(29)
Accounts payable	(73)	115
Customer deposits	—	58
Accrued payroll, payroll taxes and other	339	95
Net cash used for operating activities	(1,092)	(329)
Cash flows from investing activities:		
Proceeds from sale of investment	—	62
Purchases of equipment	(24)	(10)
Additions to other assets	(240)	(139)
Net cash provided by (used for) investing activities	(264)	(87)
Cash flows from financing activities:		
Short-term borrowings with warrants attached net of deferred financing charges	486	—
Proceeds from short-term borrowings	1,200	—
Proceeds from exercise of warrants with warrants attached	—	227
Proceeds from exercise of stock options	80	7
Net cash provided by financing activities	1,766	234
Effect of exchange rate changes on cash	4	(4)
Net increase (decrease) in cash and cash equivalents	414	(186)
Cash and cash equivalents - beginning of period	372	424
Cash and cash equivalents - end of period	$ 786	$ 238

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

OXIS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(continued)

	Nine Months Ended	
	September 30, 2004 (unaudited)	September 30, 2003 (unaudited)
Supplemental cash flow disclosures:		
Interest paid	$ —	$ —
Income taxes paid	$ —	$ —
Non-cash investing and financing:		
Issuance of common stock for services	$ 47	$ —
Debt discount on convertible bridge loans	$ 570	$ —
Conversion of preferred stock into common stock	$ —	$ 15
Expiration of warrants	$ —	$ 1,582

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

1. BASIS OF PRESENTATION

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included in Form 10-KSB for the period ended December 31, 2003. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

Operating results for the nine month period ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

2. GOING CONCERN UNCERTAINTY

These financial statements have been prepared on a going concern basis, which contemplated the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred recurring losses and at September 30, 2004, had an accumulated deficit of $61,333,000 and shareholders' deficit of $301,000. For the nine months ended September 30, 2004, the Company sustained a net loss of $1,839,000. These factors, among others, indicate that the Company may be unable to continue as a going concern for a reasonable period of time. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is contingent upon its ability to obtain additional financing, and to generate revenue and cash flow to meet its obligations on a timely basis.

3. EARNINGS PER SHARE

Basic loss per share is computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares is calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding.

Diluted loss per share is computed by dividing the net loss adjusted for interest expense on convertible debt by the weighted average number of basic shares outstanding increased by the number of shares that would be outstanding assuming conversion of the exercisable stock options of 3,926,677 shares, warrants of 2,290,000 shares, and convertible debt of 1,425,000 shares. Utilizing the treasury stock method as of September 30, 2004, these possible dilutive issuances would have resulted in 3,876,832 common stock equivalents being considered for additional dilution. In this case, diluted net loss per share is the same as basic net loss per share as the inclusion of the common stock equivalents would be antidilutive.

4. STOCK RELATED TRANSACTIONS

During the nine months ended September 30, 2004, 475,532 shares of common stock have been issued to employees and consultants upon the exercise of stock options. In addition, 33,333 shares of common stock were issued to a consultant, pursuant to the terms of a consulting agreement, for services valued at $25,000, or $0.75 per share; and an additional 33,333 shares of common stock were issued to the same consultant, pursuant to the terms of a consulting agreement, for services valued at $21,000, or $0.64 per share

5. STOCK-BASED COMPENSATION

The Company applies the intrinsic value based method described in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, in accounting for its stock options granted to employees. Accordingly, since the exercise price of all options issued under the plans has been greater than or equal to the fair market value of the stock at the date of issue of the options, no compensation cost has been recognized for options granted under the plans. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standard (“SFAS”) No. 123, “Accounting for Stock-Based Compensation” and SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure,” which was released in December 2002 as an amendment of SFAS No. 123.

The following table illustrates the effect on net loss and loss per share if the fair value based method had been applied to all awards:

	Three months ended September 30,	
	2004	2003
Net loss:		
As reported	$ (53,000)	$(144,000)
Stock based compensation determined under the fair value based method	(331,000)	(21,000)
Pro forma	$ (384,000)	$(165,000)
Net loss per share – basic and diluted:		
As reported	$ (0.00)	$ (0.01)
Pro forma	$ (0.01)	$ (0.00)

	Nine months ended September 30,	
	2004	2003
Net loss:		
As reported	$(1,839,000)	$(571,000)
Stock based compensation determined under the fair value based method	(455,000)	(309,000)
Pro forma	$(2,294,000)	$(880,000)
Net loss per share – basic and diluted:		
As reported	$ (0.07)	$ (0.04)
Pro forma	$ (0.09)	$ (0.07)

6. CONVERTIBLE BRIDGE LOANS

On January 14, 2004, the Company completed a private placement of securities, pursuant to which (i) certain bridge loan investors ("Note Holders") paid to the Company $570,000 in the aggregate, (ii) the Company issued promissory notes ("Notes") due on the first anniversary date of issuance or immediately on an acquisition, bearing 7% interest per annum, to the investors in principal amount of $570,000 in the aggregate, which promissory notes are convertible in due course into Company common stock at a rate of one share for each $0.40 of principal and interest outstanding (which equals, with respect to the principal amount of the Notes, up to 1,425,000 shares of the Company's common stock) (the "Conversion Price"), or in the Event of Default (as defined in the Notes) by the Company, into Company common stock at a rate of one share for each $0.15 of principal and interest outstanding (which equals, with respect to the principal amount of the Notes, up to 3,800,000 shares of the Company's common stock) (the "Event of Default Conversion Price"), and (iii) the Company issued warrants to the investors, exercisable for up to 712,500 shares of common stock at an exercise price of $0.50 per share. The value of the warrants and the beneficial conversion feature are recorded on the balance sheet as a debt discount and as an increase to shareholders' equity. This discount is being amortized over 12 months, the life of the debt. As of September 30, 2004, the Company's unamortized debt discount was $166,250. The Company paid finders fees and professional fees of approximately $85,000 in connection with the closing of the bridge loan financing. These fees are being amortized over 12 months, the life of the loan; $60,000 of the aforementioned fee is included in the Company's statement of operations as financing fees for the nine month period ending September 30, 2004.

7. AXONYX LOAN

On June 1, 2004, the Company secured a $1,200,000 loan from its majority shareholder, Axonyx Inc. (the "Axonyx Loan"). To evidence the Axonyx Loan, the Company issued to Axonyx a one-year secured promissory note. The Axonyx Loan bears interest of 7% per annum, payable quarterly.

The Company's indebtedness under the promissory note is due and payable on May 31, 2005. However, if the Company completes an equity or convertible debt financing approved by Axonyx, which results in net proceeds to the Company of not less than $2,000,000, the Company's indebtedness under the Axonyx Loan will become immediately due and payable. The Company's indebtedness under the Axonyx Loan will also become immediately due and payable if the Company engages in certain transactions involving a change of control, such as the sale of all or substantially all of the assets of the Company or the sale to third parties of a majority of the Company's issued and outstanding capital stock.

The Company's payment obligations under the promissory note are secured by certain intellectual property assets identified in the related Security Agreement. The Company and Axonyx each represented in the Security Agreement that they believed in good faith that the aggregate market value of such intellectual property assets did not equal or exceed 10% of the aggregate market value of the Company's assets or 10% of the aggregate market value of all of the outstanding stock of the Company.

8. LICENSE AGREEMENT

On September 28, 2004, the Company and HaptoGuard Inc. ("HaptoGuard") entered into a license agreement relating to the Company's proprietary compound BXT 51072 and related compounds. Under the agreement, HaptoGuard has exclusive worldwide rights to develop, manufacture and market BXT-51072 and related compounds from the Company's library of such antioxidant compounds. Further, HaptoGuard is responsible for worldwide product development programs with respect to licensed compounds. HaptoGuard has paid the Company an upfront license fee of $300,000, and an additional $150,000 in upfront license fees remains payable by HaptoGuard. The agreement provides that HaptoGuard must pay royalties to the Company, as well as additional fees for the achievement of development milestones in excess of $21 million if all milestones are met and regulatory approvals are granted. However, there can be no assurances that royalty payments will result or that milestone payments will be realized.

9. CHANGE OF CONTROL

During the first quarter of 2004, Axonyx Inc. ("Axonyx") acquired approximately 52.3% of the issued and outstanding shares of the Company's Common Stock (the "Acquisition"). Marvin S. Hausman, M.D., Axonyx Chairman and CEO, separately holds an additional approximately 4.4% of the Company's issued and outstanding shares of Common Stock. The Notes became immediately due and payable upon the closing of the Acquisition. Under the terms of each Note, if after the Note becomes due and payable, the Note remains unpaid for ten (10) days after the Note Holder has provided notice to the Company that there has been a failure

to pay such Note (an Event of Default under the Notes), the Note Holder has the right to convert the Note into shares of Common Stock at the Event of Default Conversion Price. As of the date of the filing of this report, none of the Notes have been converted into Company Common Stock, and the Company has not received a notice from any Note Holder notifying the Company of its failure to repay the Notes at or following the Acquisition. The Company believes there has not been an Event of Default under the Notes.

10. SEGMENT REPORTING

The Company determines and discloses its segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which uses a "management" approach for determining segments. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also requires disclosures about products or services, geographic areas, and major customers. The Company's management reporting structure provided for two segments in prior years and the first quarter of 2004 and accordingly, separate segment information was presented.

The Company currently manages its business on the basis of one reportable segment: its health and pharmaceutical products. The Company's executives use consolidated results of the Company's operations to make decisions affecting the development, manufacturing, and marketing of this business.

While the Company has historically been organized into two reportable segments (health products and therapeutic development), the Company manages its operations in one segment in order to better monitor and manage its basic business: the development and sale of research diagnostics, nutraceutical and therapeutic products.

11. INCOME TAXES

As of September 30, 2004, the Company had net deferred tax assets of approximately $11,700,000. Because of the Company's history of operating losses, management has provided a valuation allowance equal to its net deferred tax assets. For the periods ended September 30, 2003, and 2004, there were no reductions in this valuation allowance. Use of the net operating loss may be limited due to the Axonyx change of control that took place in the first quarter of 2004.

12. COMMITMENTS AND CONTINGENCIES

In 1997, the Company completed an offering of its common stock to European investors, and listed the resulting shares on the Nouveau Marché in France. The Company was notified that a Paris lower court (Tribunal de grande instance de Paris) on November 12, 2003, issued an order (the "Order") requiring the Company (i) to file its 2002 Document de Reference ("2002 Reference Document") as required under French law and the regulations of the Autorité des Marchés Financiers (the "AMF"), the French regulatory agency overseeing the Nouveau Marché, within eight days of the court's Order ("filing deadline") and (ii) if the Company has not filed with the AMF its 2002 Reference Document by the filing deadline, to pay a fine of 1,500 Euros for each day until it files its 2002 Reference Document with the AMF. Following the issuance of the Order, the Company (1) filed its 2002 Reference Document with the AMF and received

written confirmation that its 2002 Reference Document has been registered and (2) appealed the Order to the extent that it imposed fines on the Company. The Company has since dismissed its appeal of the Order, and during the first quarter of 2004 paid approximately $11,600 in settlement of any obligation to pay fines under the Order.

The AMF also engaged in a separate investigation relating to the Company's failing to file financial and other disclosure information as required under French law from 1999 through 2002 (the "Investigation"). A letter from the AMF dated April 29, 2004 requested that the Company appear at a hearing before the Disciplinary Commission of the AMF on June 17, 2004. At the hearing, the Disciplinary Commission considered a report of the AMF investigator recommending that the Disciplinary Commission impose a fine of not less than 100,000 Euros. Following the hearing, the Disciplinary Commission ordered the Company to pay a fine of 50,000 Euros (approximately $62,000) with respect to the Company's failure to file financial and other disclosure information as required under French law from 1999 through 2002. The Company does not intend to appeal this order and the fine has been accrued as of September 30, 2004; and has subsequent to the quarter ending has paid the fine. As of September 30, 2004, the Company has recorded approximately $183,000 related to the defense and settlement of this investigation, including foreign legal expenses of $121,000 and fines imposed by the AMF of $62,000. These charges are recorded as a separate line item under Operating Expenses.

13. RESTRUCTURING CHARGES

Restructuring charges related to the Axonyx change of control include legal ($196,000), management consulting ($34,000), travel ($8,000), executive search ($22,000) and severance expenses ($345,000).

14. REVENUE CONCENTRATIONS

As discussed in Note 8, the Company signed an exclusive license agreement during the third quarter of 2004, resulting in revenues of $450,000, or 23% of total revenues for the first nine months of 2004. There can be no assurances that future milestone events and payments will be realized or that the Company may be able to enter into additional future license agreements.

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

The statements contained in this Report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding the Company's expectations, objectives, anticipations, plans, hopes, beliefs, intentions or strategies regarding the future. Forward-looking statements include, without limitation, statements regarding: (i) the Company's belief that an event of default under the promissory notes issued to certain investors on January 14, 2004 has not occurred, and that, in the future, the Company will either need to repay principal under the notes or permit conversion at the applicable conversion price; (ii) the Company's belief that certain expenses, including legal expenses relating to legal proceedings involving the AMF in France and restructuring expenses relating to the Axonyx change in control, will not be recurring expenses; (iii) the Company's expectation of incurring operating losses for the foreseeable future, but that losses

and expenses could increase and fluctuate from quarter to quarter; (iv) the Company's anticipation that it will expend capital resources for the continuation of operations (marketing, product research and development, therapeutic and nutraceutical development); (v) that the Company may also use capital resources for the acquisition of complementary businesses, products or technologies; (vi) the expectation that investment in the cardiac predictor program will continue, but that increased public relations activities and legal fees will not continue; (vii) the Company does not anticipate further funding of its animal health profiling program beyond the quarter ended December 31, 2004 (viii) that research and development expenses are expected to increase if the Company obtains financing to develop potential products; (ix) the Company's belief that if it is unable to develop and maintain alliances with collaborative partners, the Company may have difficulty developing and selling the Company's products and services; and (x) that the Company's ability to realize significant revenues from new products and technologies is dependent upon its success in developing business alliances with nutraceutical/pharmaceutical and/or health related companies to develop and market these products.

All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company's actual results could differ materially from those included in such forward-looking statements**.** Factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to, the following: (1) the Company may not be able to obtain necessary financing; (2) uncertainties exist as to whether holders of promissory notes issued to certain investors on January 14, 2004 will demand immediate repayment, or conversion at a lower than expected conversion price; (3) the cost of complying with the requirements of the AMF in France and/or liability for fines in connection with such requirements may exceed expectations; (4) Axonyx Inc. holds the voting power to control essentially all matters affecting the Company, and such concentration of voting power could have the effect of delaying, deterring or preventing a change of control; (5) uncertainties exist relating to issuance, validity and ability to enforce and protect patents, other intellectual property and certain proprietary information; (6) the potential for patent-related litigation expenses and other costs resulting from claims asserted against the Company or its customers by third parties; (7) the Company's products may not meet product performance specifications; (8) new products may be unable to compete successfully in either existing or new markets; (9) availability and future costs of materials and other operating expenses; (10) weakness in the global economy and changing market conditions, together with general economic conditions affecting the Company's target industries, could cause the Company's operating results to fluctuate; (11) the risks involved in international operations and sales; and (12) disclosure controls cannot prevent all error and all fraud. See "Factors That May Affect Future Operating Results" below, as well as such other risks and uncertainties as are detailed in our SEC reports and filings for a discussion of the factors that could cause actual results to differ materially from the forward--looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements.

The following discussion should be read in conjunction with the audited consolidated financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Report on Form 10-KSB, filed with the SEC on March 26, 2004 (SEC File No. 000-08092).

Critical Accounting Policies

This summary of critical accounting policies of the Company is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Revenue Recognition

Product sales - The Company manufactures, or has manufactured on a contract basis, products that are sold to customers. The Company recognizes product sales upon shipment of the product to the customer.

Intellectual Property License Fees - The Company recognizes license fee revenue for licenses to our intellectual property when earned under the terms of the agreements. Generally, revenue is recognized upon transfer of the license unless we have continuing obligations for which fair value cannot be established, in which case the revenue is recognized over the period of the obligation. If there are extended payment terms, we recognize license fee revenue as these payments become due. The Company considers all arrangements with payment terms extending beyond twelve months not to be fixed or determinable. In certain licensing arrangements there is provision for a variable fee as well as a non-refundable minimum amount. In such arrangements, the amount of the non-refundable minimum guarantee is recognized upon transfer of the license and collectibility is reasonably assured unless we have continuing obligations for which fair value cannot be established and the amount of the variable fee in excess of the guaranteed minimum is recognized as revenue when it is fixed and determinable.

Royalties - We recognize royalty revenue based on reported sales by third party licensees of products containing our materials, software and intellectual property. If there are extended payment terms, royalty revenues are recognized as these payments become due. Non-refundable royalties, for which there are no further performance obligations, are recognized when due under the terms of the agreements.

Patents and technology for developed products

In accordance with SFAS No. 144, the Company periodically reviews net cash flows from sales of products and projections of net cash flows from sales of products on an undiscounted basis to assess recovery of intangible assets. However, uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions that could have a material effect on the reported amounts of the Company's financial position and results of operations.

Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. This reclassification has resulted in no changes to the Company's accumulated deficit or net losses presented.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 2003

Revenues

The Company's revenues for the quarters ended September 30, 2004 and 2003 were as follows:

	2004	2003
Research assays and fine chemicals	$504,000	$553,000
License revenue	450,000	—
Other	—	7,000
	$954,000	$560,000

Total revenues for the three-month period ended September 30, 2004 were $954,000, compared to $560,000 for the same period in 2003, an increase of $394,000 or 70%. This increase was due primarily to the Company entering into an exclusive license agreement resulting in the Company recognizing $450,000 in license revenue in the third quarter of 2004. The Company recognized no license revenue for the three-month period ended September 30, 2003. There can be no assurances that future milestone events and payments will be realized under the exclusive license agreement or that the Company may be able to enter into additional future license agreements.

Revenues from sales of research assays and fine chemicals for the three-month period ended September 30, 2004 was $504,000, compared to $533,000 for the same period in 2003, a decreased of $49,000, or approximately 9%. This decrease was due primarily to a decrease in the Company's sales of fine chemicals ($21,000) and a general decline in sales volume of research assay products ($29,000).

Costs and Expenses

Cost of product revenues for the three-month period ended September 30, 2004 was $282,000, or 56% of product revenues, compared to $255,000, or 46% of product revenues, for the same period of 2003. The increase in the cost of sales as a percentage of sales is due primarily to increased expenditures in the Company's animal health profiling program, which was incurred without a corresponding increase in sales.

Gross profit for the third quarter of 2004 from product revenues was $222,000, or 44% of product revenues compared to $305,000, or 54% of product revenues, in the third quarter of 2003. This decrease is due primarily increased expenditures in the Company's animal health program incurred during the third quarter of 2004, which was incurred without a corresponding increase in sales.

Research and development expenses for the three-month period ended September 30, 2004 were $43,000, or 8% of product revenues, as compared to $86,000, or 15% of product revenues, for the same period in 2003. The decrease in research and development expenses primarily resulted from the cost of a product toxicity study conducted during 2003 that was not repeated during 2004.

Selling, general and administrative expenses for the three-month period ended September 30, 2004 were $469,000, or 93% of product revenues, as compared to $359,000, or 64% of product revenues, for the same period in 2003. The increase is primarily due to higher legal expenses, continued spending in both the cardiac predictor program and the animal health profiling program, offset by the retirement of the Company's Chief Executive Officer and resignation of the Company's Chief Financial Officer (who have not been replaced by full-time employees). The Company does not anticipate further funding of its animal health profiling program beyond the quarter ended December 31, 2004.

Foreign legal proceedings for the three-month period ended September 30, 2004 are related to the AMF proceedings including legal expenses of $16,000 as described in Note 12 to the financial statements contained herein. Such expenses are not expected to be recurring expenses.

Financing Fees

The Company paid finders' fees and professional fees of approximately $85,000 in connection with the closing of a $570,000 convertible bridge loan financing in January 2004. These fees are being amortized over the life of the loan. Total amortization of the debt discount on the convertible bridge loans and the related fees were $164,000 for the quarter ended September 30, 2004 and will continue to be amortized through the end of 2004.

Net Loss

The Company continued to experience losses in the third quarter of 2004. The third quarter 2004 net loss of $53,000 ($0.00 per share-basic and diluted) was $91,000 (63%) less than the $144,000 ($0.01 per share-basic and diluted) net loss for the third quarter of 2003. The decrease in the net loss is primarily due to the Company's income from entering into an exclusive licensing agreement for one of its therapeutic compounds. The Company recognized an upfront license fee of $450,000 during the third quarter as discussed in Note 8 to the financial statements, License Agreement. Through the date of this filing the Company has received $300,000 of the license fee; and the balance of $150,000 is due during the fourth quarter of 2004.

The Company expects to continue to incur net losses for the foreseeable future. If the Company develops substantial new revenue sources or if additional capital is raised through further sales of securities, the Company plans to continue to invest in research and development activities and incur sales, general and administrative expenses in amounts greater than its anticipated near-term profit margins. If the Company is unable to raise sufficient additional capital or to develop new revenue sources, it will have to cease, or severely curtail, its operations. In this event, while expenses will be reduced, expense levels, and the potential write down of various assets, would still be in amounts greater than anticipated revenues.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 2003

Revenues

The Company's revenues for the nine-month periods ended September 30, 2004 and 2003 were as follows:

	2004	2003
Research assays and fine chemicals	$1,504,000	$1,517,000
License revenues	450,000	—
Bovine superoxide dismutase (bSOD) for research and human use	—	242,000
Other	—	11,000
	$1,954,000	$1,770,000

Total revenues for the nine-month period ended September 30, 2004 were $1,954,000, compared to $1,770,000 for the same period in 2003, an increase of $184,000 or 10%. This increase was due primarily to the Company entering into an exclusive license agreement, resulting in the Company recognizing $450,000 in license revenue in the third quarter of 2004. The Company recognized no license revenue for the nine-month period ended September 30, 2003. There can be no assurances that future milestone events and payments will be realized under the exclusive license agreement or that the Company may be able to enter into additional future license agreements.

Sales of research assays and fine chemicals for the nine-month period ended September 30, 2004 were $1,504,000, compared to $1,517,000 for the same period in 2003, a decrease of $13,000, or approximately 1%. Sales volumes of research assays increased from $1,269,000 in the first nine months of 2003 to $1,418,000 in the first nine months of 2004, a 12% increase. This increase was offset by a decrease in the sales of fine chemicals from $248,000 for the nine-month period ended September 30, 2003 to $86,000 during the same period in 2004, a 65% decrease. This decrease is due primarily to the Company's decision not to sell bulk fine chemicals for reformulation from 2004 forward.

Sales of bSOD in the first nine months of 2003 consisted of one shipment of bulk bSOD to the Company's Spanish licensee. There were no bSOD sales during the first nine months of 2004 and there is no forecast for future sales of bulk bSOD.

Costs and Expenses

Cost of product revenues for the nine-month period ended September 30, 2004 was $835,000, or 56% of product revenues, compared to $933,000, or 53% of product revenues, for the same period in 2003. The increase in the cost of product sales as a percentage of sales for 2004 results primarily from increased expenditures in the Company's animal health profiling program incurred during 2004, which was incurred without a corresponding increase in sales.

Cost of revenue of research assays for the first nine months of 2004 was $765,000 (51%) compared to $660,000 (44%) during the first nine months of 2003 due to changes in the product mix of the Company's sales. There was also a decrease in the cost of revenues as a percentage of sales due to the absence of bSOD sales during the first nine months of 2004 (which during the first nine months of 2003 resulted in 80% cost of revenues).

Gross profit for the first nine months of 2004 from product revenues was $669,000, or 44% of product revenues, compared to $837,000, or 47% of product revenues during the same period of 2003. The decrease in gross profit as a percentage of product sales for 2004 results primarily from increased expenditures in the Company's animal health profiling program incurred during 2004, which was incurred without a corresponding increase in product sales.

Research and development expenses for the nine-month period ended September 30, 2004 were $200,000 compared to $262,000 for the same period in 2003. Research and development expense as a percentage of product revenues were 13% for the nine-month period ended September 30, 2004 compared to 15% in the same period of 2003. These decreases resulted primarily from the cost of a product toxicity study conducted during 2003 that was not repeated during 2004.

Selling, general and administrative expenses were $1,459,000, or 97% of product revenues, in the first nine months of 2004 compared to $1,144,000, or 65% of revenues, in the first nine months of 2003. The increase of $179,000 is primarily due to the increased spending in the cardiac predictor program and the animal health profiling program partially offset by the retirement of the Company's Chief Executive Officer and resignation of the Company's Chief Financial Officer. The Company does not anticipate further funding of its animal health profiling program beyond the quarter ended December 31, 2004. The increase in selling, general and administrative expenses as a percentage of revenue is a result of the decline in revenues from 2003 to 2004 and the increase in administrative costs in 2004 as compared to 2003.

Foreign legal proceedings during the first nine months of 2004 of $183,000 are related to the AMF proceedings including legal expenses of $121,000 and fines imposed by the AMF of $62,000 as described above in Note 12 to the financial statements contained herein which are not expected to be recurring expenses.

Restructuring charges during the first nine months of 2004 of $605,000 are related to the Axonyx change of control including legal ($196,000), management consulting ($34,000), travel ($8,000), executive search ($22,000) and severance expenses ($345,000) which are not expected to be recurring expenses.

Financing Fees

The Company paid the finders' fees and professional fees of approximately $85,000 in connection with the closing of a $570,000 convertible bridge loan financing on January 14, 2004. These fees are being amortized over the life of the loan. Total amortization of the debt discount on the convertible bridge loans and the related fees were approximately $464,000 for the nine months ended September 30, 2004 and will continue to be amortized through the end of 2004.

Other Income

During the first quarter of 2003, the Company sold its equity interest in Caprius Inc., resulting in other income of $8,000.

Net Loss

The Company continued to experience losses for the nine-month period ended September 30, 2004. The net loss of $1,839,000 ($.07 per share-basic and diluted) for the nine-month period ended September 30, 2004 was $1,268,000 more than the $571,000 ($.04 per share-basic and diluted) net loss for the same period in 2003. The increase in the net loss is primarily due to restructuring charges of $726,000 incurred in the first nine months of 2004 partially offset by an increase in license revenues during 2004 of $450,000.

The Company expects to continue to incur net losses for the foreseeable future. If the Company develops substantial new revenue sources or if additional capital is raised through further sales of securities, the Company plans to continue to invest in research and development activities and incur sales, general and administrative expenses in amounts greater than its anticipated near-term profit margins. If the Company is unable to raise sufficient additional capital or to develop new revenue sources, it will have to cease, or severely curtail, its operations. In this event, while expenses will be reduced, expense levels, and the potential write down of various assets, would still be in amounts greater than anticipated revenues.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital deficit increased during the first nine months of 2004 by $1,344,000, from a deficit of $36,000 at December 31, 2003, to a deficit of $1,308,000 at September 30, 2004. The decrease in working capital resulted primarily from the net loss of $1,839,000 offset by the influx of capital from loans and a licensing agreement in the amount of $2,070,000.

Cash and cash equivalents increased from $372,000 at December 31, 2003, to $786,000 at September 30, 2004. This increase of $414,000 is a result of cash received of $1,770,000 in loans and $300,000 in payments under a license agreement received by the Company in the third quarter of this year, offset by cash operating losses.

As discussed in Note 6 to the Financial Statements, the Notes issued by the Company in January 2004 became immediately due and payable upon the closing of the Acquisition. As of the date of the filing of this report, the Company has not received a notice from any Note Holder notifying the Company of its failure to repay the Notes at or following the Acquisition. Accordingly, the Company believes there has not been an Event of Default under the Notes. However, upon receipt of such a notice, the Company will either need to repay all or a portion of the $570,000 principal under the Note(s), plus accrued interest, or permit conversion at the applicable Conversion Price.

The Company expects to incur operating losses for the foreseeable future. These losses and expenses may increase and fluctuate from quarter to quarter. There can be no assurance that

the Company will ever achieve profitable operations. The report of the Company's independent auditors on the Company's financial statements for the period ended December 31, 2003, includes an explanatory paragraph referring to the Company's ability to continue as a going concern. The Company anticipates that it will expend capital resources for the continuation of operations (marketing, product research and development, therapeutic and nutraceutical development). Capital resources may also be used for the acquisition of complementary businesses, products or technologies. The Company's future capital requirements, and the urgency of securing additional financing, will depend on many factors including: continued marketing and scientific progress in the Company's research and development programs; the magnitude of such programs; the success of pre-clinical and potential clinical trials; the costs associated with the scale-up of manufacturing; the time and costs required for regulatory approvals; the time and costs involved in filing, prosecuting, enforcing and defending patent claims; the cost of complying with the requirements of the AMF in France and/or liability for fines in connection with such requirements; technological competition and market developments; the establishment of and changes in collaborative relationships and the cost of commercialization activities and arrangements; and the cost of repaying all or a portion of the principal and interest payable under the Notes and Axonyx Loan.

The Company has incurred losses in each of the last six years. As of September 30, 2004, the Company has an accumulated deficit of $61,333,000. The Company expects to incur operating losses for the foreseeable future. The Company needs to raise additional capital in the very near future for continuing operations and to complete the Company's contemplated research and development programs and no assurances can be given that the Company will be able to raise such capital on terms favorable to the Company or at all. The unavailability of additional capital could cause the Company to cease or curtail its operations and/or delay or prevent the development and marketing of the Company's existing and potential products.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

The Company operates in a rapidly changing environment that involves a number of risks, some of which are beyond its control. The following discussion highlights some of these risks and others are discussed elsewhere in this report or in the Company's Annual Report on Form 10-KSB for the period ended December 31, 2003.

Need for Additional Financing.

As of September 30, 2004, the Company had an accumulated deficit of approximately $61,333,000. The Company currently does not have sufficient capital resources to complete the Company's contemplated development and commercialization programs and no assurances can be given that the Company will be able to raise such capital on terms favorable to the Company, or at all. The unavailability of additional capital could cause the Company to cease or curtail its operations and/or delay or prevent the development and marketing of the Company's potential products. A financing shortfall could also result in the Company failing to repay the Axonyx Loan and/or one or more of the Notes after the applicable Note Holder(s) provide notice to the Company of its failure to repay amounts currently due and payable under the Notes. In addition, the Company may choose to abandon certain issued United States and international patents that it deems to be of lesser importance to the strategic direction of the Company, in an effort to

preserve its financial resources. In this regard, the report of the Company's independent auditors on the Company's financial statements for the period ended December 31, 2003 includes an explanatory paragraph raising doubts about the Company's ability to continue as a going concern.

The Company's future capital requirements will depend on many factors including the following:

- continued scientific progress in the Company's research and development programs and the commercialization of additional products;
- the cost of our research and development and commercialization activities and arrangements, including sales and marketing;
- the costs associated with the scale-up of manufacturing;
- the success of pre-clinical and clinical trials;
- the establishment of and changes in collaborative relationships;
- the time and costs involved in filing, prosecuting, enforcing and defending patent claims;
- the time and costs required for regulatory approvals;
- technological competition and market developments;
- the cost of complying with the requirements of the AMF in France and/or liability for fines in connection with such requirements; and
- the potential cost of repaying all or a portion of the principal and interest currently due and payable under the Notes and the Axonyx Loans.

The Company's future profitability is uncertain.

Although the Company has been able to reduce its operating losses in recent years, the Company cannot predict its ability to continue cost reductions or achieve profitability with its limited capital resources. The Company research and development expenses are expected to increase if the Company obtains financing to develop potential products. As evidenced by the substantial increases in net losses for the first nine months of 2004, losses and expenses may increase and fluctuate from quarter to quarter. There can be no assurance that the Company will ever achieve profitable operations.

If the Company fails to attract and retain key personnel, its business could suffer.

The Company's future depends, in part, on its ability to attract and retain key personnel. The Company may not be able to hire and retain such personnel at compensation levels consistent with its existing compensation and salary structure. The Company's Chief Executive

Officer recently retired and ceased his service as an officer and director of the Company. Further, the Company's Chief Financial Officer left the employment of the Company during the third quarter of 2004. The Company cannot predict whether it will be successful in finding suitable new candidates for the positions of Chief Executive Officer and Chief Financial Officer, or that any new officers filling such roles within the Company will be successful. The loss of services of these or other executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on our business.

Axonyx holds the voting power to control essentially all matters affecting the Company.

Axonyx owns a majority of the Company's outstanding common stock and as the Company's majority shareholder is able to elect the Company's entire Board of Directors. Through the Board of Directors, Axonyx may influence the Company's business direction and policies, appoint or remove the Company's officers, and, thus, control all material decisions affecting the Company. In addition, such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to the Company's shareholders. In particular, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation from engaging in any business combination with any interested shareholder for a period of three years unless the transaction meets certain conditions. Section 203 also limits the extent to which an interested shareholder can receive benefits from the Company's assets. These provisions could complicate or prohibit certain financing of the Company by Axonyx, or limit the price that other investors might be willing to pay in the future for shares of the Company's common stock.

The Company may experience disruption or may fail to achieve any benefits in connection with the recent changes in executive management and in Board membership.

During the second quarter of 2004, the Company's Chief Executive Officer retired, and during the third quarter of 2004 the Company's Chief Operating and Financial Officer left the employment of the Company. As a result, others who have limited experience with the Company have been appointed to serve as acting Chief Executive Officer, acting Chief Operating Officer and acting Chief Financial Officer, until permanent replacements are appointed. In addition, five out of six directors currently serving on the Board commenced their service on the Board during 2004. There can be no assurances that these changes will not cause a disruption in, or otherwise adversely affect, the Company's business and results of operations.

If the Company is unable to develop and maintain alliances with collaborative partners, the Company may have difficulty developing and selling the Company's products and services.

The Company's ability to realize significant revenues from new products and technologies is dependent upon, among other things, the Company's success in developing business alliances and licensing arrangements with nutraceutical/pharmaceutical and/or health related companies to develop and market these products. To date, the Company has had limited success in establishing such business alliances and licensing arrangements and there can be no assurance that the Company's effort to develop such business relationships will be successful. Further, relying on these or other alliances is risky to the Company's future success because:

- the Company's partners may develop products or technologies competitive with the Company's products and technologies;

- the Company's partners may not devote sufficient resources to the development and sale of the Company's products and technologies;
- the Company's collaborations may be unsuccessful; or
- the Company may not be able to negotiate future alliances on acceptable terms.

The Company's revenues and quarterly results have fluctuated historically and may continue to fluctuate, which could cause its stock price to decrease.

The Company's revenues and operating results may fluctuate due in part to factors that are beyond its control and which it cannot predict. Material shortfalls in revenues will materially adversely affect the Company's results and may cause it to experience losses. In particular, the Company's revenue growth and profitability depend on sales of its research assays and fine chemicals. Factors that could cause sales for these products and other products to fluctuate include:

- an inability to produce products in sufficient quantities and with appropriate quality;
- the loss of or reduction in orders from key customers;
- variable or decreased demand from the Company's customers;
- the Company's customers' inventory of research assays and fine chemicals;
- the receipt of relatively large orders with short lead times; and
- the Company's customers' expectations as to how long it takes the Company to fill future orders.

Some additional factors that could cause the Company's operating results to fluctuate include:

- weakness in the global economy and changing market conditions; and
- general economic conditions affecting the Company's target industries.

Each of these factors has impacted, and may in the future impact, the demand for the Company's products and its quarterly operating results.

The Company's stock price is highly volatile, and you may not be able to sell your shares of its common stock at a price greater than or equal to the price you paid for such shares.

The market price of the Company's common stock is extremely volatile. To demonstrate the volatility of its stock price, during the twelve-month period ending on September 30, 2004, the volume of the Company's common stock traded on any given day has ranged from 0 to 779,900 shares. Moreover, during that period, its common stock has traded as low as $0.08 per share and as high as $0.90 per share, a 1,125% difference. This may impact your decision to buy or sell the Company's common stock. Factors affecting the Company's stock price include:

- the Company's financial results;

- fluctuations in the Company's operating results;
- announcements of technological innovations or new commercial health care products or therapeutic products by the Company or its competitors;
- government regulation;
- developments in patent or other proprietary rights;
- developments in the Company's relationship with customers; and
- general market conditions.

Furthermore, volatility in the stock price of other companies has often led to securities class action litigation against those companies. Any such securities litigation against the Company could result in substantial costs and divert management's attention and resources, which could seriously harm the Company's business and financial condition.

Changes in Accounting Standards Regarding Stock Option Plans Could Increase the Company's Reported Losses, Cause the Company's Stock Price to Decline and Limit the Desirability of Granting Stock Options.

If proposed accounting regulations that require companies to expense stock options are adopted, the Company's losses may increase and our stock price may decline. A number of publicly-traded companies have recently announced that they will begin expensing stock option grants to employees. In addition, the Financial Accounting Standards Board has issued proposed regulations that would eliminate the ability to account for share-based compensation transactions using the intrinsic method that the Company currently uses and generally would require that such transactions be accounted for using a fair-value-based method and recognized as an expense in the Company's consolidated statement of operations. As proposed, the Company would be required to expense stock options granted after June 15, 2005. Currently, the Company generally only discloses such expenses on a pro forma basis in the notes to its annual consolidated financial statements in accordance with accounting principles generally accepted in the United States. It is expected that the final standard will be issued before December 31, 2004 and should it be finalized in its current form, it will have a significant impact as the Company's reported losses will increase. The Company's stock price could decline in response to the perceived increase in the Company's reported losses. In addition, stock options are an important employee recruitment and retention tool, and the Company may not be able to attract and retain key personnel if it reduces the scope of its employee stock option program.

The Company depends on a single supplier for its bSOD product and the Company does not expect to be able to maintain sales of its bSOD product due to the lack of availability of raw material. Future availability or a new formulation of this raw material is unknown at this time.

The Company depends on a single supplier to provide bSOD in required volumes, and at appropriate quality and reliability levels. The availability of raw material required is now compromised and the Company is unable to get manufacturing equipment, produce bSOD, or develop an alternative supplier in a timely fashion or in sufficient quantities or under acceptable terms. Accordingly, the Company does not expect future sales of bSOD.

The Company's success will require that it establish a strong intellectual property position and that it can defend itself against intellectual property claims from others.

Maintaining a strong patent position is important to the Company's competitive advantage. Litigation on these matters has been prevalent in the Company's industry and the Company expects that this will continue. Patent law relating to the scope of claims in the technology fields in which the Company operates is still evolving and the extent of future protection is highly uncertain, so there can be no assurance that the patent rights that the Company has or may obtain will be valuable. Others may have filed, or may in the future file, patent applications that are similar or identical to the Company's. To determine the priority of inventions, the Company may have to participate in interference proceedings declared by the United States Patent and Trademark Office that could result in substantial costs in legal fees and could substantially affect the scope of the Company's patent protection. The Company cannot assure investors that any such patent applications will not have priority over the Company's patent applications. Further, the Company may choose to abandon certain issued United States and international patents that it deems to be of lesser importance to the strategic direction of the Company, in an effort to preserve its financial resources. Abandonment of patents could substantially affect the scope of the Company's patent protection. In addition, the Company may in future periods incur substantial costs in litigation to defend against patent suits brought by third parties or if the Company initiates such suits.

In addition to patent protection, the Company also relies upon trade secret protection for its confidential and proprietary information. There can be no assurance, however, that such measures will provide adequate protection for its trade secrets or other proprietary information. In addition, there can be no assurance that trade secrets and other proprietary information will not be disclosed, that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to or disclose the Company's trade secrets and other proprietary information. If the Company cannot obtain, maintain or enforce intellectual property rights, competitors can design and commercialize competing technologies.

The Company may face challenges from third parties regarding the validity of its patents and proprietary rights, or from third parties asserting that the Company is infringing their patents or proprietary rights, which could result in litigation that would be costly to defend and could deprive the Company of valuable rights.

Extensive litigation regarding patents and other intellectual property rights has been common in the biotechnology and pharmaceutical industries. The defense and prosecution of intellectual property suits, United States Patent and Trademark Office interference proceedings, and related legal and administrative proceedings in the United States and internationally involve complex legal and factual questions. As a result, such proceedings are costly and time-consuming to pursue and their outcome is uncertain. Litigation may be necessary to:

- enforce patents that the Company own or license;

- protect trade secrets or know-how that the Company own or license; or
- determine the enforceability, scope and validity of the proprietary rights of others.

The Company's involvement in any litigation, interference or other administrative proceedings could cause it to incur substantial expense and could significantly divert the efforts of its technical and management personnel. An adverse determination may subject the Company to loss of its proprietary position or to significant liabilities, or require it to seek licenses that may not be available from third parties. An adverse determination in a judicial or administrative proceeding, or a failure to obtain necessary licenses, may restrict or prevent the Company from manufacturing and selling its products. Costs associated with these arrangements may be substantial and may include ongoing royalties. Furthermore, the Company may not be able to obtain the necessary licenses on satisfactory terms, if at all. These outcomes could materially harm the Company's business, financial condition and results of operations.

The Company may be exposed to liability due to product defects.

The risk of product liability claims is inherent in the testing, manufacturing, marketing and sale of the Company's products. The Company may seek to acquire additional insurance for liability risks. The Company may not be able to obtain such insurance or general product liability insurance on acceptable terms or in sufficient amounts. A product liability claim or recall could have a serious adverse effect on the Company's business, financial condition and results of operations.

Disclosure controls are no assurance that the objectives of the control system are met.

The Company's management, including the principal executive officer and principal financial officer, does not expect that our disclosure controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, could have been detected and/or prevented.

Item 3. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2004, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal control over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In 1997, the Company completed an offering of its common stock to European investors, and listed the resulting shares on the Nouveau Marché in France. The Company was notified that a Paris lower court (Tribunal de grande instance de Paris) on November 12, 2003, issued an order (the "Order") requiring the Company (i) to file its 2002 Document de Reference ("2002 Reference Document") as required under French law and the regulations of the Autorité des Marchés Financiers (the "AMF"), the French regulatory agency overseeing the Nouveau Marché, within eight days of the court's Order ("filing deadline") and (ii) if the Company has not filed with the AMF its 2002 Reference Document by the filing deadline, to pay a fine of 1,500 Euros for each day until it files its 2002 Reference Document with the AMF. Following the issuance of the Order, the Company (1) filed its 2002 Reference Document with the AMF and received written confirmation that its 2002 Reference Document has been registered and (2) appealed the Order to the extent that it imposed fines on the Company. The Company has since dismissed its appeal of the Order, and during the first quarter of 2004 paid approximately $11,600 in settlement of any obligation to pay fines under the Order.

The AMF also engaged in a separate investigation relating to the Company's failing to file financial and other disclosure information as required under French law from 1999 through 2002 (the "Investigation"). A letter from the AMF dated April 29, 2004 requested that the Company appear at a hearing before the Disciplinary Commission of the AMF on June 17, 2004. At the hearing, the Disciplinary Commission considered a report of the AMF investigator recommending that the Disciplinary Commission impose a fine of not less than 100,000 Euros. Following the hearing, the Disciplinary Commission ordered the Company to pay a fine of 50,000 Euros (approximately $62,000) with respect to the Company's failure to file financial and other disclosure information as required under French law from 1999 through 2002. The Company does not intend to appeal this order and the fine has been accrued as of September 30, 2004; and has subsequent to the quarter ending has paid the fine. As of September 30, 2004, the Company has recorded approximately $183,000 related to the defense and settlement of this investigation, including foreign legal expenses of $121,000 and fines imposed by the AMF of $62,000. These charges are recorded as a separate line time under Operating Expenses.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Securities Holders.

None.

Item 5. Other Information.

License Agreement

On September 28, 2004, the Company and HaptoGuard entered into a license agreement relating to the Company's proprietary compound BXT 51072 and related compounds. Under the agreement, HaptoGuard has exclusive worldwide rights to develop, manufacture and market BXT-51072 and related compounds from the Company's library of such antioxidant compounds. Further, HaptoGuard is responsible for worldwide product development programs with respect to licensed compounds. HaptoGuard has paid the Company an upfront license fee of $300,000, and an additional $150,000 in upfront license fees remains payable by HaptoGuard. The agreement provides that HaptoGuard must pay royalties to the Company, as well as additional fees for the achievement of development milestones in excess of $21 million if all milestones are met and regulatory approvals are granted. However, there can be no assurances that royalty payments will result or that milestone payments will be realized.

Changes in Membership of Board of Directors / Changes in Officers

Ms. Sharon Ellis has terminated all positions as an employee and officer of the Company and its subsidiaries. Her resignation as Chief Operating Officer was effective June 22, 2004 and her resignation as Chief Financial Officer was effective on August 6, 2004. Dr. Bruinsma has assumed the role of acting Chief Financial Officer until a permanent Chief Financial Officer is hired. Manus O'Donnell has assumed the role of acting Chief Operating Officer of the Company, and will assist Dr. Bruinsma as a special advisor to the Board of Directors. Mr. O'Donnell is located at OXIS' Portland headquarters.

The Company received the resignation of Richard A. Davis from the Board of Directors and all committees of the Board of Directors, effective August 1, 2004. At the time of such resignation, Mr. Davis served as Chairman of the Audit Committee of the Board and the Compensation Committee of the Board.

On August 20, 2004, the Company's Board of Directors appointed Dr. Marvin S. Hausman to serve as a member of the Board. In accordance with the Company's bylaws, the Board of Directors previously fixed the authorized number of directors at seven (7), such that one (1) vacancy now exists on the Board of Directors.

Item 6. Exhibits

See Exhibit Index on page 31.

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.

OXIS International, Inc.

November 12, 2004

By /s/ Gosse B. Bruinsma

Gosse B. Bruinsma
Acting Chief Executive Officer
Principal Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Document
10.n	Form of License Agreement between OXIS International, Inc. and Haptoguard Inc.
31.a	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.b	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.a	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.b	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.a	Standard form of Option Agreement under OXIS International, Inc. 2003 Stock Incentive Plan

EXHIBIT 10.n

CERTAIN INFORMATION IN THIS EXHIBIT IS SUBJECT TO A REQUEST FOR CONFIDENTIAL TREATMENT. IN ACCORDANCE WITH RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, SUCH INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION. THE LOCATION OF SUCH OMITTED INFORMATION HAS BEEN INDICATED WITH ASTERISKS (*****).

EXCLUSIVE LICENSE AND SUPPLY AGREEMENT

THIS EXCLUSIVE LICENSE AGREEMENT (the ***"Agreement"***) is entered into as of September 28, 2004 (the "**Effective Date**") by and between **OXIS INTERNATIONAL**, a Delaware corporation ("**OXIS**"), located at 6040 N. Cutter Circle, Suite 317, Portland OR 97217 and **HAPTOGUARD, INC.**, a Delaware corporation ("**HaptoGuard**"), located at 10 Rockefeller Plaza, Suite 1001, New York, New York 10020.

RECITALS

WHEREAS, OXIS is the owner of certain Licensed Patents, Licensed Compounds, Licensed Know-How, Licensed Process, and Licensed Product (each as defined below), as described below;

WHEREAS, OXIS has conducted and successfully completed non-clinical studies for the Licensed Product for oral administration, a Phase-I and a Phase-IIA Clinical Trial of the Product in the United States and United Kingdom.

WHEREAS, HaptoGuard is a biopharmaceutical company that is interested in developing and commercializing the Licensed Product; and

WHEREAS, OXIS wishes to grant HaptoGuard and HaptoGuard desires to obtain an exclusive, worldwide license under the Licensed Patents, Licensed Compounds, Licensed Know-How, Licensed Process, and Licensed Product on the terms set forth herein.

NOW THEREFORE, in consideration of the foregoing and the covenants and premises contained in this Agreement, the parties agree as follows:

1. DEFINITIONS

The following capitalized terms shall have the meanings indicated for purposes of this Agreement.

1.1 "Affiliate" shall mean, as to any person or entity, which, directly or indirectly, controls, is controlled by, or is under common control with such person or entity. For purposes of this definition, "control" shall mean the ownership of more than 50% of the shares of stock entitled to vote for the election of directors in the case of a corporation, and more than 50% of the voting power in the case of a business entity other than a corporation.

1.2 "ANDA" shall mean an Abbreviated New Drug Application filed pursuant to the requirements of the FDA, or the equivalent application in any other country or jurisdiction, required before Commercial Sale of a drug product.

1.3 "Cardiovascular Indications" shall include three groups of disease and/or conditions as follows: *Group A* — ***** (hereinafter "Group A Cardiovascular Indications"); *Group B* – ***** (hereinafter "Group B Cardiovascular Indications**"**); and *Group C* — ***** (hereinafter "Group C Cardiovascular Indications**"**).

1.4 "Combination Product" any product that combines Licensed Product with any HaptoGuard product or technology.

1.5 "Confidential Information" shall have the meaning in Section 7

1.6 "Disclosing Party" shall have the meaning provided in Section 7.1.

1.7 "Disputes" shall have the meaning provided in Section 10.4.

1.8 "FDA" shall mean the United States Food and Drug Administration or any successor agency.

1.9 "Field" shall mean any and all uses including but not limited to the therapeutic, diagnostic, preventative, amerliorative, and/or prognostic in Cardiovascular Indications, except for all drug eluting implanted devices.

1.10 "First Commercial Sale" shall mean, with respect to any Licensed Product, the first sale on a commercial basis in an arm's length transaction for end use of such Licensed Product in a country after the governing health regulatory authority of such country has granted regulatory approval of such Licensed Product, to the extent such regulatory approval is required in such country. Licensed Product distributed or used for clinical trial purposes shall not be considered sold, marketed or made publicly available for sale and shall not constitute first commercial sale.

1.11 "HaptoGuard Indemnitee" shall have the meaning provided in Section 10.1(b).

1.12 "Generic Competition" shall mean on a country by country basis the commercial sale of a generic product containing the same compound as Licensed Product as an active ingredient.

1.13 "Indemnifying Party" shall have the meaning provided in Section 10.1(c).

1.14 "**Parenteral Formulation**" shall mean Licensed Product formulated sterilely for administration through a needle or indwelling catheter to a human subject

1.15 "Licensed Know-How" shall mean, with respect to the Field, all information, data, compositions, materials, method, processes, protocols, reports, techniques relating to *****

1.16 "Licensed Compound" shall mean a set of compounds having a *****

1.17 "Licensed Patents" shall mean any and all i) Patents covering the Licensed Compounds, Licensed Process, Licensed Know-How which have a Valid Claim; and ii) the Patents set forth on Appendix A which have a Valid Claim;

1.18 "Licensed Process" shall mean synthetic routes, materials, conditions, and/or processes relating to and for the manufacture of the Licensed Compounds and/or Licensed Product relating to the Field.

1.19 "**Licensed Product**" shall mean any products prepared, created, generated or synthesized by use of the *****

1.20 "Losses" shall have the meaning provided in Section 10.1(a).

1.21 "NDA" shall mean a New Drug Application filed pursuant to the requirements of the FDA, or the equivalent application in any other country or jurisdiction.

1.22 "Net Sales" shall mean the amount actually received by HaptoGuard and its Affiliates or, if HaptoGuard or its Affiliate sublicenses its rights with respect to Licensed Product in a given jurisdiction, by the Sublicensee in such jurisdiction for sales of Licensed Product for use in the Field to independent purchasers in arm's length transactions, less the following customary and reasonable items, actually allowed or granted for such Licensed Product (if not previously deducted from the amount invoiced):

(a) discounts, credits, retroactive price reductions, rebates, refunds, charge backs, allowances and adjustments, including Medicaid, managed care and similar types of rebates, rejections, market withdrawals, recalls and returns, and administrative fees charged by hospital buying groups and managed care organizations;

(b) trade, quantity and cash discounts and rebates actually allowed or given;

(c) sales, excise, turnover, value-added**,** and similar taxes assessed on the sale of the Product, and import and customs duties;

(d) shipping and insurance charges, postage, and freight out; and

(e) government imposed rebates or discounts.

1.23 Sales of Licensed Product by and between HaptoGuard and its Affiliates and sublicensees are not sales to Third Parties and shall be excluded from Net Sales calculations for all purposes. Sales of Product for use in conducting clinical trials of Licensed Product in a country in order to obtain the regulatory approval of Licensed Compounds and/or Product in such country shall be excluded from Net Sales calculations for all purposes. Net Sales shall be determined in a manner consistent for all products sold by or on behalf of HaptoGuard and in accordance with applicable U.S. generally accepted accounting principles.

1.24 "Non-Parenteral Intravenous Formulation" shall mean Licensed Product formulated *****

1.25 "OXIS Indemnitee" shall have the meaning provided in Section 10.1(a).

1.26 "OXIS Improvements" shall mean any new invention related to active pharmaceutical ingredient production, formulation or chemical structure of the Licensed Processes and/or Licensed Compounds developed by OXIS whereby such improvements are covered under and/or disclosed by the Patents.

1.27 "Patents" shall mean, with respect to the Field, (a) patents and patent applications, existing as of the Effective Date or filed during the Term in accordance with Section 4.1, (b) any and all corresponding foreign patents and patent applications, whether now existing or hereafter filed, (c) provisionals, substitutions, divisionals, reexaminations, reissues, renewals, extensions, term restorations, continuations, continuations-in-part, substitute applications and inventors' certificates, arising from, or based upon, any of such patents or patent applications, and (d) patents issuing from any such patent applications.

1.28 "**Phase I Clinical Trial**" shall mean a human clinical trial in any country conducted by HaptoGuard or its Affiliate to initially evaluate the safety of Licensed Product in human subjects or that would otherwise satisfy the requirements of 21 CFR 312.21(a) or the equivalent laws, rules or regulations in a regulatory jurisdiction outside the United States.

1.29 "**Phase II Clinical Trial**" shall mean a human clinical trial in any country conducted by HaptoGuard or its Affiliate to initially evaluate the effectiveness of Licensed Product in human subjects with the disease or indication under study or that would otherwise satisfy the requirements of 21 CFR 312.21(b) or the equivalent laws, rules or regulations in a regulatory jurisdiction outside the United States.

1.30 "**Phase III Clinical Trial**" shall mean a pivotal human clinical trial in any country conducted by HaptoGuard or its Affiliate the results of which could be used to establish safety and efficacy of the Licensed Product as a basis for approval of an NDA for such Licensed Product or Additional Product or that would otherwise satisfy the requirements of 21 CFR 312.21(c) or the equivalent laws, rules or regulations in a regulatory jurisdiction outside the United States.

1.31 "Receiving Party" shall have the meaning provided in Section 7.1.

1.32 "Regulatory Approval" shall mean approval of an NDA and satisfaction of any related applicable regulatory registration and notification requirements (if any).

1.33 "Royalty Term" shall mean, with respect to each country in which Licensed Product is sold, on a product-by-product basis, that time period beginning on the First Commercial Sale of such Licensed Product covered by a Valid Claim in such country and expiring, on a country-by-country basis, the expiration in such country of the last-to-expire Licensed Patent with a Valid Claim.

1.34 "Sublicense Fee"***

1.35 "Sublicensee" shall mean any Third Party to which HaptoGuard or its Affiliate has granted rights in the to the Licensed Patents covering the Licensed Product pursuant to the terms of this Agreement.

1.36 "Term" shall have the meaning provided in Section 9.1.

1.37 "Third Party" shall mean any entity other than OXIS or HaptoGuard or an Affiliate of OXIS or HaptoGuard.

1.38 "U.S." shall mean the United States.

1.39 "Valid Claim" shall mean a claim of an issued patent included within the Licensed Patents in the Field, which claim has not lapsed, been cancelled or become abandoned irrevocably and has not been declared invalid or unenforceable by an unreversed and unappealable decision or judgment of a court or other appropriate body of competent jurisdiction, and which has not been admitted to be invalid or unenforceable through reissue, disclaimer or otherwise.

2. LICENSE;

2.1 License Grant. Subject to the terms and conditions of this Agreement, OXIS hereby grants to HaptoGuard and its Affiliates during the Term, with respect to the Field only, an exclusive, worldwide, royalty bearing license, with the right to grant sublicenses through multiple tiers of sublicenses, in, to, and under the Licensed Patents, Licensed Compounds, Licensed Know-How, Licensed Process, and Licensed Product to develop, distribute, market, make, have made, use, have used, sell, have sold, offer for sale, and import Licensed Compounds, Licensed Processes, and Licensed Products. The parties hereto acknowledge that such license as described in the preceding sentence is not intended to apply to Licensed Patents, Licensed Compounds, Licensed Know-How, Licensed Process, and Licensed Product which is not related to the Field.

2.2 Sublicenses. In the event that HaptoGuard sublicenses any of its rights hereunder to a Sublicensee pursuant to Section 2.1, such sublicense shall include terms and conditions consistent with the terms and conditions of the license granted under this Agreement. Sublicenses, if any, granted hereunder, will be to Third Parties in an arm's length transaction under written agreements (each, a "Sublicense Agreement"), copies of which will be provided to OXIS, and conditioned on such Sublicensees' agreement to accept and abide with the terms and obligations of this Agreement.

2.3 Disclosure of Licensed Know-How. OXIS will supply HaptoGuard, as promptly as practicable after the Effective Date, and in any event within sixty (60) days of the Effective Date, with all Licensed Know-How available to or possessed by OXIS that will enable HaptoGuard to independently manufacture the Licensed Products and obtain subsequent

Regulatory Approvals. The parties agree to work in good faith and to use best efforts to complete the disclosure of Licensed Know-How to HaptoGuard within the time period set forth above.

2.4 OXIS agrees to provide HaptoGuard within twenty (20) days of a written request from HaptoGuard with a cross-reference letter to any OXIS regulatory applications and approvals relating to the Licensed Compounds. The cross-reference letter shall be without limitation to clinical phase of the ongoing study. Any such cross-reference letter shall remain in effect and may not be revoked by OXIS unless this Agreement is terminated.

3. CONSIDERATION

3.1 Upfront Payment. HaptoGuard will pay OXIS a lump sum non-refundable payment in the amount of Three Hundred Thousand US Dollars ($300,000) on the Effective Date of this Agreement and an additional lump sum non-refundable payment in the amount of One Hundred Fifty Thousand US Dollars ($150,000) within sixty (60) days of the Effective Date of this Agreement. In the event that, for any reason whatsoever, the second payment above of $150,000 is not paid on time, HaptoGuard will be extended one grace period of thirty (30) days to pay such amount, provided that it pays OXIS an additional payment of One Hundred Thousand Dollars ($100,000) at the same time. If for any reason, any of the above payments are not transacted within the required time periods all HaptoGuard rights as defined by this agreement shall become null and void and OXIS shall have the right to terminate this Agreement.

3.2 Milestone Payments. HaptoGuard will pay OXIS the amounts set forth below upon the first occurrence of each of the milestone events set forth below, each such payment to be made within thirty (30) days after achievement of such milestone event. It is understood that the payment amounts listed below are set for a ***** and would be increased by the number of ***** for which milestone events are achieved. *****

(1) Initiation of the Phase III Clinical Trials of the Licensed Product *****	*****
HaptoGuard shall not pay any additional fees other than the ***** for initiation of any additional Phase III Clinical Trials of the Product *****.	
(2) Grant by FDA of marketing approval of the Licensed Product in the US for *****	*****
HaptoGuard shall not pay any additional fees other than the *****	
(3) Grant of a marketing approval of the Licensed Product by the EMEA for *****	*****
HaptoGuard shall not pay any additional fees other than the ***** for initiation of any additional marketing approval in Europe of the Licensed Product for *****	
(4) Grant of marketing approval of the Licensed Product in each of any additional regulatory territory for *****	*****
HaptoGuard shall not pay any additional fees other than the ***** per each additional regulatory territory marketing approval *****	

3.3 Royalties. Upon the First Commercial Sale of Licensed Product, HaptoGuard shall pay to OXIS a royalty of:

*****

3.4 Sublicense Fee. HaptoGuard or its Affiliates shall pay to OXIS an amount equal to ***** of the Sublicense Fee received from any Sublicensee pursuant to the Sublicense Agreement. *****

3.5 *****

3.6 Calculation and Payment of Royalties and Percentage of Sublicense Fees.

(a) Notwithstanding anything in this Agreement to the contrary, during the Royalty Term for a given country, the applicable royalty payable on Net Sales of Licensed Products in such country shall be ***** of the royalty rate payable under Section 3.2 for so long as there is a ***** covering such Licensed Product in such country. *****

(b) Payments pursuant to Sections 3.2, 3.3 and 3.4 and reports for the sale of Licensed Product shall be calculated and reported for each calendar quarter. All payments due to OXIS pursuant to Sections 3.2, 3.3 and 3.4 shall be paid within ***** of the end of each calendar quarter, unless otherwise specifically provided herein. Each such payment shall be accompanied by a report ***** U.S. dollars, the method used to calculate such royalty and the exchange rates used, as applicable. All payments to OXIS including those with respect to the Sublicense Fee will be paid within thirty (30) days of receipt of payments from Sublicensee.

3.7 Tax Withholding. Any tax required to be withheld by HaptoGuard or any Affiliate or Sublicensee under the laws of any foreign country for the account of OXIS under this Article 3 shall be deducted from the applicable payment to OXIS and promptly paid by HaptoGuard or said Affiliate or Sublicensee for and on behalf of OXIS to the appropriate governmental authority (provided that, if HaptoGuard assigns its obligations under this Agreement to a non-U.S. Affiliate, the amount of any withholding taxes deducted from payments by such Affiliate to OXIS shall not exceed the amount of any withholding taxes that would have been deducted by HaptoGuard had HaptoGuard made such payment to OXIS), and HaptoGuard or the Affiliate shall furnish OXIS with proof of payment of such tax together with official or other appropriate evidence issued by the appropriate governmental authority sufficient to enable OXIS to support a claim for income tax credit in respect of any sum so withheld.

3.8 Exchange Rate; Manner and Place of Payment. All payments hereunder shall be payable in U.S. dollars. For payments made on sales of Licensed Product, with respect to each quarter, for countries other than the U.S., whenever conversion of payments from any

foreign currency shall be required, such conversion shall be made at a rate of exchange equal to the rate of exchange for the currency of the country from which payments are payable as published in *The Wall Street Journal, Western Edition*, on the last business day of the calendar quarter for which a payment is due. All payments owed under this Agreement shall be made by wire transfer to a bank and account designated in writing by OXIS, unless otherwise specified in writing by OXIS.

3.9 Prohibited Payments. Notwithstanding any other provision of this Agreement, if HaptoGuard is prevented from making any such payment by virtue of the statutes, laws, codes or governmental regulations of the country from which the payment is to be made, then such royalty may be paid by depositing funds in the currency in which accrued to OXIS's account in a bank acceptable to OXIS in the country whose currency is involved.

3.10 Records; Audits. HaptoGuard shall, and shall cause its Affiliates and Sublicensees to, keep complete and accurate records pertaining to the sale of Licensed Product and payment of Sublicense Fees in sufficient detail to permit OXIS to confirm the accuracy of payments due hereunder. Upon written request to HaptoGuard by OXIS, ***** and no more than once in a calendar year, OXIS shall have the right to cause an independent, certified public accountant reasonably acceptable to HaptoGuard to audit such records to confirm Net Sales and royalty payments and payments with respect to Sublicense Fees for any calendar year ending not more than three (3) years prior to the date OXIS requests such audit. OXIS agrees to treat, and to cause such accountant to treat, all such information as confidential and not to use or disclose any such information for any purpose except to determine compliance with this Agreement. For the avoidance of doubt, HaptoGuard, its Affiliates and Sublicensees shall not be obligated to provide OXIS or such accountant with access to any records or information other than that which is necessary to confirm Net Sales, royalty payments or payments with respect to Sublicense Fees payable under this Agreement. Such audits may be exercised during normal business hours upon reasonable prior written notice to HaptoGuard. If any audit or examination shall reveal a deficiency of any payment due, HaptoGuard shall make payment to OXIS of such deficiency. Payment shall be made within ten (10) days following announcement of the results of the audit to HaptoGuard and OXIS. The parties shall promptly make any adjustments necessary to reflect the results of such audit. OXIS shall bear the full cost of such audit unless such audit discloses a shortfall by more than ***** from the actual amount of any payment due under this Agreement, in which case, HaptoGuard shall bear the full cost of such audit.

4. INTELLECTUAL PROPERTY

4.1 Prosecution and Maintenance of Licensed Patents. HaptoGuard shall control, prosecute and maintain all Patents included in the Licensed Patents. HaptoGuard shall provide OXIS with an opportunity to review and discuss with HaptoGuard prosecution strategy and to consult with HaptoGuard on the content of patent filings with respect to Licensed Patents. HaptoGuard shall be responsible for all costs, fees and expenses incurred from and after the Effective Date in connection with the filing, prosecution and maintenance of such Licensed Patents. *****

4.2 Enforcement of Licensed Patents. Each party shall promptly notify the other in writing of any alleged or threatened infringement of any Patent included in the Licensed Patents of which such party becomes aware.

(a) With respect to any infringement in the United States, Europe or any other territory of any Patent included in the Licensed Patents, HaptoGuard shall have the first right, but not the obligation, to direct, bring and control any action or proceeding in its own name, with respect to such infringement at its own expense and by counsel of its own choice, and OXIS shall have the right, at its own expense, to be represented in any such action by counsel of its own choice. If HaptoGuard fails to bring such an action or proceeding, OXIS may commence such a proceeding and the fees and expenses associated with such proceeding shall be borne equally by OXIS and HaptoGuard.

(b) In the event HaptoGuard brings an infringement action in accordance with this Section 4.2, OXIS shall cooperate fully, including if required to bring such action, the furnishing of a power of attorney. *****

4.3 Third Party Infringement Claims. Each party shall promptly notify the other in writing of any allegation by a Third Party that the activity of either of the parties pursuant to this Agreement infringes or may infringe the intellectual property rights of such Third Party. HaptoGuard shall have the sole right to control, direct or defend in its own name any defense, action, appeal of any such claim, action, proceeding at its own expense and by counsel of its own choice. If HaptoGuard fails to defend any such claim against OXIS, and the failure to so defend would have an adverse effect on any Patent within the Licensed Patents, then OXIS shall have the right to assume the defense against such claim at its own expense and by counsel of its own choice. Neither party shall have the right to settle any patent infringement litigation under this Section 4.4 relating to the Patents in a manner that diminishes the rights or interests of the other party without the consent of such other party (which shall not be unreasonably withheld). During the pendency of any such proceeding or any appeal thereof, any payment hereunder to OXIS shall be paid by HaptoGuard into an interest-bearing escrow account pending the outcome of such proceeding. Upon a favorable final resolution of such proceeding or any appeal thereof retaining the full rights, HaptoGuard shall resume paying OXIS the full royalties, and all funds in such escrow account shall be paid to OXIS. Upon an unfavorable final resolution of such proceeding or any appeal thereof, the funds in such escrow account shall be applied toward the damage award in such action, if any, and the balance, if any, paid to OXIS.

4.4 Cooperation of the Parties. Each party agrees to cooperate fully in the preparation, filing, and prosecution of any Licensed Patents under this Agreement and in the obtaining and maintenance of any patent extensions, supplementary protection certificates and the like with respect to any Patent claiming a Licensed Product being developed or commercialized by HaptoGuard or Sublicensees. Such cooperation includes, but is not limited to, promptly informing the other party of any matters coming to such party's attention that may affect the preparation, filing, prosecution or maintenance of any Patents.

5. DUE DILIGENCE

*****

HaptoGuard shall report to OXIS no less than quarterly on the development and commercialization activities performed hereunder.

*****

6. SUPPLY AGREEMENT

6.1. OXIS Supply Obligations

(a) Licensed Product Supply - During the Term OXIS shall be ***** of the Product to HAPTOGUARD and HAPTOGUARD Affiliates, of all the requirements of Licensed Product for distribution, marketing and selling anywhere in world. OXIS shall supply the Licensed Product in FDA approved primary packaging as requested by HAPTOGUARD.

(b) Licensed Product Delivery - OXIS shall supply Licensed Product to HAPTOGUARD only against receipt of HAPTOGUARD's written purchase orders. Except as otherwise provided herein or as otherwise expressly agreed in writing by the Parties, delivery shall be within ninety (90) days from receipt and confirmation by OXIS of HAPTOGUARD's purchase order. OXIS shall confirm the delivery dates within ten (10) business days after receipt of HAPTOGUARD's purchase orders, OXIS shall use its best reasonable efforts to fill such orders on the requested delivery dates, but shall in any event fill such orders within ninety (90) days from receipt and confirmation of HAPTOGUARD's purchase order. OXIS shall deliver Licensed Product F.O.B. as designated by HAPTOGUARD. HAPTOGUARD shall assume title to and risk of loss for Licensed Product purchased hereunder upon receipt of delivery.

(c) Licensed Product Shipping Instructions - HAPTOGUARD shall provide OXIS with appropriate instructions for each shipment of Licensed Product hereunder designating the desired carrier, destination and method of transport. If OXIS becomes aware that the designated carrier is unable to accept the desired shipment within the requested delivery period, OXIS shall promptly notify HAPTOGUARD and HAPTOGUARD shall promptly designate another carrier or carriers.

6.2. Manufacturing Subcontractor

OXIS shall remain the sole supplier of Licensed Product to HAPTOGUARD. In order to seek the lowest manufacturing cost of Licensed Product for supply to HAPTOGUARD by OXIS, HAPTOGUARD may identify select, and engage an alternate manufacturer in order to obtain for OXIS the lowest manufacturing cost of Licensed Product for supply to HAPTOGUARD by OXIS

6.3. Prices and Payment

(a) Pricing Formula - OXIS's annual price of Licensed Product to HAPTOGUARD, shall be *****

(b) Invoicing and Payment - OXIS shall invoice HAPTOGUARD for orders of Licensed Product shipped, and HAPTOGUARD shall pay such invoice within thirty (30) days of receipt.

6.4. Licensed Product Warranties and Limitations

OXIS warrants and represents that the Licensed Product manufactured by OXIS, its Affiliates and delivered to HAPTOGUARD or its Affiliates hereunder for clinical use and/or for sale shall (i) from the date of shipment until the end of the specified shelf-life conform to the specifications as requested by HAPTOGUARD and as reasonable agreed to by OXIS. and shall be manufactured in accordance with U.S. FDA Good Manufacturing Practices and (ii) be transferred free and clear of any security interests, liens and encumbrances.

6.5. Certificate of Analysis

OXIS shall furnish HAPTOGUARD with one or more certificates of analysis, in the form required by law where the Licensed Product is marketed, for each batch of Licensed Product supplied hereunder with shipment of each such batch.

6.6. Licensed Product Inspections

(a) HAPTOGUARD Inspection and Analysis - HAPTOGUARD shall inspect and analyze a representative sample of Licensed Product from batches supplied by OXIS within Thirty days (30) after receipt. If, after inspection, HAPTOGUARD reasonably believes the shipment does not meet the specifications as requested, HAPTOGUARD shall notify OXIS in writing within forty five (45) days after HAPTOGUARD's receipt of any such goods. If HAPTOGUARD does not so notify OXIS, HAPTOGUARD shall be deemed to have waived all claims against OXIS for said quantity delivered, except for any latent defects that could not have been reasonably discovered upon such inspection, which defects shall be notified by HAPTOGUARD to OXIS within fourteen (14) days from discovery of same. Any claims by HAPTOGUARD regarding goods delivered shall specify in reasonable detail the nature and basis for the claim and cite relevant OXIS lot numbers or other information to enable specific identification of the goods involved. HAPTOGUARD shall not be required to accept Licensed Product having a shelf-life of less than ninety percent (90%) of the stated expiration dating on the date of shipment by OXIS.

(b) OXIS Response - OXIS shall respond to all claims made by HAPTOGUARD on a case-by-case basis and OXIS shall have the right to first inspect any goods involved before being required to take any action with respect thereto. OXIS shall review any such claim of non-conformity made by HAPTOGUARD within thirty (30) business days of receipt and conduct any required testing of the goods involved as soon as possible, but in no event later than forty-five (45) days after receipt thereof. If such review and testing by OXIS (or testing by an independent laboratory as set forth below) confirms that a claimed quantity does not meet the specifications, then, at OXIS's expense, HAPTOGUARD shall dispose of or return such quantity involved as OXIS shall direct in writing and OXIS shall replace such quantity with conforming goods as soon as possible, but in no event later than sixty (60) days after testing is

completed. If the Parties fail to agree as to whether a delivered quantity meets the specifications, then the Parties shall have the batch in dispute analysed by a mutually agreed upon independent testing laboratory in the country in which Licensed Product to which goods relate is intended for clinical use and/or sale. Such laboratory's determination shall be deemed final as to any dispute over the specifications and the non-prevailing Party shall bear the costs of such independent laboratory's testing.

6.7. Licensed Product Storage

Each Party shall properly store Licensed Product under conditions that will not adversely affect the quality or normal shelf life thereof.

6.8. HAPTOGUARD Responsibilities

HAPTOGUARD shall be responsible for all packaging, labeling, inserts, promotional materials and any other materials which accompany, are distributed, used or referred to in any way by HAPTOGUARD, its Affiliates in connection with the Licensed Product and same shall conform to all legal requirements. Subject to applicable legal requirements and space limitations, all Licensed Product labeling, packaging, inserts and promotional materials shall indicate that the Licensed Product is sold by HAPTOGUARD.

6.9. Reciprocal Indemnification Provisions

(a) OXIS Indemnification- OXIS shall defend, indemnify and hold HAPTOGUARD, its Affiliates, HAPTOGUARD Sublicensees, and the officers, directors, employees and agents of each, harmless from and against any and all liabilities, damages, claims, demands, costs, or expenses (including reasonable attorneys' fees) claimed by any third party for any property or other economic loss or damage or injury or death suffered by it to the extent the same is determined to have been caused by or due to *****

(b) HAPTOGUARD Indemnification- HAPTOGUARD shall defend, indemnify and hold OXIS, its Affiliates, and OXIS Unaffiliated Sublicensees and subcontractors, and the officers, directors and employees and agents of each harmless from and against any and all liabilities, damages, claims, demands or costs, or expenses (including reasonable attorneys' fees) claimed by any third party for any property or other economic loss or damage, injury or death suffered by it to the extent the same is determined to have been caused by *****

6.10. Conditions of Indemnification

With respect to any indemnification obligations of either Party to the other Party under this Agreement, the following conditions must be met for such indemnification obligations to become applicable: (a) the indemnified Party shall notify the indemnifying Party promptly in writing of any claim which may give rise to an obligation on the part of the indemnifying Party hereunder; (b) the indemnifying Party shall be allowed to timely undertake the sole control of the defense of any such action and claim, including all negotiations for the settlement, or

compromise of such claim or action at its sole expense; and (c) the indemnified Party shall render reasonable assistance, information, co-operation and authority to permit the indemnifying Party to defend such action, it being agreed that any out-of-pocket expenses or other expenses incurred by the indemnified Party in rendering the same shall be borne or reimbursed promptly by the indemnifying Party.

6.11. Priority of Supply

So long as HAPTOGUARD shall provide OXIS with its forecast for short term and long term requirements in timely fashion, OXIS shall cooperate to anticipate HAPTOGUARD short term and long-term requirements for Licensed Product supply and will take reasonable measures to assure that HAPTOGUARD and its HAPTOGUARD Sublicensees requirements as set forth in HAPTOGUARD Forecast can be met. OXIS shall make best efforts to ensure HaptoGuard is given the highest priority for supply of the Licensed Products by its manufacturer.

6.12. Inability to Manufacture or Supply

If OXIS is unable to supply Licensed Product, as ordered pursuant to Section 6, for sixty (60) or more days after the agreed delivery time for any reason, (including but not limited to a Force Majeure event), save for reasons due to HAPTOGUARD and/or HAPTOGUARD Affiliate, including without limitation failure by HAPTOGUARD and/or HAPTOGUARD Affiliate to notify OXIS of OXIS's failure to deliver Licensed Product ordered, then HAPTOGUARD may, at its option, responsibility and expense, elect to manufacture or have a Third Party manufacture Licensed Product for use in the Field until such time as OXIS can demonstrate to HAPTOGUARD's reasonable satisfaction that OXIS is capable of resuming the manufacture Licensed Product, as applicable.

6.13. Regulatory Inspections

Each Party shall allow representatives of the U.S. FDA and any other regulatory agency or authority with jurisdiction over the manufacture, marketing and distribution of the Licensed Product to tour and inspect all facilities utilized by such Party in the manufacture, testing, packaging, storage, and shipment of Licensed Product sold under this Agreement, and shall co-operate with such representatives in every reasonable manner. Each Party shall also provide the other Party with a copy of any U.S. FDA Form 483 notices of adverse findings, regulatory letters or similar notifications it receives from any other governmental authority setting forth adverse findings or non compliance with any applicable laws, regulations or standards relating to the items supplied by it hereunder within five (5) days of its own receipt thereof. Each Party shall also provide the other Party with a copy of its proposed written response to such governmental authority before submission and shall incorporate any changes thereto which the other Party may reasonably request.

6.14 Manufacturing Changes

During the Term, OXIS shall not make any material changes to its manufacturing operations for Licensed Product without the prior written consent of HAPTOGUARD, which consent shall not be unreasonably withheld.

6.15 Recall Notification

Each Party shall promptly notify the other Party in writing of any facts relating to the advisability of the recall, destruction or withholding from the market of the Licensed Product anywhere in the world (collectively, "**Recall**")

6.16. Recall Implementation

If at any time (A) any governmental or regulatory authority issues a request, directive or order for a Recall; (B) a court of competent jurisdiction orders a Recall; or (C) HAPTOGUARD reasonably determines, following consultation with OXIS (except in emergency situations in which there is insufficient time for such consultation), that a Recall is necessary or advisable, HAPTOGUARD shall take all appropriate corrective actions to effect the Recall and OXIS shall provide HAPTOGUARD with such cooperation in connection with the Recall as HAPTOGUARD may reasonably request.

6.17. Recall Costs and Expenses

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6.18 ADVERSE DRUG EXPERIENCES

In order to guarantee that all applicable regulatory requirements as well as the Parties' interests regarding pharmacovigilance of the Licensed Product can be met, the parties shall exchange appropriate information. The parties shall make sufficient efforts to promptly establish and adopt sufficient procedures concerning this exchange. Therefore the Parties shall negotiate a separate agreement on pharmacovigilance.

7. CONFIDENTIALITY

7.1 Confidentiality. The parties agree that, during the Term, and for a period of five (5) years thereafter, each party (the **"Receiving Party"**) will maintain in confidence, and will not use, all Confidential Information disclosed to it by the other party (the **"Disclosing Party"**) under this Agreement or the Term Sheet dated June 16, 2004, except to the extent expressly authorized by this Agreement or otherwise agreed in writing by the parties. The parties agree that the financial terms of the Agreement will be considered Confidential Information of both parties. The Receiving Party shall use at least the same standard of care as it uses to protect proprietary or confidential information of its own (but at least reasonable care) to ensure that its employees, agents, consultants and other representatives do not disclose or make any unauthorized use of the Disclosing Party's Confidential Information. Each party will promptly notify the other upon discovery of any unauthorized use or disclosure of the other party's Confidential Information.

Public Disclosures. Subject to the further provisions of this Section, neither Party shall originate any written publicity, news release or public announcement, whether to the public or press, concerning this Agreement, including the subject matter to which it relates, performance under it or any of its terms, or any amendment hereto save only such announcements that are i) approved by both parties in which such approval shall not be unreasonable withheld; and ii) required by law (or the applicable rules of any securities exchange or market on which a Party's securities are listed or traded) to be made or that are otherwise agreed by the Parties or expressly permitted in this Agreement. Such announcements shall be factual and as brief as reasonable under the circumstances. In addition, each Party agrees to submit to the other Party, for review and written approval, any question and answer sheet or similar materials ("Q & A") prior to using such materials as the basis for written or oral disclosures, which written or oral disclosures must, in any event, be consistent in content with the information contained in the approved Q & A. Routine references to this Agreement and the arrangements hereunder shall be allowed in the usual course of business, and shall be consistent with any approved Q & A relating thereto. Once information has been approved for disclosure as part of an approved Q & A or publication under this Section, either Party may use such approved information in written publicity, news releases, public announcements and other future communications with Third Parties. If a Party decides to make an announcement or any filing with a governmental agency or securities exchange or market as required by law or the applicable rules of any securities exchange or market on which a Party's securities are listed or traded, it will give the other Party at least three (3) calendar days advance notice, where possible, of the text of the announcement or content of the filing so that the other Party will have an opportunity to comment upon the announcement or filing. To the extent that the receiving Party reasonably requests that any information in the materials proposed to be disclosed be maintained as confidential, the disclosing Party shall use commercially reasonable efforts to request confidential treatment of such information pursuant to Rule 406 of the Securities Act of 1933 or Rule 25b-2 of the Securities Exchange Act of 1934, as applicable (or any other applicable regulation relating to the confidential treatment of information), except to the extent that the disclosing Party receives advice from its legal counsel that such Confidential Information is required to be disclosed under applicable laws or regulations.

7.2 Exceptions. The obligations of confidentiality contained in Section 7.1 will not apply to the extent that it can be established by the Receiving Party by competent written evidence that such Confidential Information:

(a) was already known to the Receiving Party, other than under an obligation of confidentiality, at the time of disclosure by the Disclosing Party;

(b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the Receiving Party;

(c) became generally available to the public or otherwise part of the public domain after its disclosure and other than through any act or omission of the Receiving Party in breach of this Agreement;

(d) was independently discovered or developed by the Receiving Party without the use of Confidential Information of the Disclosing Party; or

(e) was disclosed to the Receiving Party, other than under an obligation of confidentiality, by a Third Party who had no obligation not to disclose such information to others.

7.3 Authorized Disclosure. The Receiving Party may disclose the Confidential Information of the Disclosing Party to the extent such disclosure is reasonably necessary in the following instances:

(a) filing, prosecuting or maintaining the Licensed Patents in accordance with this Agreement;

(b) practicing the licenses granted hereunder or preparing and submitting regulatory filings with respect to Licensed Products;

(c) prosecuting or defending litigation or complying with applicable court orders or governmental laws, rules or regulations including, but not limited to, disclosures required by the FDA or the Securities and Exchange Commission; or

(d) disclosure to Affiliates, Sublicensees, employees, consultants, agents or other Third Parties who have a need to know such information for purposes of this Agreement or in connection with due diligence or similar investigations, and disclosure to potential Third Party investors in confidential financing documents, provided, in each case, that any such Affiliate, Sublicensee, employee, consultant, agent or Third Party is subject to obligations of confidentiality and non-use comparable to those set forth in this Section 6.

Notwithstanding the foregoing, in the event a party is required to make a disclosure of the other party's Confidential Information pursuant to Section 7.3(c), it will, except where impracticable, give reasonable advance notice to the other party of such disclosure and use efforts to secure confidential treatment of such information at least as diligent as such party would use to protect its own confidential information, but in no event less than reasonable efforts. In any event, the parties agree to take all reasonable action to avoid disclosure of Confidential Information hereunder. The parties will consult with each other on the provisions of this Agreement to be redacted in any filings made by the parties with the Securities and Exchange Commission or as otherwise required by law and on any disclosure to Third Parties.

8. REPRESENTATIONS AND WARRANTIES

8.1 Representations and Warranties of OXIS. OXIS represents and warrants to HaptoGuard that:

(a) OXIS has as of the Effective Date, and will have during the Term, sufficient rights and power to grant the licenses to HaptoGuard which it purports to grant herein free and clear of any and all liens and any requirements of charges, fees, rights, conditions or restrictions of any kind and, as of the Effective Date;

(b) has not and will not grant, license, convey, assign, and/or transfer to any Third Party any rights to Licensed Patents, Licensed Compounds, Licensed Know-How, and Licensed Products, inconsistent with the licenses and other rights granted hereunder;

(c) is the sole owner, and has the entire right, title and interest in the Licensed Patent, Licensed Compounds, Licensed Products, and Licensed Know-How; and such Licensed Patents are valid, in full force, and enforceable.

(d) there are, as of the Effective Date, and during the Term shall be, no outstanding liens, encumbrances, agreements or understandings of any kind, requirements of charges, fees, rights, conditions or restrictions of any kind, either written, oral or implied, regarding the Licensed Patents or Licensed Products to which OXIS or its Affiliates is a party or which are binding upon OXIS its Affiliates which are inconsistent or in conflict with any provision of this Agreement;

(e) as of the Effective Date, OXIS or its Affiliates has received no written claim or accusation that the practice of the Licensed Products or the manufacture, use or sale of Licensed Products infringes or may infringe any Third Party patent; and

(f) as of the Effective Date, OXIS or its Affiliates has not received a written notification of any interference proceeding, opposition proceeding, cancellation proceeding or other protest proceeding relating to the Licensed Patents being instituted against OXIS or its Affiliates.

8.2 Mutual Representations and Warranties. Each party hereby represents and warrants to the other party that:

(a) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder;

(b) this Agreement is a legal and valid obligation binding upon it and enforceable in accordance with its terms; and

(c) the execution, delivery and performance of this Agreement do not conflict with any agreement, instrument or understanding, oral or written, to which it is a party or by which it may be bound, nor violate any law or regulation of any court, governmental body or administrative or other agency having jurisdiction over it.

8.3 Disclaimer. Except as expressly set forth herein, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES OF TITLE, NON-INFRINGEMENT, MERCHANTIBILITY, AND FITNESS FOR A PARTICULAR PURPOSE.

8.4 Performance by Affiliates. The parties recognize that each may perform some or all of its obligations under this Agreement through Affiliates and/or Sublicensees; *provided, however,* that each party shall remain responsible and be guarantor of the performance by its Affiliates and/or Sublicensees and shall cause its Affiliates and/or Sublicensees to comply with the provisions of this Agreement in connection with such performance, and that such performance through Affiliates and/or Sublicensees shall not adversely affect the rights of the other party.

9. TERM; TERMINATION

9.1 Term. The term of this Agreement will commence as of the Effective Date of this Agreement and, unless sooner terminated as provided hereunder, will terminate upon the expiration of the last Royalty Term (the **"Term"**). *****

9.2 Termination by HaptoGuard. *****

9.3 Termination by OXIS. *****

9.4 Termination for Cause. *****

9.5 Effect of Termination; Surviving Obligations.

(a) *****

(b) *****

(c) Expiration or termination of this Agreement shall not relieve the parties of any obligation accruing prior to such expiration or termination. Except as expressly set forth elsewhere in this Agreement, the obligations and the rights of the parties shall survive expiration or termination of this Agreement.

9.6 Rights in Bankruptcy. All rights and licenses granted under or pursuant to this Agreement by either party to the other party are, and will otherwise be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, licenses of right to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code. The parties agree that the party not subject to bankruptcy proceedings, as licensee of such rights under this Agreement, will retain and may fully exercise all of its rights and elections under the U.S. Bankruptcy Code. The parties further agree that, in the event of the commencement of a bankruptcy proceeding by or against any party under the U.S. Bankruptcy Code, the other party will be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, and same, if not already in its possession, will be promptly delivered to them (a) upon any such commencement of a bankruptcy proceeding upon written request therefor by the party not subject to bankruptcy proceedings, unless the other party elects to continue to perform all of its obligations under this Agreement, or (b) if not delivered under (a) above, following the rejection of this Agreement by or on behalf of either party upon written request therefor by the other party.

9.7 Remedies. In the event of any breach of any provision of this Agreement, in addition to the termination rights set forth herein, each party shall have all other rights and remedies at law or equity to enforce this Agreement.

10. INDEMNIFICATION; DISPUTE RESOLUTION

10.1 Indemnification.

(a) HaptoGuard hereby agrees to save, defend, indemnify and hold harmless OXIS, its directors, officers, employees, agents and Affiliates (and its directors, officers, employees and agents) (each, a "**OXIS Indemnitee**") from and against any and all losses, damages, liabilities, expenses and costs, including reasonable legal expenses and attorneys' fees ("**Losses**"), to which a OXIS Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of (a) the practice by HaptoGuard of the license granted under Section 2.1, or (b) the development, manufacture, handling, storage, sale or other disposition of any Licensed Product by HaptoGuard and its Affiliates and Sublicensees, except to the extent such Losses result from the willful misconduct of any OXIS Indemnitee.

(b) OXIS hereby agrees to save, defend, indemnify and hold harmless HaptoGuard, its directors, officers, employees and agents, its Affiliates (and its directors, officers, employees and agents) and its Sublicensees (and its directors, officers, employees and agents) (each, a "**HaptoGuard Indemnitee**") from and against any and all Losses to which a HaptoGuard Indemnitee may become subject as a result of any claim, demand, action or other proceeding by any Third Party to the extent such Losses arise out of the material breach by OXIS of any of its representations, warranties or obligations hereunder, except to the extent such Losses result from the willful misconduct of any HaptoGuard Indemnitee.

(c) In the event a party seeks indemnification under Section 10.1(a) or 10.1 (b), it shall inform the other party (the "**Indemnifying Party**") of a claim as soon as reasonably practicable after it receives notice of the claim, shall permit the Indemnifying Party to assume direction and control of the defense of the claim (including the right to settle the claim solely for monetary consideration), and shall cooperate as requested (at the expense of the Indemnifying Party) in the defense of the claim.

10.2 Limitation of Liability. EXCEPT FOR LIABILITY FOR BREACH OF CONFIDENTIALITY OR FOR INFRINGEMENT OR MISAPPROPRIATION, NEITHER PARTY SHALL BE ENTITLED TO RECOVER FROM THE OTHER PARTY ANY INDIRECT, SPECIAL, INCIDENTIAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES, INCLUDING BUT NOT LIMITED TO, LOST PROFITS, ARISING FROM OR RELATING TO ANY BREACH OF THIS AGREEMENT, REGARDLESS OF ANY NOTICE OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL HAPTOGUARD'S LIABILITY HEREIN SHALL EXCEED IN THE AGGREGATE THE AMOUNTS ACTUALLY PAID OR PAYABLE TO OXIS UNDER THIS AGREEMENT.

10.3 Insurance. From and after such time as HaptoGuard or any of its Sublicensees first commences human clinical trials of Licensed Product, HaptoGuard shall, or shall cause each such Sublicensee to, at its own expense, maintain product liability insurance in an amount consistent with industry standards during the Term. Such liability insurance shall name OXIS as a named co-insured, and HaptoGuard shall provide to OXIS regularly, and no less frequently than annually. Certificates evidencing OXIS coverage as a named co-insured and specifying the limits of such coverage.

10.4 Dispute Resolution. All disputes arising out of or related to this Agreement, including disputes that may involve the parent companies, subsidiaries and Affiliates of any party performing hereunder (***"Disputes"***), shall be resolved in accordance with this Section 10.4.

(a) Any Dispute shall be settled by binding arbitration by one arbitrator selected by the parties, or if they cannot agree, each party shall select an arbitrator and the two arbitrators shall select a third arbitrator. The decision of the arbitrator(s) shall be final and binding on the parties. The arbitration shall be conducted in New York, New York. The arbitral tribunal shall exert its best efforts to conduct the proceedings so as to issue an award within nine (9) months of the appointment of the arbitrator(s).

(b) The merits of any Dispute shall be decided in accordance with the law governing this Agreement, without application of any principle of conflict of laws. Each party expressly waives any right it may have to a trial by jury of any Dispute, and also expressly waives any right it may have to seek or to be awarded special or punitive damages on account of any matter that is the subject of a Dispute. Nothing herein shall limit or restrict a party's ability to seek injunctive or other equitable relief in the event of a breach or anticipated breach of Section 6.

(c) The arbitral tribunal may grant any relief appropriate under the applicable law, but may not include any penalty or element of punitive or exemplary damages. The arbitral tribunal may award the costs and expenses of the arbitration. Any party may seek emergency, interim or provisional relief prior to the appointment of an arbitrator from any court of competent jurisdiction, without prejudice to the agreement to arbitrate herein contained. After appointment of an arbitrator, any request for such relief shall be addressed to the arbitrator, who shall have the power to enter an interim award granting any emergency, interim or provisional relief to which a party may be entitled under applicable law.

(d) Any award of money shall be in U.S. dollars. The award of the tribunal may be entered and enforced in any court of competent jurisdiction. A court called upon to enforce such an award may require a party resisting enforcement to pay the reasonable attorney fees and costs of the party seeking enforcement.

(e) Any duty to arbitrate under this Agreement shall remain in effect and enforceable after termination of this Agreement for any reason.

(f) Each party has the right before or during the arbitration to seek and obtain from the appropriate court provisional remedies, such as attachment, preliminary injunction or replevin, to avoid irreparable harm, maintain the status quo, or preserve the subject matter of the arbitration. This Section 10.4 shall not apply to any dispute, controversy or claim that concerns (i) the validity or infringement of a patent, trademark or copyright; or (ii) any antitrust, anti-monopoly or competition law or regulation, whether or not statutory.

11. MISCELLANEOUS PROVISIONS

11.1 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, excluding its conflicts of laws principles.

11.2 Entire Agreement; Modification. This Agreement (including the Exhibits hereto) is both a final expression of the parties' agreement and a complete and exclusive statement with respect to all of its terms. This Agreement supersedes all prior and contemporaneous agreements and communications, whether oral, written or otherwise, concerning any and all matters contained herein. No rights or licenses with respect to any intellectual property of either party are granted or deemed granted hereunder or in connection herewith, other than those rights expressly granted in this Agreement. No trade customs, courses of dealing or courses of performance by the parties shall be relevant to modify, supplement or explain any term(s) used in this Agreement. This Agreement may not be modified or supplemented by any purchase order, change order, acknowledgment, order acceptance, standard terms of sale, invoice or the like. This Agreement may only be modified or supplemented in a writing expressly stated for such purpose and signed by the parties to this Agreement.

11.3 Relationship Between the Parties. The parties' relationship, as established by this Agreement, is solely that of independent contractors. This Agreement does not create any partnership, joint venture or similar business relationship between the parties. Neither party is a legal representative of the other party, and neither party can assume or create any obligation, representation, warranty or guarantee, express or implied, on behalf of the other party for any purpose whatsoever.

11.4 Non-Waiver. The failure of a party to insist upon strict performance of any provision of this Agreement or to exercise any right arising out of this Agreement shall neither impair that provision or right nor constitute a waiver of that provision or right, in whole or in part, in that instance or in any other instance. Any waiver by a party of a particular provision or right shall be in writing, shall be as to a particular matter and, if applicable, for a particular period of time and shall be signed by such party.

11.5 Assignment. Except as expressly provided hereunder, neither this Agreement nor any rights or obligations hereunder may be assigned or otherwise transferred by either party without the prior written consent of the other party (which consent shall not be unreasonably withheld); *provided, however*, that either party may assign this Agreement and its rights and obligations hereunder without the other party's consent in connection with the transfer or sale of all or substantially all of the business of such party to which this Agreement relates to an Affiliate or Third Party provided the successor's financial strength is at least as great as the assignor's., whether by merger, sale of stock, sale of assets or otherwise. In the event of such transaction, however, intellectual property rights of the acquiring party to such transaction (if other than one of the parties to this Agreement), which are not specific to Licensed Compound or Licensed Product, shall not be included in the technology licensed hereunder. The rights and obligations of the parties under this Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the parties. Any assignment not in accordance with this Agreement shall be void.

11.6 No Third Party Beneficiaries. This Agreement is neither expressly nor impliedly made for the benefit of any party other than those executing it.

11.7 Severability. If, for any reason, any part of this Agreement is adjudicated invalid, unenforceable or illegal by a court of competent jurisdiction, such adjudication shall not affect or impair, in whole or in part, the validity, enforceability or legality of any remaining portions of this Agreement. All remaining portions shall remain in full force and effect as if the original Agreement had been executed without the invalidated, unenforceable or illegal part.

11.8 Notices. Any notice to be given under this Agreement must be in writing and delivered either in person, by any method of mail (postage prepaid) requiring return receipt, or by overnight courier or facsimile confirmed thereafter by any of the foregoing, to the party to be notified at its address(es) given below, or at any address such party has previously designated by prior written notice to the other. Notice shall be deemed sufficiently given for all purposes upon the earlier of: (a) the date of actual receipt; (b) if mailed, five (5) business days after the date of postmark; or (c) if delivered by overnight courier with guaranteed next day delivery, the next business day the overnight courier regularly makes deliveries.

If to HaptoGuard, notices must be addressed to:

HaptoGuard, Inc.
C/o Eitan Pearl Latzer Cohen Zedek, LLP
10 Rockefeller Plaza, Suite 1001
New York, New York 10020
Telephone: +212-632-3480
Facsimile: + 212-632-3489
Attention: Chief Executive Officer

With copies to:

Eitan Pearl Latzer Cohen Zedek, LLP
10 Rockefeller Plaza, Suite 1001
New York, New York 10020
Attention: Mark S. Cohen, Esq
Telephone: +212-632-3480
Facsimile: + 212-632-3489

If to OXIS, notices must be addressed to:

OXIS International, Inc.
6040 N. Cutter Circle, Suite 317
Portland, Oregon 97217
Telephone: +503-283-3911
Facsimile: + 503-283-4058
Attention: Chief Executive Officer

11.9 Force Majeure. Each party shall be excused from liability for the failure or delay in performance of any obligation under this Agreement other than failure to pay when due by reason of any event beyond such party's reasonable control including but not limited to Acts of God, fire, flood, explosion, earthquake, or other natural forces, war, terrorism, civil unrest, accident, destruction or other casualty, any lack or failure of transportation facilities, any lack or failure of supply of raw materials, any strike or labor disturbance, or any other event beyond reasonable control of the parties similar to those enumerated above. Such excuse from liability shall be effective only to the extent and duration of the event(s) causing the failure or delay in performance and provided that the party has not caused such event(s) to occur. Notice of a party's failure or delay in performance due to force majeure must be given to the other party within ten (10) calendar days after its occurrence. All delivery dates under this Agreement that have been affected by force majeure shall be tolled for the duration of such force majeure. In no event shall any party be required to prevent or settle any labor disturbance or dispute.

11.10 Legal Fees. If any party to this Agreement resorts to any legal action or arbitration in connection with this Agreement, the prevailing party shall be entitled to recover reasonable fees of attorneys and other professionals in addition to all court costs and arbitrator's fees which that party may incur as a result.

11.11 Headings. The headings contained in this Agreement have been added for convenience only and shall not be construed as limiting or used in the interpretation of this Agreement.

11.12 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original document, and all of which, together with this writing, shall be deemed one instrument.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have duly executed this **EXCLUSIVE LICENSE AGREEMENT**, including the Exhibit attached hereto and incorporated herein by reference.

OXIS INTERNATIONAL.

By: _____

Name: _____

Title: _____

HAPTOGUARD, INC.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

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*****

*****

EXHIBIT 31.a
CERTIFICATION

I, Gosse B. Bruinsma, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of OXIS International, 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 12, 2004

/s/ Gosse B. Bruinsma

Gosse B. Bruinsma
Acting Chief Executive Officer

EXHIBIT 31.b
CERTIFICATION

I, Gosse B. Bruinsma, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of OXIS International, 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer'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 small business issuer 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 small business issuer, 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 small business issuer'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 small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: November 12, 2004

/s/ Gosse B. Bruinsma

Gosse B. Bruinsma
Principal Financial Officer

EXHIBIT 32.a

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

In connection with the Quarterly Report of OXIS International, Inc. (the "Company") on Form 10-QSB for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), I, Gosse B. Bruinsma, Acting Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

/s/ Gosse B. Bruinsma

Gosse B. Bruinsma
Acting Chief Executive Officer
November 12, 2004

EXHIBIT 32.b

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

In connection with the Quarterly Report of OXIS International, Inc. (the "Company") on Form 10-QSB for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date therein specified (the "Report"), I, Gosse B. Bruinsma, Acting Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350 that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

/s/ Gosse B. Bruinsma

Gosse B. Bruinsma
Principal Financial Officer
November 12, 2004

EXHIBIT 99.a
STANDARD FORM OF OPTION AGREEMENT UNDER OXIS INTERNATIONAL, INC. 2003 STOCK INCENTIVE PLAN

NOTICE OF STOCK OPTION AWARD

Optionee's Name and Address: _____

_____

_____

You (the "Optionee") have been granted an option to purchase Common Shares, subject to the terms and conditions of this Notice of Stock Option Award (the "Notice"), the OXIS International, Inc. 2003 Stock Incentive Plan, as amended from time to time (the "Plan") and the Stock Option Agreement (the "Option Agreement") attached hereto, as follows. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice.

Award Number	_____
Date of Award	_____
Vesting Commencement Date	_____
Exercise Price per Share	_____
Total Number of Common Shares Subject to the Option (the "Shares")	_____
Total Exercise Price	_____
Type of Option:	_____ ISO
	_____ NSO
Expiration Date:	_____
Post-Termination Exercise Period:	_____

Vesting Schedule:

Subject to the Optionee's continued Service and other limitations set forth in this Notice, the Plan and the Option Agreement, the Option may be exercised, in whole or in part, in accordance with the following schedule:

IN WITNESS WHEREOF, the Company and the Optionee have executed this Notice and agree that the Option is to be governed by the terms and conditions of this Notice, the Plan, and the Option Agreement.

OXIS International, Inc.
a Delaware corporation

By: _____

Title: _____

THE OPTIONEE ACKNOWLEDGES AND AGREES THAT THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE OPTIONEE'S SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE OPTION AGREEMENT, OR THE PLAN SHALL CONFER UPON THE OPTIONEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE OPTIONEE'S SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE OPTIONEE'S RIGHT OR THE RIGHT OF THE COMPANY OR THE PARENT, SUBSIDIARY OR AFFILIATE OF THE COMPANY TO WHICH THE OPTIONEE PROVIDES SERVICES TO TERMINATE THE OPTIONEE'S SERVICE, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE OPTIONEE ACKNOWLEDGES THAT UNLESS THE OPTIONEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE OPTIONEE'S STATUS IS AT WILL.

The Optionee acknowledges receipt of a copy of the Plan and the Option Agreement, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Optionee has reviewed this Notice, the Plan, and the Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Plan and the Option Agreement. The Optionee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Option Agreement shall be resolved by the Committee in accordance with Section 13 of the Option Agreement. The Optionee further agrees to the venue selection and waiver of a jury trial in accordance with Section 14 of the Option Agreement. The Optionee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated: _____ Signed: _____

Optionee

Award Number:_____

OXIS INTERNATIONAL, INC. 2003 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT

1. Grant of Option. OXIS International, Inc., a Delaware corporation (the "Company"), hereby grants to the Optionee (the "Optionee") named in the Notice of Stock Option Award (the "Notice"), an option (the "Option") to purchase the Total Number of Common Shares subject to the Option (the "Shares") set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the "Exercise Price") subject to the terms and provisions of the Notice, this Stock Option Agreement (the "Option Agreement") and the Company's 2003 Stock Incentive Plan, as amended from time to time (the "Plan"), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

If designated in the Notice as an ISO, the Option is intended to qualify as an ISO as defined in Section 422 of the Code. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as ISOs which become exercisable for the first time by the Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary of the Company) exceeds $100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as NSOs. For this purpose, ISOs shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the date the Option with respect to such Shares is awarded.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 2(d) of the Option Agreement relating to the exercisability or termination of the Option in the event of a Change in Control. The Optionee shall be subject to reasonable limitations on the number of requested exercises during any monthly or weekly period as determined by the Committee. In no event shall the Company issue fractional Shares.

(b) Method of Exercise. The Option shall be exercisable by delivery of an exercise notice (a form of which is attached as Exhibit A) or by such other procedure as specified from time to time by the Committee which shall state the election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, and such other provisions as may be required by the Committee. The exercise notice shall be delivered in person, by certified mail, or by such other method (including electronic transmission) as determined from time to time by the Committee to the Company accompanied by payment of the Exercise Price. The Option shall be deemed to be exercised upon receipt by the Company of such notice accompanied by the Exercise Price, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d) below.

(c) Taxes. No Shares will be delivered to the Optionee or other person pursuant to the exercise of the Option until the Optionee or other person has made arrangements acceptable to the Committee for the satisfaction of applicable income tax and employment tax withholding obligations, including, without limitation, such other tax obligations of the Optionee incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an ISO. Upon exercise of the Option, the Company or the Optionee's employer may offset or withhold (from any amount owed by the Company or the Optionee's employer to the Optionee) or collect from the Optionee or other person an amount sufficient to satisfy such tax withholding obligations.

(d) Change in Control. This Option shall not terminate in connection with a Change in Control. In the event the Company shall be acquired pursuant to a merger, acquisition, stock purchase, reorganization or similar transaction, this Option shall be assumed by the acquiring entity with appropriate adjustments to the number and type of securities of the successor entity or its parent subject to the Option and the exercise or purchase price thereof which at least preserves the value of the Option existing at the time of the Change in Control as determined in accordance with the instruments evidencing the agreement to assume the Option.

3. Method of Payment. Payment of the Exercise Price shall be made by any of the following, or a combination thereof, at the election of the Optionee; provided, however, that such exercise method does not then violate any applicable law and, provided further, that the portion of the Exercise Price equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(a) cash;

(b) check;

(c) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Committee may require which have a Fair Market Value on the date of surrender or attestation equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised, provided, however, that Shares acquired under the Plan or any other equity compensation plan or agreement of the Company must have been held by the Optionee for a period of more than six (6) months (and not used for another option exercise by attestation during such period); or

(d) payment through a broker-dealer sale and remittance procedure pursuant to which the Optionee (i) shall provide written instructions to a Company-designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any applicable laws.

5. Termination or Change of Service. In the event the Optionee's Service terminates, due to his or her Disability or death, the Optionee may, but only during the Post-Termination Exercise Period, exercise the portion of the Option that was vested at the date of such termination (the "Termination Date"). In no event, however, shall the Option be exercised later than the Expiration Date set forth in the Notice. In the event of the Optionee's change in status from Employee, Outside Director or Consultant to any other status of Employee, Outside Director or Consultant, the Option shall remain in effect and vesting of the Option shall continue only to the extent determined by the Committee as of such change in status; provided, however, that with respect to any ISO that shall remain in effect after a change in status from Employee to Outside Director or Consultant, such ISO shall cease to be treated as an ISO and shall be treated as a NSO on the day three (3) months and one (1) day following such change in status. Except as provided in Sections 6 and 7 below, to the extent that the Option was unvested on the Termination Date, or if the Optionee does not exercise the vested portion of the Option within the Post-Termination Exercise Period, the Option shall terminate.

6. Disability of Optionee. In the event the Optionee's Service terminates as a result of his or her Disability (as defined below), the Optionee may, but only within twelve (12) months from the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date; provided, however, that if such Disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code and the Option is an ISO, such ISO shall cease to be treated as an ISO and shall be treated as a NSO on the day three (3) months and one (1) day following the Termination Date. To the extent that the Option was unvested on the Termination Date, or if the Optionee does not exercise the vested portion of the Option within the time specified herein, the Option shall terminate. For purposes of this Option Agreement, "Disability" means as defined under the long-term disability policy of the Company or the Parent, Subsidiary or Affiliate of the Company to which the Optionee provides services regardless of whether the Optionee is covered by such policy. If the Company or the Parent, Subsidiary or Affiliate of the Company to which the Optionee provides service does not have a long-term disability plan in place, "Disability" means that a Optionee is unable to carry out the responsibilities and functions of the position held by the Optionee by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. An Optionee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Committee in its discretion. Section 22(e)(3) of the Code provides that an individual is permanently and totally disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

7. Death of Optionee. In the event of the termination of the Optionee's Service as a result of his or her death, or in the event of the Optionee's death during the Post-Termination Exercise Period or during the twelve (12) month period following the Optionee's termination of Service as a result of his or her Disability, the person who acquired the right to exercise the Option pursuant to Section 8 may exercise the portion of the Option that was vested at the date of

termination within twelve (12) months from the date of death (but in no event later than the Expiration Date). To the extent that the Option was unvested on the date of death, or if the vested portion of the Option is not exercised within the time specified herein, the Option shall terminate.

8. Transferability of Option. The Option, if an ISO, may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the Optionee only by the Optionee. The Option, if a NSO, may not be transferred in any manner other than by will or by the laws of descent and distribution, provided, however, that a NSO may be transferred during the lifetime of the Optionee to the extent and in the manner authorized by the Committee. Notwithstanding the foregoing, the Optionee may designate one or more beneficiaries of the Optionee's ISO or NSO in the event of the Optionee's death on a beneficiary designation form provided by the Committee. Following the death of the Optionee, the Option, to the extent provided in Section 7, may be exercised (a) by the person or persons designated under the deceased Optionee's beneficiary designation or (b) in the absence of an effectively designated beneficiary, by the Optionee's legal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Optionee.

9. Term of Option. The Option must be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein. After the Expiration Date or such earlier date, the Option shall be of no further force or effect and may not be exercised.

10. Tax Consequences. Set forth below is a brief summary as of the date of this Option Agreement of some of the federal tax consequences of exercise of the Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of ISO. If the Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as income for purposes of the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise. However, the Internal Revenue Service issued proposed regulations which would subject the Optionee to withholding at the time the Optionee exercises an ISO for Social Security and Medicare based upon the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. These proposed regulations are subject to further modification by the Internal Revenue Service and, if adopted, would be effective only for the exercise of an ISO that occurs two years after the regulations are issued in final form.

(b) Exercise of ISO Following Disability. If the Optionee's Service terminates as a result of Disability that is not permanent and total disability as such term is defined in Section 22(e)(3) of the Code, to the extent permitted on the date of termination, the

Optionee must exercise an ISO within three (3) months of such termination for the ISO to be qualified as an ISO. Section 22(e)(3) of the Code provides that an individual is permanently and totally disabled if he or she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

(c) Exercise of NSO. On exercise of a NSO, the Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If the Optionee is an Employee or a former Employee, the Company will be required to withhold from the Optionee's compensation or collect from the Optionee and pay to the applicable taxing authorities an amount in cash equal to a percentage of this compensation income at the time of exercise, and may refuse to honor the exercise and refuse to deliver Shares if such withholding amounts are not delivered at the time of exercise.

(d) Disposition of Shares. In the case of a NSO, if Shares are held for more than one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for more than one year after receipt of the Shares and are disposed more than two years after the Date of Award, any gain realized on disposition of the Shares also will be treated as capital gain for federal income tax purposes and subject to the same tax rates and holding periods that apply to Shares acquired upon exercise of a NSO. If Shares purchased under an ISO are disposed of prior to the expiration of such one-year or two-year periods, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the Fair Market Value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

11. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Oregon without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Oregon to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

12. Headings. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation.

13. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Option Agreement shall be submitted by the Optionee or by the Company to the Committee. The resolution of such question or dispute by the Committee shall be final and binding on all persons.

14. Venue and Waiver of Jury Trial. The parties agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Option Agreement shall be brought in the United States District Court for the District of Oregon (or should such court lack jurisdiction to hear such action, suit or proceeding, in a Oregon state court in the County of Multnomah) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 14 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

15. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

END OF AGREEMENT

EXHIBIT A

OXIS INTERNATIONAL, INC. 2003 STOCK INCENTIVE PLAN

EXERCISE NOTICE

OXIS International, Inc.
6040 N. Cutter Circle, Suite 317
Portland, OR 97217

Attention: Secretary

1. Exercise of Option. Effective as of today, _____, ____ the undersigned (the "Optionee") hereby elects to exercise the Optionee's option to purchase _____ Common Share (the "Shares") of OXIS International, Inc. (the "Company") under and pursuant to the Company's 2003 Stock Incentive Plan, as amended from time to time (the "Plan") and the [ ] ISO [ ] NSO Agreement (the "Option Agreement") and Notice of Stock Option Award (the "Notice") dated _____, ____. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Exercise Notice.

2. Representations of the Optionee. The Optionee acknowledges that the Optionee has received, read and understood the Notice, the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. Rights as Stockholder. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 9 of the Plan.

4. Delivery of Payment. The Optionee herewith delivers to the Company the full Exercise Price for the Shares, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d) of the Option Agreement, to the extent permissible under applicable law.

5. Tax Consultation. The Optionee understands that the Optionee may suffer adverse tax consequences as a result of the Optionee's purchase or disposition of the Shares. The Optionee represents that the Optionee has consulted with any tax consultants the Optionee deems advisable in connection with the purchase or disposition of the Shares and that the Optionee is not relying on the Company for any tax advice.

6. Taxes. The Optionee agrees to satisfy all applicable federal, state and local income and employment tax withholding obligations and herewith delivers to the Company the full amount of such obligations or has made arrangements acceptable to the Company to satisfy such obligations. In the case of an ISO, the Optionee also agrees, as partial consideration for the designation of the Option as an ISO, to notify the Company in writing within thirty (30) days of

any disposition of any shares acquired by exercise of the Option if such disposition occurs within two (2) years from the Date of Award or within one (1) year from the date the Shares were transferred to the Optionee. If the Company is required to satisfy any foreign, federal, state or local income or employment tax withholding obligations as a result of such an early disposition, the Optionee agrees to satisfy the amount of such withholding in a manner that the Committee prescribes.

7. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this agreement shall inure to the benefit of the successors and assigns of the Company. This Exercise Notice shall be binding upon the Optionee and his or her heirs, executors, administrators, successors and assigns.

8. Headings. The captions used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this agreement for construction or interpretation.

9. Administration and Interpretation. The Optionee hereby agrees that any question or dispute regarding the administration or interpretation of this Exercise Notice shall be submitted by the Optionee or by the Company to the Committee. The resolution of such question or dispute by the Committee shall be final and binding on all persons.

10. Governing Law; Severability. This Exercise Notice is to be construed in accordance with and governed by the internal laws of the State of Oregon without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Oregon to the rights and duties of the parties. Should any provision of this Exercise Notice be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

11. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

12. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this agreement.

13. Entire Agreement. The Notice, the Plan and the Option Agreement are incorporated herein by reference and together with this Exercise Notice constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Optionee with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Company and the Optionee. Nothing in the Notice, the Plan, the Option Agreement and this Exercise Notice (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties.

Submitted by:	Accepted by:
OPTIONEE:	OXIS INTERNATIONAL, INC.
_____	By: _____
(Signature)	Title: _____
Address:	Address:
_____	6040 N. Cutter Circle, Suite 317
_____	Portland, OR 97217